TAX CREDITS TO STIMULATE JOB OPPORTUNITIES IN RURAL AREAS

2154-4

HEARINGS

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-FIRST CONGRESS

FIRST SESSION

ON

S. 15

TO PROVIDE INCENTIVES FOR THE ESTABLISHMENT OF NEW OR EXPANDED JOB-PRODUCING INDUSTRIAL AND COMMERCIAL ESTABLISHMENTS IN RURAL AREAS

MAY 21 AND 22, 1969

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TAX CREDITS TO STIMULATE JOB OPPORTUNITIES IN RURAL AREAS

WEDNESDAY, MAY 21, 1969

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to call, at 10:15 a.m., in room 2221, New Senate Office Building, Senator Russell B. Long, chairman, presiding.

Present: Senators Long, Talmadge, Harris, Williams, Curtis, and Fannin.

Opening Statement of the Chairman

The CHAIRMAN. The hearing will come to order.

This morning the committee begins 2 days of hearings on proposals to stimulate the creation of job opportunities in rural areas. One such proposal is embodied in S. 15, a bill authored jointly by the distinguished senior Senator from Kansas, Mr. Pearson, and the distinguished senior Senator from Oklahoma, Mr. Harris. This bill, cosponsored by 37 additional Senators, would extend tax credits for investment in job-producing real and personal property. It would also allow special deductions for amounts paid to rural employees while they are being trained for their new work, and for depreciation on the property used in the new enterprise.

At this point, it is an open question as to whether the tax credit approach is the best means available for creating new job opportunities. Perhaps more direct means can be worked out to achieve this objective.

On the other hand, it is an open secret that President Nixon has given tax credits high priority in his administration and apparently he is preparing recommendations along this line for submission to Congress at a later date. If tax credits are to be used, there is much to commend the attention to rural areas that S. 15 envisions. The creation of new jobs will slow the migration of rural youth to the cities, and will deter the growth of inner-city ghettos. Correspondingly, the pressure on big-city budgets and welfare programs could be eased.

Manpower is one of the greatest assets of rural America, but the mechanization of the farm has cut back drastically on the availability of jobs. Fostering the development of rural areas can enable us to capitalize on the employment potential of nonurban talent without adding to the problems of the cities.

Senator Pearson, we welcome you here and note the fact that you have done yeomen work not only in trying to work up solutions to the problem but in persuading 37 of your fellow Senators to join with you in cosponsoring your bill.

We have a long list of witnesses to hear during this proceeding. Each of them has been urged to confine his oral comments to less than 15 minutes. Even so, afternoon sessions both today and tomorrow seem likely.

In the announcement of the hearing, it was stated that the committee would receive written statements for the record through Friday, May 23. I am advised that many people would prefer more time for the submission of written views. Accordingly, without objection, we will hold the record open for written papers until the close of business on Friday, the 13th of June.

We had hoped to have a spokesman from the Treasury Department here today. Unfortunately, because they are engaged in the work of assisting the President in the formulation of his own tax-credit recommendations, they felt it would not be proper to state a public attitude on this question prior to the announcement of the President's program.

Let me state very clearly for the record that this hearing today does not relate in any way to the legislation under consideration in the House to repeal the 7-percent investment tax credit. We will conduct a hearing on that matter at a later date, and I suspect that Congress will repeal that credit.

Without objection, we will include at this point in the record the bill S. 15, our committee press release announcing these hearings, and our committee staff summary of S. 15.

(The material referred to follows:)

91st CONGRESS
1st Session

S. 15

IN THE SENATE OF THE UNITED STATES

January 15 (legislative day, January 10), 1969

Mr. Pearson (for himself, Mr. Aiken, Mr. Allen, Mr. Bennett, Mr. Brooke, Mr. Byrd of West Virginia, Mr. Cannon, Mr. Cook, Mr. Cooper, Mr. Cotton, Mr. Curtis, Mr. Eagleton, Mr. Gravel, Mr. Hansen, Mr. Harris, Mr. Hart, Mr. Hatfield, Mr. Hruska, Mr. Inouye, Mr. Javits, Mr. McGee, Mr. McGovern, Mr. Metcalf, Mr. Miller, Mr. Mondale, Mr. Montoya, Mr. Moss, Mr. Mundt, Mr. Nelson, Mr. Percy, Mr. Prouty, Mr. Randolph, Mr. Ribicoff, Mr. Scott, Mr. Spong, Mr. Talmadge, Mr. Thurmond, Mr. Tydings, and Mr. Young of North Dakota) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To provide incentives for the establishment of new or expanded job-producing industrial and commercial establishments in rural areas.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Rural Job Development Act of 1969".

DECLARATION OF PURPOSE

Sec. 2. The purpose of this Act is to increase the effective use of the human and natural resources of rural America; to slow the migration from rural areas due to lack of economic opportunity; and to reduce population pressures in urban centers resulting from such forced migration.

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DEFINITIONS

SEC. 3. As used in this Act—

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

(2) The term "rural job development area" means any area which the Secretary of Agriculture determines is—

(A) a county—

(i) no part of which is within an area designated as a standard metropolitan statistical area by the Bureau of the Budget,

(ii) does not contain a city whose population exceeds fifty thousand, and

(iii) in which more than 15 per centum of the families residing therein have incomes under $3,000 per annum; or

(B) a county defined in paragraph (A) (i) and (ii) in which for the most recent five years employment has declined at an annual rate of more than 5 per centum; or

(C) an Indian reservation or a native community designated by the Secretary after consultation with the Secretary of the Interior; or

(D) a county defined in paragraph (A) (i) and (ii) and is undergoing or is likely to undergo a substantial emigration of persons residing therein (other than military personnel and their dependents) as a consequence of the closing, or curtailing of operations, of an installation of the Department of Defense.

The Secretary's findings under this subsection shall be made on the basis of the most recent satisfactory data available to him.

(3) The term "person" means an individual, a trust, estate, partnership, association, company, or corporation.

(4) The term "industrial or commercial enterprise" means any of the following types of business engaged in, by any person, through an industrial or commercial facility—

(A) the manufacture, production, processing, or assembling of personal property—

(i) for sale to customers in the ordinary course of business excluding any part of the activities of such business consisting of retail sales and leases, or

(ii) for use in such person's business,

(B) the distribution of personal property as principal or agent, including, but not limited to, the sale, leasing, storage, handling, and transportation on thereof but excluding any part of the activities of such business consisting of retail sales and leases, or

(C) the construction of any building in a rural job development area as contractor for, or for sale to, any customer, but only in the case of a person engaged in the business of constructing such buildings as a contractor for, or for sale to, customers.

The term "industrial or commercial enterprise" does not include the activities of selling, leasing, or renting out of real property including the selling or leasing or renting out of a factory, workshop, office, warehouse, sales outlet, apartment house, hotel, motel, or other residence, or the lending of money or extending of credit.

(5) The term "industrial or commercial facility" means a fixed place of business, in which an industrial or commercial enterprise is wholly or partly carried on, including but not limited to—

(A) a place of management or office,

(B) a factory, processing facility, plant, or other workshop,

(C) a warehouse or sales outlet,

(D) a center for the transportation, shipping, or handling of property,

(E) a recreation facility, including guest accommodations constructed as part of such a facility, providing recreation to the public for a charge or fee which is (i) not inconsistent with State recreation plans, approved by the Bureau of Outdoor Recreation, (ii) other recreation facilities consistent with local economic development plans, but no benefit shall be granted for recreation facilities where the tax credit would result in an undue local competitive advantage.

The term "industrial or commercial facility" does not include any store, or other premises, or portion of premises used as a retail facility.

(6) The term "retail sale or lease" means a sale or lease made to a party whose payments therefor do not constitute the expenses or costs of a business.

(7) The term "retail facility" means a store, premises, or portion of premises in which a substantial percentage of the sales or leases are retail sales or leases.

TITLE I—ELIGIBILITY FOR ASSISTANCE CERTIFICATION

SEC. 101. (a) The Secretary shall issue a certificate of eligibility for benefits under this Act to any person who is engaged in an industrial or commercial enterprise, through a new industrial or commercial facility (or a new portion of such a facility) located in a rural job development area, if—

(1) such facility has been approved by local authority as consistent with local zoning ordinances and economic and physical planning;

(2) such facility (or new portion thereof) was placed in service by the person to whom the certificate is to be issued in a rural job development area in the first taxable year of the certification period;

(3) placing such facility (or new portion thereof) in service has resulted in regular, full-time employment by such person of at least ten additional persons;

(4) at least 50 per centum of the persons employed at such facility (including the existing portion of an expanded facility) in such first taxable year are (A) persons who reside within such rural job development area or any other rural job development area within reasonable commuting distance of such facility, or (B) persons who within the three years preceding the commencement of their employment (i) have served at least one year on active duty in the Armed Forces of the United States, or (ii) have been enrolled for at least one year in the Job Corps;

(5) the Secretary determines that the industrial or commercial enterprise was not relocated from one area to another except that he may waive this requirement if (A) the establishment of such industrial or commercial facility will not result in an increase in unemployment in the area of original location (or in any other area where such enterprise conducts business operations), or (B) such industrial or commercial facility is not being established with any intention of closing down the operations of such enterprise in the

area of its original location or in any other area where it conducts such operations;

(6) the person to whom the certificate is to be issued agrees, in such form and manner as the Secretary may prescribe, to maintain records listing the names and residences of all full-time employees at the industrial or commercial facility for which the certificate is being issued, the date on which they were hired, their employment, their residences and economic situation at the time of hiring, and any other information reasonably required by the Secretary for the purposes of this title; and

(7) the Secretary determines that the expected benefits to employment and to other aspects of the economic and social welfare of such rural job development area warrant the granting of the income tax incentives under title II of this Act as to the capital investment in such industrial or commercial facility.

(b) The Secretary shall issue a separate certificate of eligibility with regard to each industrial or commercial facility (or new portion thereof) which meets the requirements of subsection (a) regardless of whether such facility is operated by any person as part of a single industrial or commercial enterprise.

(c) The Secretary shall issue a certificate of eligibility for benefits under this Act to any person who is a successor in interest to any person operating an industrial or commercial enterprise which has established an industrial or commercial facility in a rural job development area and with respect to which facility a certificate of eligibility was issued under subsection (a), if—

(1) such person agrees to continue to use the facility as an industrial or commercial facility, and to conform to the requirements of subsection (a); and

(2) the issuance of such certificate is in accordance, as determined by the Secretary, with the policy set forth in subsection (a) (5) respecting the relocation of industry.

(d) The Secretary shall terminate a certificate of eligibility issued to any person under this section to operate an industrial or commercial facility whenever he determines, after an appropriate hearing, that the person to whom such certificate was issued has failed, after due notice and a reasonable opportunity to correct the failure at such facility, to carry out its agreement under subsection (a) (4). In making a determination under this subsection, the Secretary shall be guided by, but not limited to, the following criteria:

(1) A reduction in the number of qualified jobs provided by any such enterprise below the minimums

specified in subsection (a) (4) shall not be grounds fo termination of a certificate of eligibility issued to such enterprise, if the Secretary determines that (i) such reduction results from business or economic factors beyond the control of such enterprise, and (ii) not less than two-thirds of all the persons employed full time in such jobs by such enterprise to meet the requirements of subsection (a) (4) continue to meet those requirements,

(2) A change in the residence of any person employed by such enterprise, after his employment has commenced, shall not affect his status for purposes of applying section (a) (4).

(e) The Secretary may waive all or part of the requirements specified in subsection (a) (4) if he finds that the operation of a facility requires skills that are not available within the rural job development area and that the expected benefits to other aspects of the economic and social welfare of the rural job development area warrant the granting of tax incentives under title II of this Act.

(f) Each certificate of eligibility issued under this section shall describe the industrial or commercial enterprise and the industrial or commercial facility (or the portion thereof) with respect to which it is issued in such detail as may be

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necessary for purposes of administering the income tax incentives under title II of this Act.

(g) The Secretary shall keep interested and participating Federal, State, and local agencies fully apprised of any action taken by him under this section.

(h) No certificate of eligibility shall be issued under this section to any person, unless application therefor is received by the Secretary prior to the expiration of ten years after the date of enactment of this Act.

REPORTS

SEC. 102. (a) The Secretary may by regulation require any person to whom a certificate of eligibility is issued under section 101 to file such reports from time to time as he may deem necessary in order to carry out his functions under this title.

(b) Whoever, in any report required to be filed under this section, knowingly makes a false statement of a material fact, shall be fined not more than $———— or imprisoned for not more than ——— years, or both.

TITLE II—TAX INCENTIVES

INCOME TAX CREDIT FOR INVESTMENT IN DEPRECIABLE PROPERTY IN RURAL JOB DEVELOPMENT AREAS

SEC. 201. (a) Subpart A of part IV of subchapter A of chapter 1 of the Internal Revenue Code of 1954 (relating to credits allowable) is amended by renumbering section 40 as 41, and by inserting after section 39 the following new section:

"SEC. 40. INVESTMENT IN CERTAIN DEPRECIABLE PROPERTY IN RURAL JOB DEVELOPMENT AREAS.

"(a) GENERAL RULE.—There shall be allowed, as a credit against the tax imposed by this chapter, the amount determined under subpart C of this part.

"(b) REGULATIONS.—The Secretary or his delegate shall prescribe such regulations as may be necessary to carry out the purposes of this section and subpart C."

(b) Part IV of subchapter A of chapter 1 of such Code (relating to credits against tax) is amended by adding at the end thereof the following new subpart:

"Subpart C—Rules for Computing Credit for Investment in Certain Depreciable Property in Rural Job Development Areas

"SEC. 51. AMOUNT OF CREDIT.

"(a) DETERMINATION OF AMOUNT.—

"(1) GENERAL RULE.—The amount of the credit allowed by section 40 for the taxable year shall be equal to:

"(A) 7 percent of the qualified expenditures (as defined in section 53(b)) made during the taxable year in regard to section 40 real property (as defined in section 53 (a) (3)), and

"(B) 14 percent of the qualified expenditures made during the taxable year in regard to section 40 personal property (as defined in section 53 (a) (4)).

In the case of qualified expenditures made with respect to a section 40 facility (as defined in section 53 (a) (5)) which is located in a rural development area (as defined in section 3 (2) of the Rural Job Development Act of 1969) which has a population density of less than 25 persons per square mile, the percentages specified in subparagraphs (A) and (B) shall be 10 percent and 17 percent, respectively.

"(2) LIMITATION.—Notwithstanding paragraph (1), the credit allowed by section 40 for the taxable year shall not exceed the taxpayer's liability for tax for such year.

"(3) LIABILITY FOR TAX.—For purposes of this section, the liability for tax for the taxable year shall be the tax imposed by this chapter for such year, reduced by the sum of the credits allowable under—

"(A) section 33 (relating to foreign tax credit), "(B) section 35 (relating to partially tax-exempt interest),

"(C) section 37 (relating to retirement income), and

"(D) section 38 (relating to investment in certain depreciable property).

For purposes of this paragraph, any tax imposed for the taxable year by section 531 (relating to accumulated earnings tax), section 541 (relating to personal holding company tax), or section 1378 (relating to tax on certain capital gains of subchapter S corporations), and any additional tax imposed for the taxable year by section 1351 (d) (1) (relating to recoveries of foreign expropriation losses), shall not be considered tax imposed by this chapter for such year.

"(b) CARRYBACK AND CARRYOVER OF UNUSED CREDITS.—

"(1) ALLOWANCE OF CREDIT.—If the amount of the credit determined under subsection (a) (1) for any taxable year exceeds the taxpayer's liability for tax for such taxable year (hereafter in this subsection referred to as the 'unused credit year'), such excess shall be—

"(A) a section 40 credit carryback to each of the 3 taxable years preceding the unused credit year, and

"(B) a section 40 credit carryover to each of the 10 taxable years following the unused credit year,

and shall be added to the amount allowable as a credit by section 40 for such years, except that such excess may be a carryback only to a taxable year ending after the date of the enactment of the Rural Job Development Act of 1969. The entire amount of the unused credit for an unused credit year shall be carried to the earliest of the 13 taxable years to which (by reason of subparagraphs (A) and (B)) such credit may be carried and then to each of the other 12 taxable years to the extent that, because of the limitation contained in paragraph (2), such unused credit may not be added for a prior taxable year to which such unused credit may be carried.

"(2) LIMITATION.—The amount of the unused credit which may be added under paragraph (1) for any preceding or succeeding taxable year shall not exceed the amount by which the taxpayer's liability for tax for such taxable year exceeds the sum of—

"(A) the credit allowable under subsection (a) (1) for such taxable year, and

"(B) the amounts which, by reason of this subsection, are added to the amount allowable for such taxable year and attributable to taxable years preceding the unused credit year.

"SEC. 52. CERTAIN DISPOSITIONS, ETC., OF SECTION 40 PROPERTY.

"(a) GENERAL RULE.—Under regulations prescribed by the Secretary or his delegate—

"(1) EARLY DISPOSITIONS.—If section 40 property (as defined in section 53 (a) (2)) is disposed of, or otherwise ceases to qualify as section 40 property with respect to the taxpayer, the tax under this chapter for the taxable year in which the disposition occurs shall be increased by an amount equal to the credits allowed under section 40 for prior taxable years for qualified expenditures (as defined in section 53 (b)) which were made—

"(A) in the case of section 40 real property (as defined in section 53 (a) (3)) within 10 years before the date of the disposition, or

"(B) in the case of section 40 personal property (as defined in section 53 (a) (4)) within 4 years before the date of the disposition.

This paragraph shall not apply to any qualified expenditures with respect to which there has been an increase of tax under paragraph (2).

"(2) TERMINATION OF CERTIFICATE.—If the section 40 certificate (as defined in section 53 (a) (1)) is terminated under section 101 (d) of the Rural Job Development Act of 1969, with respect to a section 40 facility of the taxpayer—

"(A) the taxpayer's tax under this chapter for the taxable year in which the termination occurs shall be increased by an amount equal to the credits allowed under section 40 for prior taxable years for qualified expenditures which were made in accordance with section 53 (b) (3) within 3 years before the date of the termination with respect to all section 40 property used at, or in connection with, such facility, and

"(B) the taxpayer's gross income for the taxable year in which the termination occurs shall be increased by an amount equal to the deductions allowed to the taxpayer under section 183 in such taxable year and the 2 preceding taxable years with respect to employees employed at such facility.

"(3) CARRYBACKS AND CARRYOVERS ADJUSTED.—In the case of any disposition described in paragraph (1) or any termination described in paragraph (2), the carrybacks and carryovers under section 51 (b) shall be adjusted.

"(b) SECTION NOT TO APPLY IN CERTAIN CASES.—Subsection (a) shall not apply to—

"(1) a disposition by reason of death,

"(2) a disposition to which section 381 (a) applies,

"(3) a disposition necessitated by the cessation of the operation of a section 40 facility where the Secretary of Agriculture certifies that such cessation results from economic factors beyond the control of the section 40 business (as defined in section 53(a)(6)), or

"(4) a disposition on account of the destruction or damage of section 40 property by fire, storm, shipwreck, or other casualty, or by reason of its theft.

For purposes of subsection (a), property shall not be treated as ceasing to be section 40 property with respect to the taxpayer by reason of a mere change in the form of conducting the section 40 business so long as the property is retained in such business as section 40 property and the taxpayer retains a substantial interest in such business.

"SEC. 53. DEFINITIONS; SPECIAL RULES.

"(a) SECTION 40 CERTIFICATE, ETC.—For purposes of this chapter—

"(1) SECTION 40 CERTIFICATE.—The term 'section 40 certificate' means a certificate of eligibility issued by the Secretary of Agriculture under section 101 of the Rural Job Development Act of 1969.

"(2) SECTION 40 PROPERTY.—The term 'section 40 property' means property which, in regard to a taxpayer conducting a section 40 business—

"(A) is of a character which is subject to the allowance for depreciation provided in section 167 and which is not property of a kind which would properly be includible in the inventory of the taxpayer if on hand at the close of the taxable year or which is not property held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business,

"(B) will be used by such taxpayer (i) as a section 40 facility, (ii) as an integral part of, or in the operation of, any such facility, (iii) in furnishing transportation, communications, electrical energy, gas, water, or sewage disposal primarily to any such facility, and

"(C) has at the time it is first used by such taxpayer after such taxpayer has been issued a section 40 certificate in regard to the section 40 facility at, or in connection with which, such property is used, a useful life of at least (i) 4 years in the case of section 40 personal property, (ii) 10 years in the case of section 40 real property.

Property shall not be treated as section 40 property if, after its acquisition by the taxpayer, it is used by a person who used such property before such acquisition (or by a person who bears a relationship described in section 179(d)(2)(A) or (B) to a person who used such property before such acquisition).

"(3) SECTION 40 REAL PROPERTY.—The term 'section 40 real property' means section 40 property which is section 1250 property (within the meaning of section 1250(c)).

"(4) SECTION 40 PERSONAL PROPERTY.—The term 'section 40 personal property' means section 40 property which is section 1245 property (within the meaning of section 1245(b)).

"(5) SECTION 40 FACILITY.—The term 'section 40 facility' means an industrial or commercial facility (as defined in section 3(5) of the Rural Job Development Act of 1969) which is specified by the Secretary of Agriculture in a section 40 certificate.

"(6) SECTION 40 BUSINESS.—The term 'section 40 business' means an industrial or commercial enterprise (as defined in section 3(4), of the Rural Job Development Act of 1969) with respect to which a section 40 certificate has been issued which has not been terminated under section 101(d) of such Act.

"(b) QUALIFIED EXPENDITURES.—

"(1) In general.—The term 'qualified expenditures' means, with respect to each taxable year, expenditures by the taxpayer—

"(A) properly chargeable to capital account,

"(B) paid or accrued for—

"(i) the manufacture, production, construction, or erection of section 40 property,

"(ii) the acquisition of section 40 property by a purchase (as defined in section 179 (d) (2) and subsection (d) of this section), or

"(iii) the reconstruction, permanent improvement, or betterment of section 40 property, and

"(C) made before the close of the 10-year period beginning with the date on which a section 40 certificate is first issued to any person with respect to the section 40 facility, at, or in connection with which, such property is used.

"(2) Limitation.—Expenditures in regard to section 40 real property shall be treated as qualified expenditures only if the construction, erection, acquisition, reconstruction, permanent improvement, or betterment for which such expenditures are made, conforms to the standards prescribed by the Secretary of Agriculture.

"(3) Year of qualified expenditures.—All qualified expenditures shall be deemed made in the taxable year in which—

"(A) in the case of qualified expenditures for the manufacture, production, construction, erection, or acquisition by purchase of section 40 property, the year in which the section 40 property is placed in service, and

"(B) in the case of qualified expenditures for the reconstruction, permanent improvement, or betterment of section 40 property, the year in which the section 40 property as reconstructed, improved, or bettered as a result of the qualified expenditure is placed in service.

For purposes of this paragraph, any manufactured, produced, constructed, erected, or acquired section 40 property, or any reconstructed, improved, or bettered section 40 property, shall be deemed placed in service in the taxable year in which such manufactured, produced, constructed, erected, or acquired section 40 property, or such section 40 property as reconstructed, improved, or bettered, first becomes subject to depreciation by a taxpayer computing depreciation on a daily basis.

"(4) REPLACEMENT PROPERTY.—If section 40 property is manufactured, produced, constructed, erected, reconstructed, or acquired to replace property which was destroyed or damaged by fire, storm, shipwreck, or other casualty, or was stolen, the qualified expenditures with respect to such section 40 property which would (but for this paragraph) be taken into account for purposes of section 51 (a) shall be reduced by an amount equal to the amount received by the taxpayer as compensation, by insurance or otherwise, for the property so destroyed, damaged, or stolen, or to the adjusted basis of such property, whichever is the lesser.

"(c) CERTAIN LEASED PROPERTY.—A person who is a lessor of property, which in the hands of the lessee constitutes section 40 property, may (at such time, in such manner, and subject to such conditions as are provided by regulations prescribed by the Secretary or his delegate) elect with respect to any section 40 property, as to which no prior credit under section 40 has previously been taken, to treat the lessee as having purchased such property for an amount equal to—

"(1) except as provided in paragraph (2), the fair market value of such property, or

"(2) if such property is leased by a corporation which is a member of an affiliated group (within the meaning of section 46 (a) (5)) to another corporation which is a member of the same affiliated group, the basis of such property to the lessor. If a lessor makes the election provided by this subsection with respect to any property, the lessee shall be treated for all purposes of this subpart as having acquired such property. For purposes of this subpart, the useful life of property in the hands of the lessee is the useful life of such property in the hands of the lessor.

"(d) SUBCHAPTER S CORPORATION.—In the case of an electing small business corporation (as defined in section 1371)—

"(1) the qualified expenditures for each taxable year shall be apportioned pro rata among the persons who are shareholders of such corporation on the last day of such taxable year, and

"(2) any person to whom any expenditures have been apportioned under paragraph (1) shall be treated (for purposes of this subpart) as the taxpayer with respect to such expenditures, and such expenditures shall not (by reason of such apportionment) lose their character as qualified expenditures.

"(e) ESTATES AND TRUSTS.—In the case of an estate or trust—

"(1) the qualified expenditures for any taxable year shall be apportioned between the estate or trust and the beneficiaries on the basis of the income of the estate or trust allocable to each, and

"(2) any beneficiary to whom any expenditures have been apportioned under paragraph (1) shall be treated (for purposes of this subpart) as the taxpayer with respect to such expenditures, and such expenditures shall not (by reason of such apportionment) lose their character as qualified expenditures.

"(f) CROSS REFERENCE.—

"For application of this subpart to certain acquiring corporations, see section 381(c)(24)."

(c) Section 48(a) of such Code (relating to definition of section 38 property) is amended by adding at the end thereof the following new paragraph:

"(7) SECTION 40 PROPERTY.—Any property which is section 40 property (as defined in section 53(a)(2)) shall not be treated as section 38 property to the extent that expenditures for the manufacture, production, construction, erection, reconstruction, permanent improvement, betterment, or acquisition of such property constitute qualified expenditures (as defined in section 53(b))."

(d) Section 381(c) of such Code (relating to carryovers in certain corporate acquisitions) is amended by adding at the end thereof the following new paragraph:

"(24) CREDIT UNDER SECTION 40 FOR INVESTMENT IN CERTAIN DEPRECIABLE PROPERTY IN RURAL

JOB DEVELOPMENT AREAS.—The acquiring corporation shall take into account (to the extent proper to carry out the purposes of this section and section 40, and under such regulations as may be prescribed by the Secretary or his delegate) the items required to be taken into account for purposes of section 40 in respect to the distributor or transferor corporation."

(e) (1) The table of subparts for part IV of subchapter A of chapter 1 of such Code is amended by adding at the end thereof the following new item:

"Subpart C—Rules for computing credit for investment in certain depreciable property in rural job development areas."

(2) The table of sections for subpart A of part IV of subchapter A of chapter 1 of such Code is amended by striking out the last item and inserting in lieu thereof the following:

"Sec. 40. Investment in certain depreciable property in rural job development areas.
"Sec. 41. Overpayments of tax."

(3) Part V of subchapter A of chapter 1 of such Code (relating to tax surcharge) is amended—

(A) by renumbering section 51 as 56, and

(B) by striking out "51" in the table of sections and inserting in lieu thereof "56".

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DEPRECIATION DEDUCTION

SEC. 202. Section 167 of the Internal Revenue Code of 1954 (relating to depreciation) is amended by redesignating subsection (j) as (k) and by inserting after subsection (i) the following new subsection:

"(i) SECTION 40 PROPERTY.—

"(1) USEFUL LIFE.—At the election of the taxpayer—

"(A) the useful life of any property which is section 40 property (as defined in section 53(a)(2)) shall, for purposes of this section, be $66\frac{2}{3}$ percent of the useful life of such property determined without regard to this paragraph; and

"(B) the guideline class lives prescribed by the Secretary or his delegate which are applicable to any property which is section 40 property shall, for purposes of this section, be $66\frac{2}{3}$ percent of the guideline class lives applicable to such property determined without regard to this paragraph.

An election under this paragraph shall be made at such time and in such manner as the Secretary or his delegate prescribes by regulations.

"(2) NEAREST FULL YEAR.—If the useful life or guideline class life of any property as determined under subsection (i) includes a fraction of a year, such useful life shall be deemed the nearest full year.

"(3) RESERVE RATIO TESTS.—In justifying class lives used for purposes of the deduction allowed by this section under the reserve ratio tests prescribed by the Secretary or his delegate, a taxpayer who makes an election under paragraph (1) (B) shall, for all purposes, be deemed to have utilized class lives equal to 150 percent of those applicable determined without regard to this subsection.

"(4) SALVAGE VALUE.—In determining the salvage value of section 40 property subject to an election under paragraph (1), the useful life of the property shall be deemed that life which would be applicable without regard to paragraph (1).

"(5) EXCEPTION.—No election may be made under paragraph (1) with respect to any section 40 property which is placed in service after the expiration of the 10-year period beginning on the date on which a section 40 certificate (as defined in section 53 (a) (1)) is first issued to any person for the section 40 facility (as defined in section 53 (a) (5)) at, or in connection with which, such section 40 property is used."

NET OPERATING LOSS CARRYOVERS

SEC. 203. Section 172 of the Internal Revenue Code of 1954 (relating to net operating loss deduction) is amended—

(1) by striking out "(D), and (E)" in subsection (b) (1) (B) and inserting in lieu thereof "(D), (E), and (F)";

(2) by adding at the end of subsection (b) (1) the following new subparagraph:

"(F) The portion of a net operating loss for any taxable year to which (under subsection (l)) this subparagraph applies which is allocable to the operation of a section 40 business (as defined in section 53 (a) (6)) through a section 40 facility (as defined in section 53 (a) (5)) shall be a net operating loss carryover to each of the 10 taxable years following the taxable year of such loss."

(3) by redesignating subection (l) as (m), and by inserting after subsection (k) the following new subsection:

"(l) CARRYOVER OF NET OPERATING LOSSES OF SECTION 40 BUSINESSES.—Subsection (b) (1) (F) shall apply, with respect to the operation of a section 40 business through a section 40 facility, only to a net operating loss for (A) the taxable year in which the operation of such facility is begun by any section 40 business under a section 40 certificate (as defined in section 53 (a) (1)), or (B) any of the 9 succeeding taxable years."

SPECIAL DEDUCTION FOR COMPENSATION PAID DURING TRAINING OF EMPLOYEES

SEC. 204. (a) Part VI of subchapter B of chapter 1 of the Internal Revenue Code of 1954 (relating to itemized deductions for individuals and corporations) is amended by adding at the end the following new section:

"SEC. 183. SPECIAL DEDUCTION FOR CERTAIN BUSINESSES OPERATING IN RURAL JOB DEVELOPMENT AREAS.

"(a) GENERAL RULE.—In the case of any person engaged in a section 40 business (as defined in section 53 (a) (6)), there shall be allowed as a deduction for the taxable year (in addition to any deduction under section 162) an amount equal to 50 percent of the compensation paid or incurred in money during the taxable year to each employee who—

"(1) satisfies the requirements of section 101 (a) (4) (A) or (B) of the Rural Job Development Act of 1969,

"(2) performs substantially all of his services as an employee at a section 40 facility (as defined in section 53 (a) (5)) through which such section 40 business is conducted, and

"(3) is receiving training to acquire the skills necessary to perform (A) the position or job in which he is employed or (B) another position or job as an employee of such section 40 facility.

"(b) LIMITATIONS.—

"(1) IN GENERAL.—The deduction under subsection (a) shall be allowed with respect to the compensation of an employee only—

"(A) if the Secretary of Labor certifies that such employee requires training to acquire the skills in order to perform satisfactorily the position or job in which he is employed or for which he is being trained, and

"(B) for the period that the Secretary of Labor certifies that such training is so required.

"(2) DELEGATION OF DUTIES.—The Secretary of Labor may perform his duties under paragraph (1) through the United States Employment Service or through such State agencies as he may prescribe."

(b) The table of sections for part VI of subchapter B of chapter 1 of such Code is amended by adding at the end thereof the following new item:

"Sec. 183. Special deduction for certain businesses operating in rural job development areas."

EFFECTIVE DATE

SEC. 205. The amendments made by this title shall apply to taxable years ending after the date of the enactment of this Act.

TITLE III—MISCELLANEOUS PROVISIONS

ECONOMIC AND BUSINESS DATA

SEC. 301. The Secretary may collect, analyze, and publish data pertaining to investments in various types of enterprises in relation to employment, inventories of resources, unemployment and underemployment, suitability of potential locations for various types of enterprises, qualifications, and skills and training needs of the labor force in various areas, market information, and other economic subjects, for use in carrying out the purposes of this Act and for the information and guidance of businessmen who may seek to establish job-creating enterprises in rural job development areas. In the connection of such data, existing sources and facilities shall be utilized to the maximum extent feasible.

NATIONAL ADVISORY COMMITTEE

SEC. 302. The Secretary may appoint a National Advisory Committee on Rural Industrialization which shall consist of twenty-five members and shall be composed of representatives of business, industry, labor, agriculture, State, and local governments, and the general public. The Secretary shall designate a Chairman from the members appointed to such Committee. Such Committee, or any duly established subcommittee thereof, shall from time to time make recommendations to the Secretary relative to the carrying out of his duties under this Act. Such Committee shall hold not less than two meetings during each calendar year.

ANNUAL REPORT

SEC. 303. The Secretary shall make a comprehensive and detailed annual report to the Congress of his operations under this Act for each fiscal year beginning with the fiscal year ending after the date of enactment of this Act. Such report shall be transmitted to the Congress not later than January 3 of the year following the fiscal year with respect to which such report is made.

APPROPRIATIONS AUTHORIZED FOR INFORMATION PROGRAM

SEC. 304. (a) The Secretary is authorized to collect and disseminate relevant economic data and to serve as an information clearinghouse for local communities and businesses considering establishing job-creating enterprises in job development areas. Information programs under this section shall include—

(1) telling businessmen of the advantages of locating plants in rural America;

(2) providing a site location and analysis service; and

(3) assisting in the coordination of community, State, and Federal programs for industrial and community development.

(b) There is authorized to be appropriated $250,000 for each fiscal year to carry out the provisions of this section.

[Press release, May 13, 1969]

RUSSELL B. LONG, DEMOCRAT, OF LOUISIANA, CHAIRMAN, COMMITTEE ON FINANCE, ANNOUNCES HEARINGS ON TAX INCENTIVES TO ENCOURAGE BUSINESS TO LOCATE IN RURAL AREAS

Chairman Russell B. Long today announced that the Committee on Finance will hold 2 days of hearings on legislation to encourage the development of new job-creating industries in rural areas. The chairman stated that spokesmen from the Treasury Department and from the Department of Agriculture will be lead-off witnesses.

He emphasized that this hearing does not relate in any way to President Nixon's recommendation that the 7-percent investment tax credit be repealed. For that reason, the committee will not receive testimony with respect to the investment tax credit during this hearing on the use of tax credits for rural development, and witnesses are requested to omit references to it from their statements.

The hearing will begin at 10 a.m., on Wednesday, May 21, 1969, in room 2221, New Senate Office Building.

Legislation presently before the Committee on Finance dealing with this subject is embodied in S. 15, introduced by Senator James B. Pearson of Kansas and cosponsored by 38 other Senators.

Included in this bill for business enterprises locating in rural areas designated by the Secretary of Agriculture as economically deficient are Federal tax incentives such as: (1) special tax credits related to the cost of buildings and equipment; (2) special accelerated depreciation schedules; and (3) extra deductions for wages paid to low-income persons. In return for these benefits, the business must show that its operation will create new jobs and hire a certain percentage of its work force from the locality and from low-income categories.

The bill contains a provision aimed at preventing economic dislocation by relocation of industrial and commercial firms, and recapture provisions for firms which violate the terms of the program.

Persons desiring to be heard on this important matter should submit requests to Tom Vail, Chief Counsel, Committee on Finance, not later than Monday, May 19, 1969. In order to facilitate the hearing, those with similar interests should designate a single spokesman to present their testimony. As soon as the hearing schedule is fixed, witnesses will be advised of their time of appearance, and a full witness list will be announced.

Witnesses who are scheduled to appear are urged to make their statements as brief as possible to conserve the time of the committee. In order to further conserve time, the committee will be pleased to receive from any interested person a written statement for inclusion in the printed record of the hearings in lieu of a personal apperance. Chairman Long urged that those persons who desire to contribute written statements submit them to Mr. Vail no later than Friday, May 23, 1969.

All statements should include a summary sheet and subject heading and should be submitted to the committee the day before the witness is to testify.

SUMMARY OF S. 15—RURAL JOB DEVELOPMENT ACT OF 1969

(Prepared by the Staff of the Committee on Finance)

GENERAL PURPOSE

The general purpose of this bill is to give tax benefits to taxpayers who invest in industrial and commercial enterprises in rural areas. The principal tax benefits are:

(1) a tax credit of 7 percent of investments made in depreciable real property;

(2) a tax credit of 14 percent of investments made in depreciable personal property;

(3) an election to increase the depreciation deduction for property qualifying for the program; and

(4) an additional deduction for compensation paid to employees while they are in training.

Generally, only investments in property to be used in manufacturing or at the wholesale level of business activity would qualify. Investments in property to be used in retail trade would not qualify.

CERTIFICATE OF ELIGIBILITY

The program envisioned by this bill would be administered by the Secretary of Agriculture. Before a taxpayer would be entitled to the tax benefits of this bill, he must receive a certificate from the Secretary of Agriculture stating that the taxpayer's plans for investment in a rural area meet the various requirements of the bill. The more important requirements relate to the definition of a "rural area" and the family income of the residential population. Special rules are provided for a rural area with a declining employment rate or an area where a substantial emigration of persons (other than military personnel) is expected because of a closing of a Department of Defense installation.

In addition, the taxpayer must intend to meet certain employment standards. The more important standards require that the new or expanded facility must result in the full-time employment of at least 10 additional persons from the rural area and that at least 50 percent of the persons employed at the facility reside in or near the facility or have recently served for 1 year on active duty in the Armed Forces of the United States or in the Job Corps.

The Secretary of Agriculture is required, with certain exceptions, to terminate a cerificate of eligibility if the required employment standards are not maintained by the taxpayer. If a certificate of eligibility is terminated, then the tax credits for prior taxable years—within limits—are recaptured. Similarly, tax credits are recaptured if the property which originally qualified for the credit is diverted from its intended use. Also, in the event of a termination of a certificate, the election to increase the depreciation deduction for qualified property is terminated and future depreciation deductions would be computed under present rules.

TAX INCENTIVES

Tax credit.—A tax credit equal to 7 percent of investments in depreciable real property and 14 percent of investments made in depreciable personal property is allowed under the bill once a certificate of eligibility has been obtained by the taxpayer. In certain areas with a very low population density, the tax credit is increased to 10 percent and 17 percent respectively. If a tax credit is taken on property under this bill, then the present 7 percent investment tax credit may not be taken on the same property.

Increased depreciation deduction.—In addition, once a certificate of eligibility has been obtained, a taxpayer may elect to depreciate property which qualifies for the tax credit over two-thirds of its estimated useful life. Salvage value would be computed without reference to the shortened useful life.

Deduction for compensation paid to employees in training.—An additional deduction is also allowed which is equal to 50 percent of the compensation paid to each employee in a training program. In order to qualify for this additional deduction, the Secretary of Labor must certify that the employee requires training to acquire the skills for the position or job in which he is employed or for which he is being trained. The deduction is allowed only for the period of time that the Secretary of Labor certifies that the training is required.

OTHER PROVISIONS

The bill authorizes the Secretary of Agriculture to collect, analyze, and publish data pertaining to the business investments contemplated by the bill. In addition, the Secretary of Agriculture may appoint a National Advisory Committee on Rural Industrialization to assist in implementing the program.

The bill would be effective upon the date of its enactment; however, the amendments made by the bill with respect to the income tax incentives would apply only to taxable years ending after the date of enactment.

The CHAIRMAN. Our first witness this morning will be the distinguished senior Senator from Kansas, the Honorable James B. Pearson.

STATEMENT OF HON. JAMES B. PEARSON, A U.S. SENATOR FROM THE STATE OF KANSAS

Senator PEARSON. I thank the chairman.

Mr. Chairman, Senator Williams, there is the old joke that you can read your statement in 15 minutes or summarize it in 30 minutes, and so I will just proceed as quickly as I can with recognition of the heavy schedule of witnesses you have and make some remarks and seek to make them as briefly as possible.

Mr. Chairman, first I would ask permission that the statement I made on the Senate floor January 15 in introducing the "Rural Job Development Act of 1969," which is S. 15, along with the distinguished Senator from Oklahoma—Mr. Harris—with his permission, as he is the principal cosponser, be placed in the record, and I also ask that a two-page outline of S. 15 and a detailed, section-by-section analysis of the bill prepared by Mr. George J. Leibowitz of the Legislative Reference Service be made a part of the record.[1]

Mr. Chairman, let me begin by complimenting the committee's decision to hold hearings on possible tax-incentive legislation to encourage the development of new job-creating industries in rural areas. I believe that these hearings will establish a most valuable and important record and that they will help to further demonstrate and bring into sharper focus the growing national recognition that we must take new and bold steps to expand the quantity and quality of economic opportunities in smaller towns and cities of America.

Population Distribution

No one seriously proposes a "return to the land and the village" but many are deeply concerned that our population distribution is becoming unnecessarily and dangerously tilted toward the giant megalopolis and away from the smaller community.

At the time of the American Revolution 90 percent of our people were farmers. Today 90 percent of all Americans earn their living by other means. And this flip-flop in the farm population ratio has been accompanied by a decline in the relative proportion of people in smaller towns outside the great metropolitan centers. Thus 70 percent of all Americans now live on 1 percent of the land. Forty-five percent live in only 25 metropolitan centers. In the Harlem section of New York City there are 122,000 persons per square mile, which is equivalent, Mr. Chairman, to squeezing all the people of Kansas onto the acreage of 20 of our average-size farms. And if present trends continue unchecked, 80 percent of our people will live in metropolitan centers, with most of them being crammed into just five super "strip cities."

Crisis in the Cities

These simple statistics alone are enough to cause pause. But it is today's headlines reporting the "crisis of the cities"—a crisis of festering slums, rising crime rates, disintegrating families, chronic unemployment, riot-torn streets, bumper-to-bumper traffic, swelling welfare roles, polluted air, and contaminated water—which have finally forced us to question old dogmas and to search for new alternatives.

And as we have searched for the underlying causes of these crises, we have come to recognize that many of these problems can be traced to the overcrowding of people and the excessive concentration of industry. Now we realize that the task ahead is not simply to make our metropolitan centers more efficient and more livable for more and

[1] The material referred to appears at p. 55.

more people, but how to keep more and more people from crowding into them.

Historically, public opinion polls have shown that the majority of our people would prefer to live in smaller communities if they had a choice. As we survey our beleaguered cities and contemplate their future, if present trends are not altered, the Nation as a whole, I believe is coming to the conclusion that we must revitalize our smaller communities so that those who would prefer to live in such communities will have a meaningful opportunity to do so.

We must attempt to strike a more reasonable, a more healthy rural-urban balance.

Immediate Needs

How is this to be accomplished? Actually, because there are so many things which we do not understand about the why and wherefors of economic growth and how one goes about influencing and controlling growth patterns, we cannot at this stage identify a complete and detailed program of action. However, certain immediate needs are apparent. We need to improve rural health and education and expand rural housing. We need to improve and expand such public services as water and sewage facilities and transportation networks in rural areas. We need to take new steps to assure the preservation of the family-farm system of agriculture for it is the economic base on which so many of our small towns rest.

We need to do these things and more. But in the final analysis the greatest need is the expansion of job opportunities. For unless we can create several hundred thousand new and better jobs each year in our rural communities, nothing else that we will do will have any meaningful effect.

Rural Job Development Act

This goal will not be accomplished by any one program, but I am thoroughly convinced the enactment of legislation along the lines of the Rural Job Development Act would represent a necessary and desirable beginning.

This bill would seek to attract new job-creating industries to rural areas through a series of tax incentives, including a tax credit on machinery, equipment, and buildings, on accelerated depreciation allowance, and a special tax deduction on wages paid workers needing the job training.

I refer the members to the committee brief and to the material which I have asked to be inserted in the hearing record for a detailed description and explanation of the bill. Here I want to elaborate on which I consider to be its key underlying principles.

First. The bill does not involve a direct cash subsidy. It would, of course, result in a reduction of tax receipts to the Treasury to the extent that businessmen took advantage of the credits and deductions offered. But I believe that this would only be temporary and that, indeed, the new wages and incomes which would be created would generate a net flow of tax revenue to the Treasury which would then offset the revenues lost through the tax incentives.

I make this point about the minimal costs of implementing the Rural Job Development Act because even with the conclusion of the

Vietnam war we will continue under a tight budget situation as we legislate under emergency conditions to control the incendiary conditions of the cities.

Second. Another important feature of the bill is that it employs Federal inducements to private enterprise in the belief that the new economic activity which will hereby be generated will not yield new profits to the private investor but broad economic gains to the whole rural community.

This is not a reversion to the old dogma that whatever is good for business necessarily has to be good for the country. Rather it is a modern, pragmatic recognition, on the one hand, that Government cannot do everything and, on the other hand, an acceptance of the fact that through a more judicious stimulus of the private sector we can ease many of our economic and social problems.

Third. It is also important to note the broad-area coverage of the Rural Job Development Act. Most rural areas, not just the poverty-stricken ones, would be covered under the area eligibility definitions of the bill. Indeed, one of the criticisms which has been made of the bill, and I think it is with some justification, is that it is too broad in its definitions of eligible rural areas.

One of the reasons for the broad definitions of area eligibility employed in this bill is the great scarcity of current, accurate, and definitive data on significant economic characteristics of communities outside our standard metropolitan areas. This lack of reliable data makes it very difficult to write definitions with pinpoint precision.

But, for the most part, the broad provisions of the bill are deliberate. This follows from the fact that the purpose of the bill is to encourage rural development in general. Thus we wanted to make sure that it would be broadly applied to all rural areas and not be limited to such poverty-stricken regions as Appalachia and the Ozarks.

I believe this is an absolutely essential guideline for the entire rural revitalization effort. We must concern ourselves with eliminating rural poverty, but we must not be limited to only that, our vision and our goals must be much broader.

Fourth. The bill does not attempt to define growth centers. There are those who would criticize the bill for this omission. They would argue that its definition of eligibility should be more precisely tailored to the potential growth centers.

Actually I am fully aware that only certain areas have the potential for growth and that others do not. But the trouble here is that I doubt that we can really say with any precision which areas have this potential and which do not. The birth of new types of industry, the continued improvements in transportation and communication, and the changing tastes of the American consumer make it extremely difficult to predict with any certainty, even with the best of data, the economic potential of any given area. Moreover, it is important to keep in mind that plain old local chamber of commerce type boosterism and the unpredictable coincidence of noneconomic factors often have a major effect on whether a given community will grow, hold its own, or decline.

By making the incentives in this bill broadly available, all the factors which affect economic growth, many of which we do not know with any precision, will be allowed to operate freely. I think it necessary to let the free play of economic enterprise and local initiative be the principal deciding factors as to which areas will most benefit from the bill's provisions.

In summary, Mr. Chairman and members of the committee, I would reemphasize the theme that the revitalization of rural America will not only benefit those who prefer to upgrade their living standards without migrating to the cities, but will benefit the Nation as a whole. The present trends which continue to result in mounting urban congestion, rising urban costs, and a widening gap between urban aspiration and urban achievement, can and must be altered through an aggressive program of rural revitalization.

The CHAIRMAN. Senator Harris.

Senator HARRIS. Thank you, Mr. Chairman.

I just want to compliment Senator Pearson, who has done an outstanding job in drafting this legislation and in pressing it to this point. And I want to compliment you, Mr. Chairman, and this committee for setting the bill down for hearings. I have been pleased to be the principal co-sponsor with Senator Pearson of this bill since we first introduced it in 1967, and I believe that the idea embodied in the bill is gaining in support.

I am especially proud also to have here today and tomorrow several prominent Oklahomans who are devoting their time and efforts to the industrial development of the small towns throughout our State.

They include Mr. Gene Redden, director of the Mid-America Industrial District at Pryor, Okla.; Mr. Jim Rice, who is manager of Oklahoma Aerotronics, a small business concern in Hartshorne, Okla.; Mr. Dick Moore, who is chairman of the Oklahoma Industrial Advisory Team and vice president of the Arkansas-Louisiana Gas Co. in Altus, Okla.; Mr. Czar D. Langston, Jr., manager of the Oklahoma Association of Electric Cooperatives in Oklahoma City, and Mr. John Shearer, professor of economics and director of the Manpower and Research Training Center at Oklahoma State University, who will present testimony on behalf of himself and Dr. Richard Poole, dean of the School of Business at Oklahoma State University. Mr. Frank Kliewer, president of the midwestern Oklahoma Industrial Foundation, will submit a statement.[1] I do hope in that connection, Mr. Chairman, that the record on these hearings will be held open until June 13 in order that those who are interested might submit testimony to be included in the record for the consideration of the committee.

I will call the attention of the committee to the fact that the Senate Subcommittee on Government Research, which I chair, last year on May 17 and 18 conducted a conference on the campus of Oklahoma State University at Stillwater, Okla., cosponsored by Ford Foundation and by Oklahoma State University, entitled "Rural-to-Urban Population Shift—A National Problem." This manpower conference was attended by economists, sociologists, university presidents, Government officials, representatives of labor unions, and interested citizens, all of whom recognized the pressing need to expand opportunities in small towns, smaller cities, and rural areas. The record of the conference is found in the committee print entitled "Rural-to-Urban Population Shift—A National Problem," and can be obtained through the subcommittee.

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[1] Mr. Kliewer's statement appears at p. 200.

Mr. Chairman, I will ask unanimous consent that my complete statement might be inserted at this point in the record, and simply say further that I do not, of course, feel that we can solve the problems of the cities by solving the problems of the country, but for the long pull I believe that we cannot solve the problems of the city without solving the problems of the country, and without making the country—that is, rural areas, smaller cities, and smaller towns—places where there are greater opportunities for private jobs. I believe that this bill and the thinking behind this bill would point us in the right direction, and therefore I am very grateful that you have agreed to these hearings, Mr. Chairman, and that these good people have agreed to come and testify.

The CHAIRMAN. Thank you, Senator Harris.

(Senator Harris' statement follows:)

STATEMENT OF HON. FRED R. HARRIS, A U.S. SENATOR FROM THE STATE OF OKLAHOMA

Mr. Chairman and members of the committee, I appreciate this opportunity to present testimony in support of S. 15, the Rural Job Development Act of 1969 and in support of the concept of providing incentives to attract job producing industry into small towns and rural communities.

I first joined with the distinguished Senator from Kansas, Mr. Pearson, as a sponsor of this legislation in 1967. Unfortunately, no action was taken on the bill in the 90th Congress; therefore, Senator Pearson and I and some 34 co-sponsors reintroduced the legislation in January of this year. I am happy that the Senate Finance Committee has now decided to hold these hearings on this very important legislation, and I know that our distinguished Chairman, who is from a predominantly rural state, is very interested in industrial development in small towns and rural communities and creation of jobs for unemployed and underemployed rural citizens.

I am especially proud to have there today and tomorrow several prominent Oklahomans who are devoting their time and efforts to the industrial development of small towns throughout our state. With us today are Mr. Gene Redden, Director of the Mid-America Industrial District, Pryor, Oklahoma. Also, Mr. Jim Rice, Manager of Oklahoma Aerotronics, a small business concern in Hartshorne, Oklahoma, and Mr. Dick Moore, Chairman of the Oklahoma Industrial Advisory Team and Vice President of the Arkansas-Louisiana Gas Company in Altus, Oklahoma, and Mr. Czar D. Langston, Jr., Manager of the Oklahoma Association of Electric Cooperatives in Oklahoma City and Mr. John Shearer, Professor of Economics and Director of the Manpower and Research Training Center, Oklahoma State University, who will present testimony on behalf of himself and Dr. Richard Poole, Dean of the School of Business at Oklahoma State University. Mr. Frank Kilewer, President of the Mid-western Oklahoma Industrial Foundation, who because of other commitments was unable to be with us in person, has submitted testimony for the record.

I would, by the way, Mr. Chairman, like to request that the Record of the hearings be held open until June 13 in order that those who are interested might submit testimony to be included in the Record for the consideration of the committee.

Mr. Chairman, as you know, because of the lack of opportunity, our young people for years have been leaving the farms and small towns and moving into our cities. Unofficial estimates of the Census Bureau indicate that by 1985, unless the trend of rural-to-urban population migration is reversed or reduced, 125 million Americans, or almost half our population then, will live in three huge strip cities—one stretching from Boston down to Washington, one from Buffalo to Chicago, around the Great Lakes, and the third from San Francisco to Los Angeles. This is an astonishing trend and one which, I think, we have the responsibility to check if at all possible. The economic decline of the rural areas and small towns of America could be traced almost exclusively to the lack of private jobs. I began then to try to determine ways we could encourage more job-producing industries and commercial plants to locate in rural areas. I discussed this matter with leading economists and businessmen throughout the country and finally determined that a system of tax incentives would offer encouragement to industries to locate in small towns and rural communities and would thus provide the private jobs so desperately needed in these areas. It also became apparent to me that a program of this nature would not only be beneficial to the rural areas and small towns but would also ease the pressure which is building up in our large metropolitan cities because of the over-crowded conditions with accompanying problems such as water shortages, air and water pollution, over-burdened transportation systems, crowded school rooms, inadequate services, and, of course, crime and delinquency.

National policy, consciously and unconsciously, has, over the past years, encouraged our people to move from the rural areas and small towns into the larger cities. I am glad that the Senate has begun to ask whether it is inevitable that more and more of our people must be packed into less and less living space. The Senate Committee on Government Operations has held hearings on legislation to create a National Commission on Balanced Economic Growth. The Senate Subcommittee on Government Research, which I chair, last year on May 17 and 18 conducted a conference on the campus of Oklahoma State University at Stillwater, cosponsored by Ford Foundation and Oklahoma State University, entitled "Rural-to-Urban Population Shift—A National Problem." This Manpower Conference was attended by economists, sociologists, university presidents, government officials, representatives of labor unions, and interested citizens, all of whom recognized the pressing need to expand opportunities in small towns, smaller cities and rural areas. The Record of the conference is found in the Committee Print entitled "Rural-to-Urban Population Shift—A National Problem," and can be obtained from the Subcommittee.

We have passed legislation over the years to make life in rural areas and small towns more comfortable, healthy, and rewarding. But the time has come, Mr. Chairman, when we must face up to the fundamental imbalance of the opportunity between rural and urban areas.

The economic decline of rural America can be traced almost exclusively to the lack of private jobs. The search for better economic opportunity has forced the migration of our rural population to already over-burdened, over-crowded cities. Unfortunately, and regrettably, many of these rural-to-urban migrants lack the education and skills to compete in the technical labor markets of our urban centers. Therefore, many become residents of the city slums and ghettoes, and great human resources are wasted. Proud people who once made a real contribution to society suddenly became dependent upon it, unable to cope with the complexities of city life. It is not surprising that a Gallup Poll shows that nearly one half of all Americans would prefer to live in a small town or on a farm, yet only one third do and this number is dwindling.

In order to stabilize our rural and small town population, we must foster, if we can, a re-thinking of national policy. I feel this basic concept is contained in the Rural Job Development Act which proposes the following tax incentives for a 10 year period from the date of enactment to new job-creating business enterprises locating in rural job development areas:

1. A 14 percent tax credit on personal property (machinery and equipment). A 7 percent tax credit on real property (land and buildings).

2. An accelerated depreciation of two-thirds of normal, useful, or class life for machinery, equipment and buildings.

3. A tax deduction equal to 50 percent of the wages paid to workers for whom the enterprise must provide on the job training. This special deduction, which would be in effect during the training period, is intended to encourage the enterprise to hire and train local people who lack the required labor skills.

4. All credits and deductions can be carried backward three years or forward for a maximum of 10 years, or if the business is a corporate subsidiary, utilized against other outside income of the parent corporation. A purchaser of the business could use the carryovers otherwise available to the seller if the purchaser continues the business.

The idea of government incentives to stimulate private investment is not a new one. Capital gains are taxed at half their normal rate to encourage long term investment. Oil and mineral exploration and production is encouraged through our system of depletion allowances. In recent years, we have allowed accelerated depreciation rates to encourage the building of grain storage facilities and defense plants. Thus, government incentives are a tried and proven method of encouraging certain types of investment. These incentives should now be broadened to include a tax incentive for the location of job-producing industries in the rural areas and small towns of our country such as provided in S. 15, the Rural Job Development Act. Industrial development in rural America has been slow because of the high risk involved. Transportation facilities are sub-standard in many rural areas.

Market accessibility and shipment of finished products is often more expensive. Adequate buildings are not always available and must be constructed at company expense. But perhaps the biggest deterrent to the development of rural America has been and is the lack of an adequately trained working force. People in rural America are willing to work, but many lack the skills needed for jobs in our highly technical industries. In order to encourage the training of local persons, the Rural Job Development Act calls for a special deduction equal to 50 percent of the wages paid to any local person requiring on-the-job training. This deduction would be in effect for the duration of the training period.

Mr. Chairman, increased opportunity must be and is the national goal for those living in poverty both urban and rural. This bill, S. 15, and the subject of these hearings furthers our goal of providing increased opportunity, but the Rural Job Development Act has an additional purpose: To balance economic development throughout the entire country and to slow down the whole process of urbanization if possible. Mr. Chairman, I realize that very little legislation is perfect when it is first introduced. I am sure that we will hear some excellent suggestions for improvement of the Rural Job Development Act from the outstanding list of witnesses scheduled to testify before us. I, of course, am not tied to all the specific provisions of this legislation. However, the concept is sound and we should move forward toward the implementation of the necessary incentives to bring about the development of job-producing industries in rural areas and small towns and small cities. I appreciate the fact that you have scheduled these hearings and I am certainly hopeful that out of the hearings will come legislation which can be enacted and implemented. Once again, I would like to express my appreciation for the interest shown by my fellow Oklahomans for traveling here to Washington to testify concerning the need for this Rural Job Development Act. Thank you.

The CHAIRMAN. Senator Talmadge.

Senator TALMADGE. Thank you, Mr. Chairman.

I, too, desire to compliment Senator Pearson for making what I think is a very fine statement. As the Senator knows, I am a cosponsor of the bill. I compliment also my friend and colleague from Oklahoma for his statement. I agree with it. I think most of the problems of our cities had their origin first in problems in rural areas. Job opportunities were simply lacking in the rural areas. These people seeking a better life largely migrated to our urban areas, many of them with little education, few job skills, and little training.

And I agree, also, that we can never solve the problems of the cities until we attack first the root causes of these people migrating from the rural areas to the urban areas. And I think that is where the first attack should be. It does not mean we ought to stop our efforts to solve the problems of the cities. We are spending billions and billions of dollars in attempting to do that, but the problems in our cities are getting worse all the time and not better. And I think those problems will continue until we make rural life more attractive with greater opportunity for employment in rural areas.

Senator PEARSON. Mr. Chairman, I thank the Senator. May I just say that not only is this the migration of the unskilled and the rural untalented, often not through any result of his own situation, but migration also takes with it not only the unskilled but the bright, talented, educated youth who are the vital source of leadership and new hope in rural communities. So we lose on the one hand the unskilled and on the other hand very skilled that you need in rural communities.

The CHAIRMAN. Senator Williams.

Senator WILLIAMS. Senator Pearson, I, too, want to join with the other members of the committee in complimenting you on your statement and the objectives you seek. There are just a couple questions that come to mind and perhaps for the record you will want to answer them.

Investment Credit Aspects of S. 15

Do you think there is any conflict between the initiation or recommendation of an investment credit as provided under this bill with the other action that we are being asked to take to repeal the investment credit in general? Do you think there is any conflict?

Senator PEARSON. Yes, Senator, I think so. I think there is a direct conflict with the recommendation made by the President in the tax reform bill. We take this route more out of necessity than out of conviction or any great sense of confidence as to what is the very best way to do it. The bill was drafted last year along these lines, reintroduced this year along these lines prior to the time that the President made his recommendations. And I might say that, as we face the problem of providing an incentive for industry to go into rural areas, we recognize the budget situation today—particularly with the rural areas no longer having the political power that they had 20 and 30 years ago—will not provide for any sort of appropriation means of providing this incentive in the form of a subsidy, Senator. I think the candid and honest answer to your question is in the affirmative.

Senator WILLIAMS. Well, as I gather from the bill, of course, we have a 7-percent investment credit now but it does not cover plants, as you know. It just covers machinery.

Senator PEARSON. That is correct. This is not only a continuation, Senator, but it is an enlargement upon the tax-incentive program.

Senator WILLIAMS. And as I understand it the investment credit under your proposal would go to buildings and plants, as well as equipment and go as high as 10 percent instead of the 7 percent that is now effective.

Senator PEARSON. That is correct, Senator.

Senator WILLIAMS. And it goes as high as, it ranges between 14 and 17 percent investment credit on equipment, is that correct?

Senator PEARSON. That is correct, Senator.

Senator WILLIAMS. And who would make the determination—I notice that in your statement here you refer to the——

Secretary of Agriculture To Determine Eligibility for Investment Credit

Senator PEARSON. The authority for administering the law would be assigned to the Secretary of Agriculture, Senator Williams.

Senator WILLIAMS. That is what I was getting at. Speaking about the definitions of those eligible rural areas, the Secretary of Agriculture would make the determination as to——

Senator PEARSON. In those—I beg your pardon.

Senator WILLIAMS. I mean if this was enacted, the Secretary of Agriculture would make the determination whether X plant was eligible for these credits and to what extent they were eligible within the range of 7 to 10 for the plant and the range of 14 to 17 for the other.

Senator PEARSON. And within the range of the definition set forth——

Senator WILLIAMS. In the range of definition.

Senator PEARSON. In the range of the definition set forth in the bill.

Possible Conflict Between Departments of Treasury and Agriculture?

Senator WILLIAMS. Would his determination be binding on the Secretary of the Treasury if the Secretary of the Treasury disagreed?

Senator PEARSON. I do not believe I know the answer to that question.

There is a provision for consultation, but that does not answer your question.

Senator WILLIAMS. I know there is consultation.

Senator PEARSON. I do not know how to answer your question.

Senator WILLIAMS. From reading it, it appeared to me——

Senator PEARSON. I would assume that it would be, frankly, yes.

Senator WILLIAMS. Do you think that there would be a possible conflict developing here where we would have an agency of the Government other than the Treasury Department having the ability to grant tax incentives over the objections of the Treasury Department? Do you think it could develop into somewhat of a problem there?

In other words, what I am fearful of——

Senator PEARSON. I understand your question.

Senator WILLIAMS (continuing). We would end up with discriminatory law, and would not it be virtually impossible to coordinate the two administrations with different departments having the right to make decisions as to the tax obligations?

Senator PEARSON. Well, Senator Williams, I am positive there is a possibility of disagreement, and the consultation provision of the bill sought to ameliorate that contingency.

Senator WILLIAMS. I noticed on page 16 of the bill——

Senator PEARSON. I would like to do a little research on that particular point and answer your question to some better extent, if I may.

(Subsequent testimony clarified this point.)

Senator WILLIAMS. Sure. I am raising these because I think these are questions that should be considered as we proceed to make a determination on it.

Senator PEARSON. Yes.

Treatment of Real and Personal Property Under the Investment Credit

Senator WILLIAMS. Another point. I notice on page 16 of the bill in lines 22 and 23 it is stated that to be eligible for the special investment credit the personal property need only have a 4-year life and the real property need only have a life of 10 years.

Now, the point that came to my mind, what type of plant would be constructed, or building, that would have a life of 10 years? Would that not be a weak construction, and would we not be building a slum potential? Because most of the real property that is built has a life, a normal life, of 30 years, and I just wonder what type of a building or plant you are figuring to have with a 10-year life?

Senator PEARSON. Senator, I agree with you. I rather imagine that provision within the bill itself was provided in contemplation of very small types of industries. One of the provisions of the bill indicates that there shall be an employment of at least 10 persons, so we contemplate pretty small endeavors as such. And I rather imagine that new type construction, the steel fabricated small building type which would be a part of the realty was the type of construction that we were thinking about as distinguished from the rather large, permanent, long-range construction that one would contemplate when you consider the life span of realty in the normal sense.

Senator WILLIAMS. But as the applicant for the benefits of this bill applied, the final decision as to whether or not the particular structure qualified under the 10-year limitation would depend on and be made by the Department of Agriculture, is that correct?

Senator PEARSON. I think that is right, Senator.

Senator WILLIAMS. Now, I notice—and of course that makes a great difference in the depreciation schedule as you realize.

Senator PEARSON. Yes. And I appreciate your concern.

Senator WILLIAMS. And we have another agency of the Government establishing depreciation schedules, too.

Now, in another section of the bill I notice that the suggestion is made that the Secretary would also have the right to say that this could be depreciated over two-thirds of its established normal life.

Now, would that mean that if the Secretary of Agriculture decided that a certain building could be depreciated, could be established with a 10-year life, would it then be able to depreciate it in two-thirds of the 10?

Senator PEARSON. That is correct. That is my interpretation, Senator.

Senator WILLIAMS. Well, that was my interpretation. That would mean that this building could be depreciated in 6⅔ years, and then it would also be eligible for the declining balance method.

Senator PEARSON. Yes.

Senator WILLIAMS. That would mean that about one-third of it could be written off in depreciation in the first year?

Senator PEARSON. In somewhat of a defensive response, Senator, let me say that both the area of definitions and the range of tax incentives is not a part of this bill that so far as I am concerned—and I do not speak for any of the cosponsors—represents any hard and fast determinations or judgments as to precisely what it ought to be. You have to start from someplace if you are going to put a piece of legislation——

Senator WILLIAMS. I am just trying to understand it, and as I understand it that would be the mechanics of it.

Senator PEARSON. That would be the mechanics of it, and to interpret your own questions, there are considerable incentives.

Senator WILLIAMS. As I gather it, if you could depreciate a building in 6⅔ years under the accelerated depreciation, in close mathematics you could write off about one-third of the cost of the building in the first year. In addition to this you would get a 10-percent tax credit. And if the individual was in the 70-percent bracket, that would be a substantial incentive, would it not? Would you agree on that?

Senator PEARSON. Yes, indeed. Yes, indeed.

Senator WILLIAMS. And at the end of 10 years, it would be well written off, and then in the 4-year——

Senator PEARSON. Senator, may I interrupt you to say——

Prohibition of Runaway Corporations

Senator WILLIAMS. Surely.

Senator PEARSON (continuing). I would like to point out at the same time there are two other provisions of this bill that give some balance to the very point that you are so properly bringing up now. One is the provision for recapture of all of the incentives through showing of lack of conformity with the provision of the bill. And the other is a prohibition against the so-called runaway corporation. It will serve no purpose whatsoever if we should have a company in Topeka pick up and move to Emporia, Kans., so to speak.

I wanted to make that clear because I had not done so earlier.

Senator WILLIAMS. Yes. Yes. I realize that, and I was going to get that in a moment. But since you brought it up, who would make the determination that X company was leaving?

Senator PEARSON. I think we are still back in the Department.

Senator WILLIAMS. The Department of Agriculture would be making the determination. And in making that determination, if they made it negative from the standpoint of the company applying, and the company still moved, it would mean an additional tax liability to the company, would it not?

Senator PEARSON. Yes.

Enforcement Problems Raised

Senator WILLIAMS. Now, how would they enforce that? Because Agriculture has no enforcement proceeding for taxes, and if the Treasury Department disagreed with it in the beginning, would the Treasury Department have to enforce the Agriculture Department's decision as to the amount of tax liability that X company owed?

Senator PEARSON. Yes.

Senator WILLIAMS. And the Department of Agriculture would determine the tax liability and the penalty that would have to be paid as a result of a company moving over their objections?

Senator PEARSON. Well, I think the point you made is a continuing development of a very valid point of criticism. That is the conflict between the Department of Treasury in their normal and original jurisdiction and the Department of Agriculture.

Senator TALMADGE. Would the Senator yield at that point?

Senator WILLIAMS. Yes.

Senator TALMADGE. I would like to point out that this would not be the first time that a bill would be adopted by the Congress that had two different areas of the Government involved. We passed section 168 of the Internal Revenue Code to give accelerated writeoffs in certain instances, and the certifying authority at that time was designated by the President by Executive order.

Of course, in the field of foreign relations, as the Senate knows, we also have several Departments engaged—State Department, Commerce Department, sometimes the Defense Department. So I do not think it is unusual to have more than one agency of the Federal Government involved in a given action at a given time.

I thank my friends from Delaware and Kansas for yielding.

Senator WILLIAMS. Yes, I am just trying to get an understanding of how this would operate and maybe it would be better to have one or more agencies or three or four. I am just trying to understand it.

Now, on the equipment provisions, as I understand it, the Secretary of Agriculture could make those eligible to be written off in 4 years.

Now, in depreciating it, could this 4-year also be eligible for the two-thirds of the period, which would bring it down to 3 and a fraction years, of writeoff?

Senator PEARSON. I think so, Senator. I have just been advised by my staff that maybe the conflict of jurisdiction is not as hard and precise as I indicated to the Senator, that provisions would be that the Secretary of Agriculture would certify eligibility and then the tax justification would have to be made by the Secretary of the Treasury.

Senator WILLIAMS. That point could be corrected anyway.

Senator PEARSON. Oh, yes.

Senator WILLIAMS. It is not really——

Senator PEARSON. Let me just say in response to the Senator from Georgia's comment, that I likewise have some recognition of conflicting jurisdiction and joint action in some of these fields. I did not have the examples in mind that he brought forward. But I would like to correct this part of the proposal.

Senator WILLIAMS. But assuming they were all under the same Department, this question—I mean these questions would be related to the mathematics of the formula.

Senator PEARSON. Yes.

Accelerated Depreciation of Equipment

Senator WILLIAMS. And I notice that under this section—the equipment would be written off, as I understand it, in 4 years and then under this section consideration could be made that they could write it off in two-thirds of the stated life.

Senator PEARSON. That is right.

Senator WILLIAMS. And that would mean that they would write it off in 3⅓ years and they would still, as I understand it, be eligible for the accelerated depreciation.

Senator PEARSON. I think that is right.

Senator WILLIAMS. And if you write something off in 3⅓ years under accelerated depreciation, you are writing off substantially all of it the first year in depreciation of the equipment, because you are writing off about two-thirds of it at least, just about, the first year, plus the fact of a 17-percent investment credit. Is that correct?

Senator PEARSON. Yes, I think so.

Senator WILLIAMS. Which means that practically 100 percent of the cost would be written off if the individual was in a higher bracket the first year.

Senator PEARSON. We wrote in very strong incentives. We may have written them in too strong, Senator, as far as that is concerned.

Special Deductions for Wages Paid During Training Period

Senator WILLIAMS. Now, one other question. I do not want to take too long. But I notice on the employment feature—I think it is on page 29 of the bill—it is indicated that there be a deduction in addition to the regular deduction for compensation of an amount equal to 50 percent of the compensation paid to employees who meet certain qualifications under the Rural Job Development Act of 1969.

Now, does that mean that the employer would get a deduction for 150 percent of the wages to that employee?

Senator PEARSON. I think so. It says, in the explanation of the bill—I would like to read the third paragraph—"This special deduction would be in effect during the training period. It is intended to encourage the enterprise to hire and train local people who lack the required labor skills."

I think the answer is in the affirmative: 150 percent.

Senator WILLIAMS. That the employer would get in addition to the depreciation schedules we are outlining in investment credit: he could write 150 percent of whatever he paid the employee?

Senator PEARSON. During the training period.

Senator WILLIAMS. During the training period. Do you think that this is too liberal or do you think that it is——

Senator PEARSON. I think not, Senator. So much of our great training programs have been in the abstract. We have great training programs to train an enormous number of people without reference to the specific job opportunity. I know the human investment tax credit proposal that has been in the Senate for a number of years sought to recognize the principle that manpower training was best when a given company trained a given man for a given job. And that is—this proposal here seeks to recognize that principle. I do not know what the training period would be, of course. It would vary with the particular job. It may vary with the particular individual, what capabilities they have. But obviously we think this is a proper incentive and not excessive.

Senator WILLIAMS. But it would mathematically be to the advantage of the employer to keep the training period as long as he could and flunk a few of the applicants, would it not? Because if you take 50 percent more credit——

Senator PEARSON. Well, if we assume bad faith, that would also be correct.

Senator WILLIAMS. I do not say that there is any bad faith ever, but occasionally one will develop somewhere, and I just wondered if it would be possible for an employer, and would it not have a built-in incentive for him to——

Senator PEARSON. Well, I cannot find the place now, Senator, but the Department of Labor I think certifies—on page 30, line 15—the Secretary of Labor shall perform his duties under paragraph one, and so forth, so forth, which I think indicates that he specifies the length of time, or at least lays down some guidelines there.

Senator WILLIAMS. Well, I appreciate your cooperation in this.

Senator PEARSON. I am grateful to the Senator for raising these points. We are hopeful for the bill, and we are hopeful for a workable solution.

The CHAIRMAN. Senator Fannin.

Senator FANNIN. Yes, Mr. Chairman. I too join my colleagues in commending the distinguished senior Senator from Kansas for his efforts in a very much needed area. We realize the problems in our cities, industrial areas, and places where people are migrating, and the need for rural job development.

Indian Reservations Under S. 15

I regret that I was not here earlier, and I not not want to be repetitious. I do not know whether the distinguished Senator from Oklahoma covered the Indian reservations or not or discussed that matter.

Senator PEARSON. They are covered.

Senator FANNIN. I understand they are but has the subject been under disscussion?

Senator PEARSON. It has not, Senator.

Senator FANNIN. I am vitally interested in that because in my State almost a third of the State is composed of the Indian reservation. Twenty-seven point seven percent, to be exact, of our land area is Indian reservation. And I am wondering just how this is going to operate. I think it is vital to the reservations since, instead of 10 or 15 percent unemployment, we have 30, 40, 50, 60, 70 percent unemployed on the reservation, and we are trying to do just exactly what is being attempted by this bill, that is, to encourage job development on the reservation. But there are problems and, as I see it, a proliferation of programs. It is my fear that this would be under the Secretary of Agriculture, who, I understand, will certify after consulting with the Secretary of Interior, and I imagine that would be through the BIA.

I am concerned because we have a great number of programs that do not come under the BIA on the reservation, and they should have a direct responsibility. So the right hand does not know what the left hand is doing. We have as many as six different agencies operating on one reservation in my State, and this is a great duplication of services.

I am just wondering if any thought has been given as to how this could be controlled so that we would not be duplicating the work of other agencies.

Senator PEARSON. Senator, I recognize that. You have to place the authority someplace. And there is already existing machinery within the Department of Agriculture for rural job development. It is not a great part of their program, of course. It is one of the many, many programs they have over there. And we have placed the certification of the areas under the authorization of the Secretary of Agriculture in relation to counties as they have been identified in the bill. We thought it proper to include the Indian reservations. We thought it proper to leave that to the Secretary of Agriculture. But I understand——

Senator FANNIN. I am not in disagreement with that. I think that would be a very simple matter as far as the certification is concerned. What I am worried about is the operation of the program after it gets underway. There must be supervision and I am concerned about how the supervision would be handled. What I would like to do——

Senator PEARSON. I think it would be handled just as——

Senator FANNIN. I think the Senator realizes that there are a vast number of employees, BIA employees, on each Indian reservation. In fact, we are sometimes concerned about the number.

Senator PEARSON. Yes.
Senator FANNIN. And I agree with the objective of the bill. I am very much in agreement. I would like to help in every way.

There are some questions that naturally you would not have available answers to, but I would like to have this reviewed and perhaps we could make some suggestions. And I would like to incorporate my efforts with Senator Harris', because I know that he has the same interest that I do regarding this subject. And I feel that perhaps we could make some recommendations that would simplify the operation of the program.

Senator PEARSON. Well, I thank the Senator. I recognize—I think I have been urging legislation in the Senate for 3 or 4 years for the creation of a new Hoover Commission——

Senator FANNIN. Yes.

Senator PEARSON (continuing). To look into the great proliferation of agencies and bureaus and administrations, particularly with the almost niagara of legislation we have passed in the last several years. The Senator from Arizona has cosponsored that measure and has been very helpful. I think it is gone by the board now with the President's action to create an executive board to do this very chore. But the conflict and the duplication and the lack of efficiency and the waste involved in existing programs may find a home in these sort of proposals, too. I do not know the answer to it unless we have a complete restructuring, and a complete review, and then some action on the part of the Congress. I am hopeful that the legislation we pass giving the President authority to reorganize plus his new executive board will solve many of the problems that the Senator knows about in general and sees with particularity in relation to this bill.

Senator FANNIN. Well, I certainly thank the distinguished Senator, and I realize the importance of this bill. I am not in any way criticizing the intent or the objectives.

Senator PEARSON. Oh, I understand.

Senator FANNIN. But I hope that we can coordinate our efforts so that we can eliminate some of the duplication. We are just not reaching the Indian people. We have so much of the money being spent on administration because of the proliferation that I have spoken about. So with your cooperation, I am sure that we can work out something on this particular subject.

Thank you.

Senator PEARSON. I share that concern, Senator.

The CHAIRMAN. Senator Pearson, I saved myself for last to ask you a few questions about the matter because I wanted to expose you to the other members of the committee, particularly to your colleague, John Williams. As you know, he is the watchdog of the Treasury. If you have any idea about taxes that has some defect in it, he is the most likely man in the Congress to find it. And he has explored in some detail the problems involved in this tax-credit proposal. But, basically, I think you have the right idea.

Lack of Jobs Forces Migration to the Cities

As I understand, what you are trying to do is to reverse this migration where good, honorable, decent people have to leave their rural homes because they have no jobs and go to a big city looking for a job.

Some of them wind up robbing banks, some engage in the life of crime. If you had found them an honest employment opportunity to begin with, they would have stayed back there in Kansas or Little Rock or Houma, La., or Dry Prong, back there working hard to make an honest living, would they not? That is what you are trying to do, keep them at home making an honest living rather than having to move away looking for a job opportunity.

Senator PEARSON. Senator, the starting point is jobs, and the migration, as I said before, is of those who lack skills and those who have skills. To the extent that the bright, educated young people leave the country and go to the cities, we offer them, the cities, a subsidy for that human intelligence and endeavor.

But the chairman has correctly stated the purpose. We take the tax-incentive route for we know of no other. And I would like to reiterate that the area definitions are extremely hard to draw because you do not have the statistical information outside the metropolitan areas. The tax incentives themselves—no one knows what is the proper incentive or what is a fair incentive. But I think most will agree that incentives in any other manner are lacking today, and I know of no other way.

The CHAIRMAN. Now, Senator Pearson, back in the days when nobody thought there was anything wrong about accepting an honorarium, some building and loan people asked me to be their speaker down in Puerto Rico. And I so took my wife and flew down there. And if I do say it, that was a case of being underworked and overpaid. I made them a speech, and saw the beautiful beach at San Juan, and one thing I noticed was that the migration from Puerto Rico to New York City had been reversed. Instead of those people being crowded into those New York slums, they were all coming back to Puerto Rico. That was their home. That is where they wanted to be. And they had lovely places down there.

Now, I would think that if that continues for awhile, if you would go up to that congested area around Harlem, you will find that instead of having 10 people to the room, they have only got eight to the room, and after awhile only five people to a room, maybe four people to a room, because folks find it desirable to go back home.

Now, the truth was that they did not want to leave home to begin with, did they?

Senator PEARSON. I doubt if they did, Senator.

The CHAIRMAN. Perhaps many of them would like to see New York City, but as far as living there, they would prefer to stay in their hometown and go to work making a living.

Now, the only question that occurs to me is whether we cannot achieve the same results you are seeking at a much less revenue loss than you are advocating. I think that the Senator from Delaware would vote for what you want to do. His question is whether this is the most efficient way to do it? And that is my question.

Loan Guarantee Programs As Compared With a Tax Credit

For example, it occurs to me that we might get there easier and more efficiently by simply having a loan guarantee program where we would guarantee someone that if he would build an industry in a small community, which is losing population—and if he lost some money—we would pay off the loan for him.

I have looked at that investment tax credit. That was President Kennedy's dream, and I was eventually pursuaded to vote for it against my better judgment. Now, if we have our way on this committee I think we are going to repeal that thing. But I would have hated to see President Kennedy a bitter and frustrated man because Congress would not go along with him on what he thought was the way to solve the Nation's economic problems. But there we were paying—well, we were talking about $1.5 billion then and now it is over $3 billion—for people to do what they would have done anyway.

Now, if all you are doing is giving a guy a tax advantage to do something he would do anyway, you must admit that is a fairly inefficient way to spend Government money or to adjust against taxes.

Senator PEARSON. Oh, I think so, I think—if the chairman will pardon me, I think the facts are that in the case of developing some sort of job opportunities in the rural areas today, the facts are that there are few, that the direction really is not that way.

The CHAIRMAN. And what we are trying to do with this hearing, as I understand it, is to find the most efficient way that we can that would at the same time produce results. We do not want to just pass a bill and then find out a year or two later that nothing happened, nor do we want to pass a bill where we are spending a fortune in giving some rich men all sorts of tax advantages only to find that we paid him to do something he would have done anyway.

Senator PEARSON. That is right.

The CHAIRMAN. So, if we can work out the most efficient way to do this thing, I take it that you would be willing to go along with that?

Senator PEARSON. Oh, oh, of course. I am for this bill. The tax incentive I still think is a good way to solve this. But the problem is not the way we do it. The problem is getting the job done, and to some extent today.

The CHAIRMAN. Well, I would be willing to vote for your bill, provided I was convinced this is the best way you can get the mileage for that much money. And if we can work out the formula to get the job done, I think we ought to do it.

Senator PEARSON. In relation to the loan guarantee approach, I think we will find on investigation a marked limitation of capital within the rural areas themselves to do a great deal of financing.

The CHAIRMAN. Yes, but you have a potential, if I do say it, Senator Pearson, that you did not have a year ago—you have a Republican President. He can call insurance companies and big banks and tell them that they ought to loan some money for rural development—that the Federal Government will guarantee it but they make the loan. If I may say so, some of the people have a hostility toward Democrats in the White House and they would not move as fast and efficiently, at least, not nearly as quickly as they would if they were called upon by the same guy they voted for.

Now, one other thing we ought to do one of these days, if we cannot do anything about the tight money, is to start saying who gets the bank credit and who does not—for example, requiring a fellow to make a downpayment to buy something rather than just letting the people buy something at 100 percent credit. They can buy it, on yes, but by the time they get through they are paying more for the interest than they are paying for the principal.

So I would think if we can agree on the mechanics, the purpose you are trying to achieve, it would certainly merit a majority vote in the U.S. Senate and in this committee.

Let me thank you for initating this. And if there is some way that we can work with you to perfect the mechanics of what you are trying to do, I think you can muster a majority vote.

Senator PEARSON. Fine. I thank the chairman. Let me say that I think the administration is vitally concerned about this particular problem. The Vice President of the United States heads up a special committee today which I am a member of, that includes a number of men from the business community. And I recall a number of men from the great insurance—and that particular committee is studying the concept of new towns. But also it is studying the concept of revitalizing the small rural communities that do exist and does direct its attention to the problems of the hard core of the cities, the suburbs, the new towns, and rural. So I think the administration is vitally concerned, Senator. I thank you.

Mr. Chairman, I have a letter from James McCain, who is president of Kansas State University, who endorses the concept of this bill. And I would like to insert that in the record with the other matters that I directed to your attention some time ago, and indicate likewise that Mr. James Garver, Mid-America, Inc. of Parsons, Kans., is here today, and also Mr. Floyd W. Smith, who is director of the Agricultural Experiment Station, Kansas State University, and Mr. William May, who is vice president of the Federal Land Bank, Wichita, Kans. I would like to introduce them to the committee. They will appear later as witnesses. I thank you very much.

The CHAIRMAN. Just a minute.

Senator Harris, do you have any more questions?

Senator HARRIS. I do not have anything.

The CHAIRMAN. Mr. Talmadge?

Senator TALMADGE. Nothing further.

The CHAIRMAN. Mr. Williams?

Senator WILLIAMS. No; I do not have any more questions. Just let me thank you for coming before the committee. And I want to add that I do not quarrel with the objectives you seek to achieve. My questions were merely asked in order to get an understanding as to how this is going to work, because I am sure that, to the extent that any advantages are made in any of these bills, you want to be sure it siphons down to the man in the street and is not stopped in the middle somewhere. And we have got to understand it in order to intelligently make the decision.

Senator PEARSON. I understand, and I could not agree more.

The CHAIRMAN. We do not want this to turn out to be one more of these rich-men-get-richer poverty programs.

Senator PEARSON. Senator, my name is on it, too.

The CHAIRMAN. Well, thanks very much.

(Material referred to earlier by Senator Pearson follows:)

KANSAS STATE UNIVERSITY,
Manhattan, Kans., May 20, 1969.

Hon. JAMES B. PEARSON,
U.S. Senate,
New Senate Office Building,
Washington, D.C.

DEAR SENATOR PEARSON: The Rural Development Act of 1969, S. 15, is a much needed step in providing incentives to reverse the flow of human and capital resources from the rural areas. I wish to commend you for the leadership you have given in sponsoring this legislation. I regret it was impossible for me to testify in support of the bill before the Committee on Finance. We are, however, very pleased that Acting Vice President for Agriculture, Floyd W. Smith, will be able to appear in support of the measure.

I feel this bill has great significance not only for the rural areas such as we have in Kansas but also for the great urban complexes of New England, the Great Lakes area, and the West Coast. Investment and employment opportunities in the rural areas not only provide incentives for economic growth and development in the rural areas, but should relieve some of the basic problems of the urban areas. The city like other living organisms can become so huge as to be unable to provide for its vital functions. The problems of pollution, poverty, and social unrest I believe are an outgrowth of the ever-crowding of more and more people into the metropolitan complexes. Policies encouraging lower geographic concentrations of economic activities will be one means of solving our pressing urban problems.

You have performed a valuable service to rural America in calling attention to the seriousness of the problems arising in both rural and urban areas as the geographic concentration of economic activities continues. We wish to assure you of our continued support in your efforts in this matter.

Sincerely yours,

JAMES A. MCCAIN,
President.

FLOOR STATEMENT OF HON. JAMES B. PEARSON, A U.S. SENATOR FROM THE STATE OF KANSAS, ON THE INTRODUCTION OF S. 15

RURAL JOB DEVELOPMENT ACT

Mr. President, I introduce today, with the Senior Senator from Oklahoma (Mr. Harris) a bill to encourage the development of new job-creating industries in rural areas, thus serving to expand the economic base and more fully and effectively utilize the human and natural resources of our rural communities. The resulting expansion of economic opportunities would help to slow the migration from rural areas, which is primarily the result of a lack of economic opportunity, and therefore, at the same time, reduce the population pressures of our overcrowded and overburdened metropolitan areas.

Providing a judicious blend of private initiative and public responsibility—the bill, in brief summary, would work as follows:

A series of tax incentives—a 14 percent tax credit on personal property, a 7 percent tax credit on real property, an accelerated depreciation of two-thirds of normal life, and a 50 percent tax deduction on wages paid workers given on the job training—would be offered to industrial and commercial enterprises locating in counties designated as "rural job development areas" by the Secretary of Agriculture. Rural job development areas are counties which have no city of over 50,000 population and where at least 15 percent of the families have incomes of less than $3,000. Indian reservations are also included. To be eligible the enterprise must hire at least 10 people and wherever possible must hire at least 50 percent of the work-force from the local area. The bill contains a prohibition against "runaway" firms and recapture provisions for those firms which willfully violate the terms of the program. It authorizes $250,000 to service the rural industrialization program in the Department of Agriculture.

Mr. President, although several improvements have been made, the bill we introduce today is essentially the same as the Rural Job Development Act of 1967 which was introduced during the first session of the 90th Congress. The original bill was very well received. In the Senate thirty-three of our colleagues joined Senator Harris and me in cosponsoring the bill. Also on the House side the 1967 bill was introduced by a number of Republicans and Democrats alike.

Since that time a number of groups and individuals have endorsed the principle of tax incentives for the purpose of bringing new business and industry into our rural communities. For example, the use of tax incentives for rural industrialization has been endorsed by the National Advisory Commission on Civil Disorders as well as a special task force of the Republican Coordinating Committee. President-elect Nixon has spoken with favor of rural tax incentives and the National Rural Electrification Association has also given its strong endorsement to this approach.

These are only a few of the endorsements by public officials. In addition the Rural Job Development Act has received many editorial endorsements by newspapers all across the country.

Mr. President, the support for the Rural Job Development Act is but one manifestation of the great interest in the overall theme of rural development, which has also been variously referred to as rural revitalization, rural urban balance, and balanced urbanization. But whatever label we use we are all talking about the urgent necessity of expanding economic and social opportunities in our rural communities.

As we all know major portions of rural America are economically depressed, and often lacking adequate public services. These conditions in and of themselves justify and, indeed, demand major new efforts to improve and expand economic and social opportunities available in rural communities.

But the objectives of the rural development movement are truly national, not sectional. For in fact the rural development movement represents a new and vital part of our growing effort to deal with the crisis of the cities.

We have finally been forced to recognize that many of the problems which constitute the crisis of the cities can be traced to the overcrowding of people and the excessive concentration of industry. Thus the rural development movement, which ultimately seeks to slow down the great rural to urban migration, if successful, will be of benefit not only to our rural communities but to our cities as well.

And within the past two years we have come to realize that rural development is not simply a desirable objective but, indeed, a national necessity.

Mr. President, we now realize that many of our old notions about urbanization and rural migration simply are not valid.

Into the cities have come the unskilled rural poor attracted by the lure of economic advancement. Many gain, but a tragically high number do not. Instead of economic salvation too many of the rural poor, both white and black, find tenements, unemployment, welfare, and the depersonalized, demoralized environment of the slum-ghetto.

Into the cities also come the young, the educated and the talented. They often do much better materially, but for this economic gain they pay the social costs of the loneliness of the crowd, the frustrations of congested streets and crowded stores, the stultifying sameness of the bedroom suburbs, and the loss of community identity.

Into the cities come industry and for the most part it has prospered. But increasing numbers are now finding the cost of doing business in the city prohibitive. And as the urban resident breathes the fouled air of industrial smog, he comes to understand the hazards as well as the benefits of commercial concentration.

When it takes $20,000 in tax dollars to bring one more automobile into New York City during rush hour, we must wonder at the burden of maintaining our giant metropolitan areas.

When a freight truck can move from one side of the city to the other no faster than the old horse drawn freight wagon, we realize there is an awful lot of economic waste and inefficiency associated with doing business in a megalopolis.

When millions of city dwellers cannot find jobs, we see more clearly how ridiculous it is not to try to make it possible for more people to stay where they are, rather than moving to the city only to wind up on the welfare roles.

When we contemplate the adverse effect that crowding, congestion, and other urban environmental hazards have on the quality of human life, we value more highly the living opportunities enjoyed in the countryside and small towns.

Thus, Mr. President, the growing national commitment to the goals of rural development stems in a very large part from the recognition that major sections of our great metropolitan centers have become economically inefficient, physically unhealthy, socially undersirable and psychologically depressing.

The task ahead is clear. We must expand the quantity and quality of economic and social opportunities in rural America so that those who choose to do so will have the freedom to remain where they are and not be forced to move to the already overcrowded and overburdened metropolitan areas.

This task will not be easily or quickly accomplished. And we do not yet fully understand all the needs which must be met nor all the policy alternatives which must be considered.

But I think it is clear to all that new jobs lie at the heart of the rural development effort. For unless we can create upward of 500,000 new and better jobs each year in our rural communities, nothing else we will do will have any meaningful or lasting effect.

DESCRIPTION OF THE BILL

Mr. President, the bill we introduce today aims precisely at this goal of creating new jobs. It applies a proven principle to a particular need. The principle is that tax policy does in fact influence the course of business investment. The particular need is that special incentives are necessary to encourage a substantial increase of private investment in rural areas in order to overcome some of the factors which otherwise discourage business expansion into these areas.

Many potential locations are far removed from substantial market areas, thus adding extra transportation costs to the product. But by the same token, firms incur higher transportation costs in bringing in the supplies necessary to produce the product.

The shortage of trained labor may also serve as a barrier. Another barrier is that in many cases, public services such as electricity and water and sewage facilities may be inadequate and expensive.

An additional barrier, which is difficult to measure, but which nevertheless exists, is a social outlook which discourages location in smaller cities. We don't attempt to claim that this bill would change this. We do believe, however, that it will at least serve to stimulate a new questioning and debate among the directors of private enterprise and from this a new outlook may be developed.

Mr. President, the tax incentives provided by this bill are as follows:

First, a 14 percent tax credit on personal property (machinery and equipment). A 7 percent tax credit on real property (land and buildings).

And if the rural job development area has a population density of less than 25 persons per square mile (the national average is 51) the credit on personal property is increased to 17 percent and the credit on real property is increased to 10 percent. This incentive recognizes that the normal factors which often work against expanded rural investment are magnified in the more sparsely populated areas. These areas are often quite far removed from major industrial and commercial centers thus adding to transportation costs for example. Certainly we believe that these additional incentives are consistent with the objective of promoting the maximum feasible geographical distribution of new job-creating industries.

Second, an accelerated depreciation of two-thirds of normal, useful, or class life for machinery, equipment and buildings;

Third, a tax deduction equal to 50 percent of the wages paid to workers for whom the enterprise must provide on-the-job-training.

This special deduction, which would be in effect during the training period, is intended to encourage the enterprise to hire and train local people who lack the required labor skills.

Fourth, all credits and deductions can be carried backward three years or forward for a maximum of 10 years, or if the business is a corporate subsidiary, utilized against other outside income of the parent corporation.

Business enterprises would receive these tax benefits under the following conditions:

First, the enterprise must be located in a "rural job development area" designated by the Secretary of Agriculture and defined as follows: A county, no part of which contains a standard metropolitan statistical area and which has no city with a population in excess of 50,000, *and* where at least 15 percent of the families have incomes under $3,000 or where employment has declined at a rate of more than 5 percent during the previous 5 year period; or where the closing or curtailing of operations of an installation of the Department of Defense is likely to cause a substantial migration of persons residing in the area.

The Secretary of Agriculture, after consulting with the Secretary of the Interior may also certify Indian reservations.

Second, to receive an eligibility certificate, the enterprise must demonstrate that it has not discontinued a comparable enterprise in any other area and will not reducethe employment in any other area.

Third, the enterprise must create at least 10 new jobs at the beginning of the operation.

Fourth, to assure benefits to a local community, at least 50 percent of the original working force must be residents of the rural job development area. However, the Secretary can waive this requirement if the labor requirements of the enterprise exceeds the local labor supply, and if the Secretary determines that the establishment of the enterprise in the area will promote economic benefits consistent with the purposes of this Act.

Fifth, to continue to qualify, the enterprise must maintain the same working force unless circumstances beyond its control prevent it from doing so. The bill also provides an effective recapture provision in those cases where a firm willfully violates the eligibility requirements.

Sixth, before the enterprise is given an eligibility certificate, the Secretary must have written notice from the local governmental unit responsible for zoning requirements to the effect that the proposed enterprise meets the existing regulations and that there are no immediate plans for altering those regulations. This will assure that the local community is aware that the enterprise anticipates locating there, thus giving the community a chance to prevent the move should it choose to do so.

Seventh. The enterprise must be engaged in industrial or commercial production (manufacturing, producing, processing, assembling, wholesale operations, or the construction of buildings and facilities in the authorized area). This precludes benefits to retail and service enterprises which might be competitive with local establishments. Recreational enterprises may be certified provided they would not be competitive with existing enterprises in the area.

Mr. President, in addition to the tax incentives the bill would authorize $250,000 for the Department of Agriculture so that the Secretary may collect and disseminate relevant economic data and to serve as an information clearing house for local communities and businesses considering establishing job-creating enterprises in job development areas.

Mr. President, we believe that an important feature of the Rural Job Development Act is that it employs Federal inducements to private enterprise in the belief that the new economic activity which will thereby be generated will bring broad economic gains to the whole rural community.

This is not a revision to the old dogma that whatever is good for business necessarily has to be good for the country. Rather it is a modern, pragmatic recognition, on the one hand, that government cannot do everything and, on the other hand, an acceptance of the fact that through a more judicious stimulus and control of the private sector we can ease many of our economic and social problems.

Mr. President, it is also important to note that most rural areas, not just the poverty stricken ones, would be covered under the area eligibility definitions of the bill.

This follows from the fact that the purpose of this bill is to encourage rural development in general. Thus we wanted to make sure that it would be broadly applied to all rural areas and not be limited to such poverty stricken areas as Appalachia and the Ozarks.

Although we believe it will compliment existing rural poverty programs, this is not a rural poverty bill as such. Of equal or greater importance, it will help prevent the further spread of poverty and eventually generate new heights of prosperity throughout much of rural America.

Some have suggested that the bill should be more precisely tailored to potential rural growth centers. We are aware, of course, that not all rural areas have the potential for growth. But the problem is that of reliably identifying those which have the potential for growth and those which do not.

The birth of new types of industry, the continued improvements in transportation and communication, and the changing tastes of the American consumer make it extremely difficult to predict with any certainty the economic potential of any given area. By making the incentives in this bill broadly available, all the factors which effect economic growth, many of which we do not know with precision, will be allowed to operate freely.

Mr. resident, the enactment of this bill would result in a drain on the Treasury to the extent that businessmen take advantage of tax incentives. But at the same time, the new economic activity thus stimulated would generate an increased flow of revenue to the Treasury. Precise predicitions are impossible, but we believe that over the intermediate and long run the benefits will more than offset the losses; that the total tax revenue flow will be expanded, rather than decreased.

But beyond the tax losses and gains directly attributable to this program one must also consider its indirect influence. We believe that a more extensive geographical distribution of our industrial and commercial capacities will strengthen the overall national economy. We believe that strengthening of rural communities will result in substantial social benefits. We believe that the slowing of the flow of rural people to the urban slums will reduce the public costs of unemployment and welfare payments and also ultimately, the costs for other public services in those areas such as those for law enforcement.

Mr. President, the passage of the Rural Job Development Act will not solve all the problems of rural America. Its adoption would, I believe, do a great deal to create the type of new job opportunities which rural America so urgently needs. And because of this its enactment constitutes, I believe, the necessary first step toward the attainment of a more reasonable and healthy rural-urban balance.

Mr. President, I ask unanimous consent that the text of the Rural Job Development Act of 1969 be printed in the Record at this point.[1]

Rural Job Development Act (S. 15)

I. Purpose

The purpose of the bill is to attract new job-producing industrial and commercial establishments in rural areas so as to more fully and effectively utilize the human and natural resources of rural America; slow the migration from the rural areas due to lack of economic opportunity; and to reduce population pressures in urban centers resulting from such forced migration.

II. Procedure

This bill would make available a series of tax incentives to new job-creating enterprises which locate in rural development areas and which meet certain specified requirements. Authority for administering the law is assigned to the Secretary of Agriculture.

A. *Rural job development area*

A "rural job development area" is:

1. A county (a) no part of which is within a Standard Metropolitan Statistical Area, (b) does not have a city of over 50,000 population, and (c) in which *at least 15 percent of the families* have incomes of under $3,000.
2. A county which meets the requirements of 1 (a) and (b) and where employment has declined at more than 5 percent per year during the last 5 years.
3. A county which meets the requirements of 1 (a) and (b) and where the closing or curtailing of the Department of Defense is likely to cause a substantial migration of non-military persons residing in the area.
4. The Secretary of Agriculture will also certify Indian reservations after consulting with the Secretary of Interior.

[1] The bill, S. 15, appears at p. 3 of this hearing.

B. Incentives

The bill proposes the following tax incentives to new job-creating business enterprises locating in rural job development areas:

1. A 14 percent tax credit on personal property (machinery and equipment). A 7 percent tax credit on real property (land and buildings).

   (a) If the rural job development area has a population density of less than 25 persons per square mile (the national average is 51) the credit on personal property is increased to 17 percent and the credit on real property is increased to 10 percent.

2. An accelerated depreciation of two-thirds of normal, useful, or class life for machinery, equipment and buildings.

3. A tax deduction equal to 50 percent of the wages paid to workers for whom the enterprise must provide on the job training. This special deduction, which would be in effect during the training period, is intended to encourage the enterprise to hire and train local people who lack the required labor skills.

C. Type of enterprise

The enterprise must be engaged in commercial or industrial production (manufacturing, producing, processing, assembling, wholesale operations, places of management, or the construction of buildings and facilities in the authorized areas). Recreational enterprises may be certified provided they would not be competitive with existing enterprises in the area.

D. Employment requirement

1. The enterprise must create at least 10 new jobs at the beginning of the operation.

2. At least 50 percent of the original working force must be residents of the area or within convenient daily commuting distance. This requirement will be waived if the labor force requirements of the enterprise exceeds the local labor supply, and if the Secretary determines that the establishment of the enterprise in the area will generate benefits consistent with the purposes of this Act.

3. To continue to qualify for benefits, the employer must maintain the same working force unless economic circumstances beyond his control prevent him from doing so.

E. Prohibition against "runaway" firms

The employer must demonstrate that he has not discontinued a comparable enterprise or enterprises in any other area and will not reduce his employment in any other area as a result, directly or indirectly, of the establishment of and operation of the enterprise.

F. Recapture provisions

A recapture provision would serve as an effective deterrent in preventing firms from willfully violating the employment requirements or from taking advantage of the benefits and then closing down operations without economic justification.

III. APPROPRIATIONS

$250,000 is to be appropriated so that the Secretary of Agriculture, as provided by the bill, may collect and disseminate relevant economic data and to serve as an information clearing house for local communities and businesses considering establishing job-creating enterprises in job development areas. It would be expected that this appropriation would be utilized to fund the Rural Industrial Program which was created in 1966 (but not funded) to stimulate industrial development in rural areas by:

1. Telling businessmen of the advantages of locating plants in rural America;
2. Providing a site location and analysis service; and
3. Bringing together community, State and Federal programs for industrial and community development.

SECTION-BY-SECTION ANALYSIS OF S. 15

By GEORGE J. LEIBOWITZ

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PURPOSE AND DEFINITIONS

Section 1 establishes the bill's short title as "The Rural Job Development Act of 1969."

Section 2 is the bill's declaration of purpose—"to increase the effective use of the human and natural resources of rural America; to slow the migration from rural areas due to lack of economic opportunity; and to reduce population pressures in urban centers resulting from such forced migration."

Section 3 contains the definitions used in the Act. The three substantive definitions are: (2) "rural job development area"; (4) "industrial or commercial enterprise"; and (5) "industrial or commercial facility".

"A rural job development area" is an area, designated by the Secretary of Agriculture, which is (A) a county, not included within a standard metropolitan statistical area by the Bureau of the Budget, without a city of over 50,000 population, and in which more than 15 percent of the resident families have incomes under $3,000 a year; or (B) a county outside a standard metropolitan statistical area, without a city over 50,000 and which has experienced a decline in employment for five years at an annual rate of more than 5 percent; or (C) an Indian reservation or a native community designated by the Secretary of Agriculture; or (D) a county with no city of over 50,000 outside a standard metropolitan statistical area and undergoing substantial emigration of civilian persons as a consequence of the closing or curtailing of operations of an installation of the Department of Defense.

An "industrial or commercial enterprise" carries on the business of (A) manufacturing of personal property for sale (other than by retail sales and leases) or for use by the manufacturer; (B) distribution of personal property other than by retail sales and leases; or (C) construction of buildings in a rural job development area by persons engaged in the business of construction. An industrial or commercial enterprise does not include the selling, leasing or renting of commercial residential property, or the lending of money.

An "industrial or commercial facility" is essentially a fixed place of business where an "industrial or commercial enterprise" is carried on, but does not include a retail facility. It may include a recreation facility but only if the tax credit would not result in an "undue local competitive advantage".

The operating body of the Act consists of three titles: Title I—Eligibility for Assistance Certification; Title II—Tax Incentives; and Title III—Miscellaneous.

TITLE I—ELIGIBILITY FOR ASSISTANCE CERTIFICATION

Section 101(a) of the Act authorizes the Secretary of Agriculture, upon application by a person engaged in an industrial or commercial enterprise through a new facility (or a new portion of a facility) in a rural job development area, to certify the facility as eligible for assistance if: (1) the facility has been locally approved as consistent with local zoning and planning; (2) the facility was placed in service in the first taxable year of the certification period; (3) the facility has resulted in regular full-time employment of at least ten additional persons; (4) at least half the persons employed in the facility in the first taxable year either reside within the area or a similar nearby area or have served, within the preceding three years, at least one year on active duty with the Armed Forces or the Job Corps; (5) the Secretary determines that the enterprise was not relocated from one area to another so as to cause an increase in unemployment or the closing down of operations in the original location; (6) the applicant for certification agrees to keep certain records in the form and manner prescribed by the Secretary of Agriculture; and (7) the Secretary of Agriculture determines that the expected benefits to employment and other aspects of economic and social welfare of the area warrant the granting of the income tax incentives under this Act.

Section 101(b) provides that the Secretary of Agriculture issue a separate certificate of eligibility for a facility which meets the requirement of Section 101(a) regardless of whether or not the facility is operated as part of a single larger industrial or commercial enterprise.

Section 101(c) authorizes the Secretary of Agriculture to transfer a certificate of eligibility to a successor in interest, under certain conditions. The conditions are that the successor agrees to continue to use the facility in the manner contemplated by this Act and that the issuance of the new certificate be in accordance with the policy respecting the relocation of industry.

Section 101(d) provides for the termination of certificates of eligibility, after appropriate hearing, if the holder of the certificate has failed, after due notice and reasonable opportunity to correct the failure, to carry out the agreement under Section 101(a)(4) requiring half the employees to be residents of rural job development areas or to have served recently in the Armed Forces or Job Corps. Two criteria are suggested for the Secretary of Agriculture's guidance in making determinations, but he may employ other criteria as well. The suggested criteria are: (1) a reduction in the number of jobs below the minimums specified shall not alone be grounds for termination of the certificate if (i) reduction results from business factors beyond the control of the enterprise, and (ii) at least two-thirds of the employees hired to meet the requirements of Section 101(a)(4) (residence in a rural job development area or recent service) continue to do so; and (2) a change of residence of any employee shall not affect his status for purposes of applying Section 101(a)(4).

Section 101(e) gives the Secretary discretion to waive all or some of the requirements of 101(a)(4) if skills are required which are not available in the area and the benefits to the economic and social welfare of the area justify the tax incentives.

Section 101(f) provides that the certificate of eligibility be in such detail as may be necessary to administer the income tax incentives under this Act.

Section 101(g) provides that the Secretary of Agricultural keep interested Federal, State and local agencies apprised of any action taken by him under this title, relative to certifications of eligibility for assistance.

Section 101(h) provides that application for a certificate of eligibility must be made prior to the expiration of ten years after the date of enactment of this Act.

Section 102(a) of the Act gives the Secretary the to require reports from persons to whom a certificate of eligibility has been issued.

Section 102(b) provides penalties for making a false statement of material fact in such reports.

TITLE II—TAX INCENTIVES

There are four tax incentives: an income tax credit for investment in depreciable property in rural job development areas; a greater than normal depreciation deduction; a net operating loss carryover of up to 10 years; and a special deduction for compensation paid during training of employees.

Investment Credit

Sections 201(a) and (b) of the Act add four new sections to the Internal Revenue Code to provide an investment credit for depreciable property in rural job development areas. This investment credit is an alternative to the already existing investment credit but is more generous. For example, where the present credit is 7 percent, the new credit is 14 percent. Where the present credit is inapplicable (in the case of investment in buildings) the new credit is 7 percent.

A new Section 40 of the Internal Revenue Code entitled "Investment in Certain Depreciable Property in Rural Job Development Areas", lays down the general rule that a credit against income tax is allowed for qualified investment in property. Although property which is the subject of the rural investment tax credit will be called Section 40 property, the heart of the investment tax credit provision will be found in the new Code Sections 51, 52, and 53 described below.

A new Section 51 of the Internal Revenue Code deals with the "Amount of Credit" and 51(a) with the "Determination of Amount". (1) The general rule is that a credit against tax is allowed in an amount equal to 7 percent of the "qualified expenditure" (defined in Section 53(b) made for "Section 40 real property" (defined in Section 53(a)(3)) and 14 percent of the "qualified expenditure" for "Section 40 personal property" (defined in Section 53(a)(4)).

These percentages are increased by 3 percent to 10 percent and 17 percent respectively when the rural job development area has a population density of less than 25 persons per square mile. Paragraph 51(a)(2) provides that a credit allowed for the taxable year will not exceed the taxpayer's "liability for tax" for such year. Paragraph 51(a)(3) defines the term "liability for tax" as the tax liability for the taxaible year reduced by certain credits which are the credits allowable under Section 33 of the Internal Revenue Code (relating to foreign tax credits), Section 35 (relating to partially tax exempt interest), Section 37 (relating to retirement income) and Section 38 (relating to the already existing investment tax credit for investment in depreciable property). The term "liability for tax" excludes certain special tax impositions, specifically: the taxes imposed by Section 531 of the Internal Revenue Code (relating to accumulated earnings tax); Section 541 (relating to personal holding company tax); Section 1378 (relating to tax on certain capital gains of Subchapter S corporations); and Section 1351(d)(1) (relating to recoveries of foreign expropriation losses).

Section 51(b) provides a carryback and carryover of unused credits. Paragraph (1) allows a carryback and carryover when the credit determined under Section 51(a) exceeds the taxpayer's liability for tax for the year. Such excess may be carried back three years and forward ten years from the unused credit year. Carrybacks and carryforwards of unused credit are always applied to the earliest of the 13 taxable years to which they may be carried, then in succession to each of the other 12 taxable years. Paragraph (2) provides a limitation as to the amount of unused credit which may be taken in a taxable year. This amount cannot exceed the taxpayer's liability for tax for the taxable year.

A new Section 52 of the Internal Revenue Code provides rules for adjusting the credit in the event the property is disposed of. Two basic situations are covered: and early disposition of the property, or a termination of the qualifying certificate. The case of early disposition is treated in Section 52(a)(1). It provides that the tax for the taxable year of the disposition be increased by credits allowed under Section 40, in the case of real property within 10 years (and in the case of personal property within 4 years) before the date of disposition. Section 52(a)(2) provides tax increases when the certificate is terminated under the terms of Section 101(d) of this Act (because employees do not meet the residence or recent service requirements). Under Subparagraph (A) of Section 52(a)(2) the tax for the taxable year of termination is increased by the Section 40 credits allowed within 3 years before the date of termination. And under Subparagraph (B) gross income is increased by an amount equal to the deductions allowed the taxpayer under the new Section 183 of the Internal Revenue Code (an extra 50 percent deduction for compensation paid to certain employees of the Section 40 facility), for the taxable year of the termination and the 2 preceding taxable years. Section 52(a)(3) provides that in the case of any early disposition or any termination of certificate, carrybacks and carryovers under Section 51(b) are to be adjusted.

Section 52(b) provides that the tax increases and the gross income increases for an early disposition of property or a termination of certificate are not to apply in certain specified instances including: (1) a disposition by reason of death; (2) a disposition in which an acquiring corporation succeeds to certain rights of an acquired corporation under Section 381(a) of the Internal Revenue Code; (3) a disposition necessitated by cessation of a facility due to economic factors beyond the taxpayer's control; or (4) a disposition on account of destruction by fire, storm, shipwreck or other casualty or by theft. Property will not cease to be Section 40 property simply by a change in the form of conducting the Section 40 business so long as the property remains in the business and the taxpayer retains a substantial interest in the business.

A new Section 53 of the Internal Revenue Code entitled "Definitions: Special Rules" contains the definitions necessary to make Sections 51 and 52 meaningful.

Section 53(a) entitled "Section 40 Certificate, etc." contains six definitions: (1) Section 40 certificate; (2) Section 40 property; (3) Section 40 real property; (4) Section 40 personal property; (5) Section 40 facility; and (6) Section 40 business.

A "Section 40 certificate" is a certificate of eligibility issued by the Secretary of Agriculture pursuant to this Act.

"Section 40 property" is property used in a Section 40 business which (A) is of a character subject to the allowance for depreciation under Section 167 of the Internal Revenue Code and is not property includable in inventory of the taxpayer or held by the taxpayer primarily for sale to customers; (B) will be used by the taxpayer in a Section 40 facility, as an integral part thereof, or in providing transportation, communications, or other services to such a facility; and (C) has at the time it is first put into use a useful life of at least 4 years in the case of Section 40 personal property and 10 years in the case of Section 40 real property. Property will not be treated as Section 40 property if it continues to be used by the person from whom it was acquired or by the spouse, ancestors or lineal descendants of such person or by a member of an affiliated group of which such person is also a member.

"Section 40 real property" is defined in terms of Section 1250 of the Internal Revenue Code. It is any real property (other than such real property, generally personalty which may be affixed to realty, as is included in the definition below of "Section 40 personal" property) which is subject to the allowance for depreciation in Section 167 of the Internal Revenue Code. Thus, it includes principally buildings and their structural components.

"Section 40 personal property" is defined in terms of Section 1245 of the Internal Revenue Code. Thus, it is personal property (other than livestock) used in a trade or business and subject to the allowance for depreciation. It also includes certain real property, such as fixtures, (but not buildings or their structural components) which is used as an integral part of manufacturing, production or extraction, or of furnishing transportation communications, electrical energy, gas, water, or sewage disposal services; or research or storages facilities related to these activities. It also includes an elevator or escalator

A "Section 40 facility" is an "industrial or commercial facility" which is a fixed place of business in which an industrial or commercial enterprise is being carried on but does not include a retail facility defined in terms of sales or leases whose payments do not constitute the expenses or costs of a business.

A "Section 40 business" is an "industrial or commercial enterprise" carried on through an "industrial or commercial facility".

Section 53(b) defines "qualified expenditures", a term basic to the determination of the amount of credit described in Section 51(a). (1) In general, a qualified expenditure is an expenditure (A) properly chargeable to capital account, (B) paid for (i) the manufacture of Section 40 property, (ii) the purchase of Section 40 property, or (iii) the reconstruction or improvement of Section 40 property, and (C) made during the 10-year period beginning with the date on which a Section 40 certificate is first issued. (2) The Secretary of Agriculture may establish standards for Section 40 real property expenditures to qualify. (3) The year of the qualified expenditure is considered generally to be the year in which the Section 40 property is placed in service. (4) As to replacement property, if Section 40 property is acquired to replace property which was destroyed or damaged by fire, storm, shipwreck or other casualty or was stolen, the "qualified expenditures" are reduced either by any insurance or compensation obtained for destroyed property or by the adjusted basis of the destroyed property whichever is lower

Section 53(c) provides that a lessor of property, which is Section 40 property in the hands of a lessee, may treat the lessee as having purchased the property for an amount equal to either the fair market value of the property or the basis of the property in the hands of the lessor. When such an election is made the lessee is treated for all purposes of the investment credit as having bought the property.

Section 53(d) provides that in the case of an electing small business corporation (Subchapter S corporation), qualified expenditures are apportioned pro rata among the shareholders who, in turn, are considered as the taxpayers with respect to the expenditures..

Under Section 53(e) qualified expenditures of estates and trusts are apportioned between the estate or trust and the beneficiaries and any beneficiary to whom expenditures have been apportioned is treated for purposes of the credit as the taxpayer with respect to the expenditure.

Section 201(c) of the Rural Job Development Act adds a paragraph to the already existing generally applicable provision of investment credit for certain acquisitions of depreciable property (Section 38 of the Internal Revenue Code). The new paragraph makes clear that property, treated as Section 40 property is not also treated as Section 38 property.

Section 201(d) of the Act adds a new provision to Section 381(c) of the Internal Revenue Code (relating to carryovers in certain corporate acquisitions), providing for a carryover of investment credit for Section 40 property to the acquiring corporation.

Section 201(e) amends the tables of sections and of subparts of the Internal Revenue Code to accommodate the new Sections 40, 51, 52, and 53 of the Code. It also renumbers the section of the Internal Revenue Code relating to tax surcharge from section 51 to section 56.

Depreciation

Section 202 of the Act provides for the special depreciation deduction with respect to Section 40 property. A new Section 167(j) entitled "Section 40 Property" provides that: (1) the taxpayer may elect (A) that the useful life of Section 40 property shall be two-thirds of the useful life otherwise applicable, and (B) the guideline class lives applicable to Section 40 property shall be two-thirds of the guideline class lives applicable to similar property which is not Section 40 property; (2) a fraction of a year is regarded as a full year; (3) for purposes of the reserve ratio test justifying short class lives, the class life used, even if two-thirds were selected under (1) above, shall be taken at the full amount; (4) in determining the salvage value in the case of Section 40 property subject to an election under (1) above, the useful life is the full useful life rather than the two-thirds taken there; (5) the taxpayer has ten years following the date of his certificate to use the special depreciation deduction provided in (1).

Net Operating Loss Carryovers

Section 203 of the bill relates to net operating loss carryovers of a Section 40 business. It amends Section 172 of the Internal Revenue Code (relating to net operating loss deduction) by adding a new Subparagraph 172(b)(1) which provides that in the case of a Section 40 business a net operating loss may be carried forward 10 taxable years. (This differs from the ordinary 3-year carryback and 5-year carryforward.) A new Subsection 172(*l*) makes this rule apply only to losses occurring in the year in which a Section 40 operation is begun or in any of the 9 succeeding taxable years.

Special Deduction for Compensation During Training of Employees

Section 204 provides a special deduction for salaries and compensation paid by adding a new Section 183 of the Internal Revenue Code (entitled Special Deduction for Certain Business Operating in Rural Job Development Areas). This permits the employer operating a Section 40 business to deduct, in addition to the normal deduction for salaries or other compensation for personal services actually paid, an additional amount equal to 50 percent of the compensation paid to certain employees. These employees (1) are residents of rural job development areas or persons who have served on active duty in the Armed Forces of the U.S. or in the Job Corps at least one year in the 3 years preceding the employment, (2) work substantially full time, and (3) are receiving training for jobs in the facility.

Section 204(c) of the Act modifies the table of sections for part VI of subchapter B to reflect the new Section 183 of the Internal Revenue Code.

Effective Date for Title II

Section 205 of the Act provides that Title II is effective for taxable years ending after the date of enactment.

TITLE III—MISCELLANEOUS PROVISIONS

Section 301 of the Act relates to economic and business data. It provides that the Secretary of Agriculture may collect, analyze and publish data pertaining to investments, employment, resources, unemployment, potential needs for enterprises, training needs, market information, etc. for use in carrying out the purposes of the Rural Job Development Act and for the information and guidance of businessmen who may seek to establish job creating enterprises in rural job development areas.

Section 302 provides for a broadly representative National Advisory Committee on Rural Industrialization consisting of 25 members to be appointed by the Secretary of Agriculture. The committee would make recommendations to the Secretary relevant to the carrying out of his duties under the Rural Job Development Act.

Section 303 provides that the Secretary of Agriculture make an annual report to the Congress of his operations under this Act to be transmitted to the Congress not later than January 3 of the year following the fiscal year with respect to which the report is made.

Section 304 provides for appropriations of $250,000 for the collection and dissemination of data, and for serving as an information clearing house for local communities and businessmen. Information programs aimed at rural industrialization would include informing businessmen, providing a site analysis service, and assisting in coordinating community, State and Federal programs.

The CHAIRMAN. Our next witness is Dr. Donald Paarlberg, who is Director of Agriculture Economics, Department of Agriculture.

STATEMENT OF DON PAARLBERG, DIRECTOR OF AGRICULTURE ECONOMICS, DEPARTMENT OF AGRICULTURE

Mr. PAARLBERG. Mr. Chairman and members of the committee, my name is Don Paarlberg. I am Director of Agriculture Economics in the Department of Agriculture, and I appreciate this opportunity to appear before this committee and address myself to the important subject that you have under consideration.

The administration does not have a position on S. 15, and therefore I will not be able to present a prepared statement. Matters that relate to this bill are under consideration in the Urban Affairs Council. There is a Committee on Internal Migration chaired by the Secretary of Agriculture that is concerned with the matters that you are deliberating on. There is a study in the Department of Treasury on the use of the tax incentives as an instrument for resource allocation. And until these matters are further along, the administration is not in position to express a view on this bill.

However, I am in a position to discuss in general terms the subject that this bill is addressed to, namely the lack of job opportunities in rural areas, the growing imbalance between the urban and the rural areas, the lack of job opportunities that makes necessary the migration from the rural to the urban areas.

We have a number of programs in the Department of Agriculture that are addressed to this problem. We have undertaken a considerable number of studies. And I will be happy to respond to any question that you might have with reference to these matters.

Senator TALMADGE (presiding). Dr. Paarlberg, are you in a position to express a personal opinion on this matter without in any way indicating what the administration's view is?

Mr. PAARLBERG. I would be in a position to do that, Senator.

Senator TALMADGE. Do you think that this basic plan Senator Pearson and others have put forth of offering a tax credit is a good way of trying to get industrial jobs in the rural areas?

Mr. PAARLBERG. I do. My personal view is——

Senator TALMADGE. You share the view that seems to be common in the committee then that something along this line offers the best opportunity of getting jobs in rural areas that lack them today?

Mr. PAARLBERG. It offers in my opinion, Senator, one of the better alternatives. There are others perhaps. I do not think of them as alternatives to one another. In combination a number of these techniques could be helpful—loans, tax incentives, the supplying of better services in the form of education, transportation, public utilities, and what not. All of these it seems to me have real promise.

Senator TALMADGE. Thank you.

Senator Harris.

Senator HARRIS. I do not have anything further. I do appreciate, Senator Talmadge, what you have just elicited from the witness about his own personal view. I think that is very important. And I am hopeful that the administration will find that this approach is one that it can officially support. But in the meantime I think this witness has been very helpful in what he has had to say in his personal views.

Senator TALMADGE. Senator Williams.

Senator WILLIAMS. Mr. Paarlberg, you have indicated that you are personally for this bill. Do you recommend any changes in it or are you endorsing it as it is written now?

Mr. PAARLBERG. Well, I have said, Senator, that I personally feel that tax incentives are a useful technique. I have not personally endorsed the bill. I have not studied it in such detail to be able to endorse it. I was impressed with the questions asked by Senator Long about the possibilities that some of these funds might be expended for investment that would have taken place in the absence of the bill. I was impressed with your questions on the degree of incentive, and I was impressed with Senator Pearson's response to these questions and his willingness to consider possible modification of the bill as your inquiry lifted them up for further examination.

Senator WILLIAMS. Well, do I understand then that you are not taking a position either for the rate of the investment credit or did you have something else in mind? The investment credit proposal ranges from 7 to 10 percent for plants——

Mr. PAARLBERG. Yes.

Senator WILLIAMS (continuing). With a life down to 10 years, or 6⅓ percent for depreciation, and the equipment could be depreciated in 4 years, and then under another provision—you are in favor of those sections, is that correct?

Mr. PAARLBERG. I am in favor of the principle of rapid depreciation. Whether the scale specified in the bill is precisely the right one, I would not be able to respond.

Senator WILLIAMS. Well, of course, I always favored rapid depreciations, but we are dealing with this bill.

Mr. PAARLBERG. Yes.

Senator WILLIAMS. And I just wanted to get it clear, are you endorsing this bill or not? I mean in principle we are all for the principle, but when we get down to the actual voting we vote for or against this bill, and your Department will be administering it. And by the way, who in your Department would it more than likely be—you?

Mr. PAARLBERG. No. That would be the Assistant Secretary of Rural Development and Conservation, in whose area this would fall, and that is Dr. Cowden, who is here this morning.

Senator WILLIAMS. He is here this morning?

Mr. PAARLBERG. Yes, he is.

Senator WILLIAMS. Is he in a position to state—because I am sure you are familiar—the Department of Agriculture is familiar with the bill. You have read the bill and studied it, have you not?

Mr. PAARLBERG. Yes, we have—not in great depth, Senator, but we are not in a position this morning to make definitive statements on the bill as a whole or indeed on particular details of the bill. The general principle involved in the bill, the problem to which it is addressed, on these things we certainly can respond and we do respond affirmatively to these things.

Senator WILLIAMS. You are for the bill and you are going to study it in detail later and see how it works?

Mr. PAARLBERG. We are deeply aware of the problem to which the bill is addressed. The general approach of the bill, that of tax credits, I personally support. The detailed provisions of the bill we are not in position to respond to this morning.

Senator WILLIAMS. Well I have no further questions, but after you have studied it I would be interested in talking with you.

Senator CURTIS. Would you yield right there?

Would this be a fair statement of your position, the Department of Agriculture, that as to the tax matters involved in this bill, your position would be the position of the administration and would be the position that would be in accord with the final decision of the Treasury Department?

Mr. PAARLBERG. I would think, Senator Curtis, that we would want to consult with the Treasury Department. We might have certain matters on which we would like to persuade the Treasury Department to some view other than the one that they have historically had. That is quite possible.

Senator CURTIS. I understand, but what I mean is your concern is primarily this development in rural areas?

Mr. PAARLBERG. Yes, sir.

Senator CURTIS. And you would be giving considerable weight to the views of the Treasury Department as to the rates and technical provisions of the tax proposals?

Mr. PAARLBERG. Indeed, that would certainly be true.

Senator CURTIS. Yes, because all of us are faced with a little bit of a problem here, in fact it might be an inconsistency on the part of some of the Senators involved. We are very much interested in the objective of this measure; many of us are coauthors of it. Since its introduction the administration through the Treasury Department has asked for the repeal of the investment credit.

Mr. PAARLBERG. Yes.

Senator CURTIS. And so there are some of those things that will have to be reconciled and worked out. And I do not know just what the answer will be.

Mr. PAARLBERG. Senator, the concern about the investment credit is largely a fiscal matter having concern for the overall stability of the economy.

Now, the investment credit in rural areas that Senator Pearson has in his bill would have fiscal impact, but its concern is really to change the pattern of resource use. And it should be considered, I would think, primarily with reference to its impact on resource use rather than with reference to its fiscal impact.

Senator CURTIS. Well, all I am saying is that the situation is modified to the extent that we have a little more complex problem——

Mr. PAARLBERG. Yes.

Senator CURTIS (continuing). To look into——

Mr. PAARLBERG. Yes.

Senator CURTIS (continuing). Than at the time of the introduction of the bill when the request for repeal of the investment credit generally was not before the Senate and before the Congress.

Mr. PAARLBERG. Indeed.

Senator TALMADGE. Senator Fannin.

Senator FANNIN. Thank you, Mr. Chairman.

Coordination of Programs

Dr. Paarlberg, I am very pleased to hear that you are in agreement with the general principle and objectives of the bill. I am wondering if you have had the same experience I have had in regard to the proliferation of these programs—now, not necessarily this exact program but similar programs—from the standpoint of inducements to bring industry and businesses into the rural areas. I am wondering what we can do to attain the greatest benefits with the amount of money that can be expended and to try to coordinate these programs rather than to just have them going off in tangents. Will this help to bring them together, do you think?

Mr. PAARLBERG. We also are concerned with the proliferation of programs addressed to the rural-urban imbalance. There is difficulty in coordinating these and focusing these. Up until now, very limited amounts of money have been spent on these programs in the rural areas. And part of the work up until now has been exploratory, trying out different things and seeing what is effective and what is not.

I believe that we are at a stage where we should examine our experience and establish some priorities as to existing programs and reduce the amount of conflict that presently exists. But of the various things that have been tried in the rural areas, none of them would have the potential impact in terms of real inputs, dollars, that this program would have. And if this program were implemented, our efforts in the rural areas, I think, would have a focal point around which they could be associated, and we would generate considerably more forward thrust than we have up until now.

Senator FANNIN. In this program, of course, we provide an incentive for training?

Mr. PAARLBERG. Yes.

Senator FANNIN. And for other factors, too, that would be of great benefit. But I know that in my investigation in my particular State I found that in many of the school programs that have vocational training they have the training that is needed for the unskilled worker so they can be employed, but we also have schools that are not completing the job; for instance, a junior college program, where it could be controlled. We have schools springing up all over our areas, industrial areas especially, many of which are not really equipped to do the job they are attempting. I am worried as to the amount of money we are spending in trying to train people and the fact that we are not really doing it in the manner in which it will accomplish our objectives and our hopes.

That is why I am so concerned. I know that there are at least eight or 10 schools in my State that are not in a position to really do the work they have assumed, and it could be better done by the public schools or through a program of cooperation with the public schools. Instead of that, the Government is furnishing funds to people who do not have the ability to carry through the program of training. I just wonder how we can ever pull them together.

Mr. PAARLBERG. Well, it will be difficult because the problem is in part agriculture, it is in part educational, it is in part welfare, it is in part industrial, it is in part a matter of concern to the Labor Department with its services of employment. All these different agencies are at work in this area. The effort is relatively new, they are feeling their way, and undoubtedly there is duplication and there is overlapping as public agencies learn to address themselves to a public which was not thought to be a problem until the last couple of decades. I think we will have some of this duplication and some considerable disappointments until we accumulate enough experience so that our efforts will be more effective. I think up till now they have been in part effective, but the total amount of resources that have been committed to solving the problem that you Senators are concerned about in this area, total resources are very limited compared with the amount of resources that we have addressed to trying to solve the problem after it shows up in the urban areas.

Senator FANNIN. Well, maybe the total amount is limited, but I think in many of these training programs, especially those that have been in effect the past 2 or 3 years we have had a considerable amount of money that has been expended that has not gone through the regular channels but has gone into private organizations, schools that are operated by private individuals. I wonder how we can bring those back under supervision, if we had school work under HEW and your work in Agriculture. It seems to me we have too many people trying to accomplish the same objective, and I would say they are doing some good, there are benefits but not commensurate with the cost involved.

That is just like the BIA. We have 8 or 10 agencies on an Indian Reservation. I do not like to continue going back to the Indian Reservation example, but it perhaps is the best example I can give you because you can observe the proliferation of agencies working perhaps for a common objective but not even knowing what the other is doing. And we know that they go on the reservation without even consulting with the tribal council or the tribal chairman. This is resented, and so they do not get the cooperation. And here we have one example where in trying to give legal aid to the people on one reservation they are spending about $800,000, which is about three times the amount that is being spent by the attorney general's office in that State. And this is being spent on one reservation for legal aid.

So I just bring these examples to you because I feel that if that is happening in that particuluar instance, then what is the overall? And I sometimes wish that we could have an exact and complete total of the amount of money that is being spent on one reservation and then what is being accomplished with that amount of money. I think we would be very surprised as to what is involved.

But my emphasis to you is I just hope we can work to coordinate these efforts and eliminate the duplication in order to accomplish these objectives. They are noble objectives, but our results are going to be negligible unless we can do a better job of concentrating our efforts.

Mr. PAARLBERG. Well, that is an important challenge to the executive branch, and much remains to be done to effect the coordination and effectiveness of these programs. I certainly would agree.

Senator FANNIN. Thank you.

Senator TALMADGE. Senator Curtis.

Senator CURTIS. No.

Senator TALMADGE. Senator Pearson.

Senator PEARSON. No. I thank the chairman for his courtesy. I have no questions.

Senator TALMADGE. Thank you very much, Dr. Paarlberg.

The next witness is Mr. Fred G. Steele, Jr., Cochairman, Coastal Plains Regional Commission, Washington, D.C. And Mr. Steele is a former citizen of my State and an old friend.

It is a pleasure to welcome you here, sir.

STATEMENT OF HON. G. FRED STEELE, JR., COCHAIRMAN, COASTAL PLAINS REGIONAL COMMISSION, WASHINGTON, D.C.

Mr. STEELE. Thank you very much, Mr. Chairman. It is a pleasure to have an opportunity to testify before your committee. I would like to submit a prepared copy of my statement.

Senator TALMADGE. You may insert it in the record and proceed in any manner you see fit.

Mr. STEELE. I would like to do that.

Senator TALMADGE. Without objection, the statement will be inserted in full.[1]

Mr. STEELE. Thank you.

The Coastal Plains Regional Commission concerns itself with an area of 159 counties in States of Georgia, South Carolina and North Carolina. It is the eastern portion of those States from the fall line to the coast.

Our area is well below the national average per capita income, approximately 1,000 per person. The outmigration has been extremely high. Approximately half a million people in the 1950's moved out of our region. We are concerned with this problem. We feel it is directly related to a lack of job opportunities within the region.

Senator TALMADE. Where did those people in the outmigration go?

Mr. STEELE. Primarily into the urban areas; yes, sir.

Senator TALMADGE. A large number of them wound up on public welfare, I take it?

Mr. STEELE. We have had the outmigration of unskilled, unemployed people.

Senator TALMADGE. More than 40 percent, as a matter of fact?

Mr. STEELE. Right. In our region, the economy has been agricultural for many years and we are just now going through agonies of trying to develop a more industrial area to provide more opportunities.

Senator TALMADGE. It would be much cheaper in the long run to offer some Federal incentive to provide job opportunities in that area than keep them on public welfare in the cities in perpetuity, would it not?

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[1] Mr. Steele's prepared statement appears at p. 72.

Mr. STEELE. Absolutely, yes. We have found, too, I noticed in some recent statistics, that nearly 80 percent of new job opportunities in recent years have been in the urban areas, not in rural America.

If I may digress just a minute, last week I was in Greene County, North Carolina. A small county, Greene County is distinguished by having the lowest per capita income of any county in the State. And yet I found that there we have the best people that you would ever want to meet. These are people that are just looking for opportunity. Their housing may not be adequate, but I did not find a house that was not well maintained. These are good people, they are hard working people, and I think it is our responsibility to see to it that they have the opportunities within their county and not have to migrate to the cities.

As has been mentioned, the administration has not formulated a position on this particular legislation. However, it does affect the 143 counties out of our 159 counties in Coastal Plains. Certainly we are looking at this legislation with great interest.

Just some 2 weeks ago, the five Federal Cochairmen of the title V regions met and agreed that this was one of our primary areas of interest; that we would take into consideration some type of tax incentive program. This is now being studied. We are certainly not ready at this time to come up with a position. But I feel that a tax incentive certainly may be an important factor in giving us a more equitable division of job opportunities.

Senator TALMADGE. Senator Williams.

Senator WILLIAMS. No questions.

Senator TALMADGE. Senator Curtis.

Senator CURTIS. No questions.

Senator TALMADGE. Senator Pearson.

Senator PEARSON. No.

Senator TALMADGE. Thank you very much, Mr. Steele, for your appearance. We appreciate your testimony.

Mr. STEELE. Thank you, sir.

(Mr. Steele's prepared statement follows:)

STATEMENT BY HONORABLE G. FRED STEELE, JR., FEDERAL COCHAIRMAN, COASTAL PLAINS REGIONAL COMMISSION

Mr. Chairman, as Federal Cochairman of the Coastal Plains Regional Commission, it is a great pleasure to testify before the Committee on Finance concerning the Rural Job Development Act (S. 15).

The Coastal Plains Regional Commission was established pursuant to Title V, Public Works and Economic Development Act of 1965. It is a Federal-State partnership whose purpose is to induce orderly, accelerated economic growth in the Coastal Plains of North Carolina, South Carolina, and Georgia.

The Coastal Plains Region extends from the fall line to the Atlantic Ocean and from the Virginia border to the Florida line. It includes 159 counties of North Carolina, South Carolina, and Georgia and 143 of these would be affected by this legislation. The median income of the Region is well below the U.S. average and the outmigration is very high. The Region has a high percentage of substandard housing and its educational attainments are well below national levels.

The low per capita income and the high rate of outmigration in the Region is positively correlated with a lack of variety in job opportunities. Traditionally, our economy has been based on agriculture and heavily dependent upon cotton, peanuts, and tobacco. As agriculture has become mechanized, large numbers of farm employees have found themselves without work. Since the Region has lacked a broad industrial base, this labor force has migrated from rural America to urban America. In fact, approximately 500,000 people left our Region in the 1950's.

All of rural America as well as the Coastal Plains Region has seen this migration of unskilled laborers into the ghettos of our metropolitan areas. This has created a truly national, not sectional, problem. We can begin to solve the problems of metropolitan America by solving the problems of rural America, and we must begin now. The creation of opportunities in rural America will halt not only the outmigration of our unskilled and unemployed but would halt the outmigration of our future community leaders. We now find that a large percentage of our brightest young people are leaving their homes in rural America upon completion of their high school education. They are leaving to further their education or seek employment in urban areas, but in either case, they are not returning.

The Coastal Plains Commission has set its goal. The goal is to close the income gap in the Region and thus halt the outmigration. The task is clear. We must create the quantity and quality of opportunities in the Coastal Plains so that those who choose to stay and work will have the freedom to do so. Our goal will not be easily or quickly accomplished. But we can achieve our goal if we can provide new and better job opportunities for our area.

Recent statistics indicate that upward of 80 percent of all new job opportunities in our Nation have been created in our urban areas. In my judgment, many of our cities have literally reached a saturation point. I feel that it is vitally important that our future growth should be centered around our small communities. This would give us better utilization of our natural resources and a more equitable distribution of opportunities in our great country.

Gentlemen, we are dealing here with the very real problems of poverty, of underemployment, of migration of the cities, of the ghettos. We are attempting to solve these problems. We will not solve them simply with massive public spending. The Coastal Plains Commission recognizes that mere investment of Federal funds will not achieve our goal. A judicious stimulus of the private sector must also be considered.

A tax incentive to industry could be an important factor in accomplishing better distribution of job opportunities. This is a matter now being considered by the Administration as well as by the Congress. I feel that through hearings such as these, we will have a helpful exchange of ideas.

Senator Talmadge. The next witness is Mr. Robert Partridge, president, National Rural Electrification Cooperative Association, Washington, D.C.

Mr. Partridge, you may proceed as you see fit. If you like, you can insert your statement in full in the record and skim it or extemporize it, any way you see fit.

STATEMENT OF ROBERT PARTRIDGE, PRESIDENT, NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION, WASHINGTON, D.C.

Mr. Partridge. Thank you, Mr. Chairman. My statement is rather brief. Perhaps I will save the time of the committee if I stick closely to the text of it.

Mr. Chairman and members of the committee, my name is Robert D. Partridge. I am general manager of the National Rural Electric Cooperative Association. I have with me two members of the NRECA staff who have major responsibilities for rural area development: Mr. William E. Murray, who specializes in legislation and liaison with Federal agencies, and Mr. Edward Wiley, who specializes in providing technical assistance to our member rural electric systems.

The National Rural Electric Cooperative Association is the national service organization of the 984 rural electric systems operating in 46 of the 50 States. These systems, most of which are nonprofit cooperative, a few are power districts, bring central station service to roughly 22 million farm and rural people. Their lines serve in 2,600 of the Nation's 3,100 counties, an area constituting about 70 percent of the continental United States.

As might be assumed, the future of the rural electrics and the rural areas they serve are inseparable. Nearly half of the people remaining in rural America are the owner-consumers of electric cooperatives. In addition, the rural electric systems have invested almost $6 billion in lines, poles, meters, material and equipment, and all of the other kinds of facilities that are necessary to supply modern, dependable electric service.

From its beginning in the mid 1930's, the rural electrification program has had as its primary mission improving the quality of rural living. It has been one of the most successful rural development programs ever sponsored by the Government.

A key to its success, we believe, is the use of Federal credit assistance to stimulate local people to organize their own electric systems. As a result, electric service is now available everywhere, even in the most remote and sparsely settled sections of our country, with very few exceptions.

Senator TALMADGE. That never could have been achieved without a federal subsidy, could it?

Mr. PARTRIDGE. No, sir, it could not, Mr. Chairman. In our opinion, the REA program was indispensable to the success and to the achievement of area coverage of rural electrification on a sound financial basis.

Tremendous benefits have accrued not only to rural people from the rural electrification program but to urban people as well. Rural electrification has created a multibillion dollar market for equipment and appliances, a market which would not have been had it not been for the rural electric program. The market for appliances and equipment amounts to more than a billion dollars a year. Hundreds of new businesses and small plants have sprung up along rural electric lines giving employment to a good many thousands of people. The Government's investment in the rural electrification program has produced dividends many times the amount of credit extended, which in the case of REA has been lines, direct lines.

Despite the significant contributions of rural electrification to improving conditions in the rural areas they serve, the fact is that the economy of rural America has been declining at a steady rate since the early 1940's, and it will continue to decline as we see it unless there is a conscious massive effort to stop the process. Parenthetically, we point out that there would be little hope of revitalizing the rural areas of this country if electric service were not available in those areas.

The migration of over 30 million rural people, of whom 20 million were farmers, since 1940, is of course, the basic reason for the crisis which we have in rural America today, the problem of continuing vital services that are needed in any community, including rural America. The influx of millions of these displaced rural people into the cities has been one of the basic reasons for the urban crisis.

This migration, perhaps the largest in recent history of Western civilization, has been largely ignored until just a few years ago. The consequences are tragically visible in every large city, and in thousands of small towns where boarded up stores on Main Street are examples and are a very direct result of the decline in the numbers of people and the decline in the community facilities that they once had.

And still the migration from the country to the city goes on—at a slower pace certainly than in the 1940's and 1950's but the end of the migration is not in sight. One well-known demographer pointed out recently the high fertility rate and the large number of young people in many impoverished rural areas as indications of the large potential for future migration from rural America.

We can only conclude that what is happening in rural America is very bad for the nation as a whole, and if it is not corrected, it will ultimately reduce a large part of rural America to wasteland, and at the same time make our great cities even more unmanageable than they are today. This we think does not constitute sensible national policy but apparently it is at the present time national policy since it is allowed to continue. We desperately need, we believe, a national policy on rural-urban balance and a national commitment to achieve a sensible balance.

One goal of such a policy should be to reverse the migration pattern of the last quarter century. We are convinced that millions of Americans now crowded together in the cities would prefer to live in smaller communities and rural areas. Last year we commissioned the International Research Associates of New York City, a very prominent research organization, to conduct a nationwide survey of a representative cross section of the adult population. One of the many questions that was asked was, "If you could live anywhere you wanted, which of these (big cities, smaller towns or rural areas) would you choose?" And 82 percent said they would prefer to live in smaller towns and rural areas. Only 15 percent preferred the big cities.

And on a related question, which was: "Where do you think a young man would have the best chance of building a good life for himself?" Forty-four percent said the big cities and 29 percent said the smaller towns. Only 9 percent said rural areas.

Based on that survey, we draw the conclusion that those now in rural areas would want to stay there and that millions of city people would like to go there, provided—and this is the key to where people live always—provided there are opportunities to make a decent living.

It is a logical assumption that it would not be necessary to force reverse migration. What is necessary, we believe, is to provide economic opportunity in rural communities.

We believe that legislation like S. 15 assumes top priority in rural development, for it addresses itself to the No. 1 need in rural areas—the creation of new jobs on a large scale. That is why our association and our membership actively support S. 15.

At our 1968 annual meeting, the membership of NRECA adopted a resolution specifically endorsing this type of legislation. We have attached a copy of that resolution to my prepared statement.[1]

At this year's annual meeting, 1969, our membership adopted a resolution on rural-urban balance which directed NRECA to actively and aggressively support "programs designed to provide new job opportunities, including incentives for rural industrial development." We have also attached a copy of that resolution.[1]

Many of our systems have been spearheading efforts in their service

[1] See p. 78.

areas to attract new enterprises. This legislation should make their efforts more effective. Since the beginning of nationwide rural development in 1961, rural electrics have established 3,300 new industries and commercial enterprises resulting in 216,000 new jobs. We are proud of that accomplishment, but it admittedly is only a token kind of development. We think that much more, much, much more needs to be done.

These jobs, those that have been created, have made it possible for many times that number of rural residents to remain, of course. In addition, there is evidence that some former residents who have gone to the cities have returned to the areas from whence they came.

There are many examples of how industrialization has helped to stabilize rural communities in the service areas of rural electrics. One of the most impressive, we think, has taken place in the five-county area served by the Blue Ridge Electric Cooperative of Lenoir, N.C. That five-county area, which is an Appalachian area in northwestern North Carolina, was one of the most impoverished and depressed areas in the Nation only a short while ago. Blue Ridge launched a comprehensive redevelopment drive with emphasis on industralization. The co-op provided leadership, technical assistance, manpower, and in some cases money.

Now, I would emphasize that this is a very able and effective cooperative. It's a large system and it has the capability of doing things that many smaller rural electric systems faced with perhaps greater handicaps could not hope to accomplish. But Blue Ridge results have been really outstanding. The heavy out-migration of the 1950's has practically stopped. Each of the five counties has gained population since 1960, quite in contrast to the rural county situation. In 1967, overall employment was 35 percent greater than it was in 1962. A total of 8,200 new jobs have been added in those five counties. And annual wages were up $40 million in 5 years. Retail sales were up 56 percent for the same period.

Agricultural revenue increased 450 percent in a decade, up from $15 million to $66 million, and even after allowing for the effect of inflationary prices it still is a rather startling increase in agricultural revenue. Five thousand new homes have been built in those five counties in the last 3 years. Ten of the area's 16 high schools have been constructed since 1960, along with a technical institute, and a community college. The local tax base has doubled.

Recreation is a major industry throughout that area now. It was not at the time the program began. In one county, 500 find full-time employment in recreational activities alone. More than 40 new hotels and motels have been built and hundreds of camp sites, three golf courses, and three ski resorts.

We believe that the incentives provided in S. 15 could greatly bolster the efforts of rural electrics and other community groups to attract industries.

While we have supported the concept of special assistance to stimulate economic development in depressed areas, such as in the programs of the Economic Development Administration and its predecessor, the

ARA, and in the Small Business Administration, it is our opinion that all rural counties should be trying to expand their economic base.

We really do not believe that it makes good sense to allow a county to slide all the way down the economic totem pole before you begin to be concerned, as we must be concerned, about the declining nature of the the economy of the area.

If rural America as a whole is going to become the alternative to a few giant cities and even larger strip cities, economic development should, we believe, be encouraged in as many counties as possible.

The provisions of S. 15 would also prove valuable in areas now eligible for EDA assistance and presumably would permit EDA to concentrate its very scarce resources in the most depressed counties to an even greater extent than possible at the present time.

We are of the opinion that there is considerable evidence that tax incentives have been effective in promoting industrial development, both in the United States and in other countries. For instance, accelerated depreciation helped to expand the industrial capacity during World War II and the Korean war, and it was quite marked here in the United States.

The investment tax credit, which came to use in the early 1960's, did stimulate economic growth. And apparently to such an extent as it was suspended to cool down economic expansion and then reinstated to speed it up again.

Currently there is a proposal to again suspend or repeal it.

We would certainly agree with Senator Pearson's statement when he introduced S. 15 that, and he said, "It is clear to all that new jobs fly at the heart of the rural development." He estimated the need for new jobs in rural Americas "upward of 500,000" per year, and we believe that he's pretty much on target with those estimates. We certainly believe and concur fully in the statement which he made.

Whether the tax incentives provided by S. 15 would provide this many jobs is impossible to foretell. But we do know that present private and Government assisted efforts are not coming close to this goal and are leaving large sections of rural America virtually untouched.

We recognize that at the outset there will be considerable tax loss to the Treasury. But it would seem reasonable to expect that over the long run these losses would be more than offset by new taxable wealth, but the millions of dollars in new payrolls, and by reduction of unemployment and welfare costs.

We believe that the investment is worth it, as has been the case with the rural electrification program.

Viewed in light of the desperate need for restoring a sane balance between rural and urban America—the most critical problem of our time—we have got to be able and willing to try bold, new approaches to solving the problem. We believe that S. 15 is a good start in that direction.

Mr. Chairman, members of the committee, I appreciate your courtesy in hearing me this morning. I will be glad to respond to any questions.

Senator TALMADGE. Delighted to have you with us, and the resolutions that you referred to will be printed at this point in the record.

(Mr. Partridge's resolutions previously referred to follow:)

(Resolution Adopted at NRECA Annual Meeting—March 20, 1969)

RURAL-URBAN BALANCE

Whereas upon the solution of the imbalance between rural and urban America depends the future health and prosperity of the nation; and

Whereas there can be no lasting solution unless social and economic opportunities in rural America are sufficient to not only halting the outmigration to the cities, but to reversing it as well; and

Whereas America's rural electric systems are prepared to contribute to the maximum extent possible manpower, know-how, and leadership in correcting the critical rural-urban imbalance: Now, therefore, be it,

Resolved, that we recommend that the Administration and the Congress give the solution to this grave domestic problem the highest priority; and be it further,

Resolved, that our national service organization, NRECA, be directed to actively and aggressively support legislative and administrative rural development efforts, including:

1. Establishment of a national rural-urban development policy.
2. Programs designed to provide new job opportunities including incentives for rural industrial development; vitally needed community facilities of all kinds; modern housing, and technical assistance.
3. Appointment by the President of a coordinator for rural community development on the White House staff to be charged with developing maximum cooperation and coordination among the several government Departments and Agencies which now administer the multiplicity of programs that affect rural development.
4. Restructuring of the Federal machinery which has responsibilities for development programs to insure maximum coordination within Departments and between Departments.

(Resolution Adopted at NRECA Annual Meeting—February 29, 1968)

RURAL JOB DEVELOPMENT ACT

Whereas an acute need today is job opportunity in rural America; and

Whereas S. 2134 and H.R. 11886 have this as their objective by providing tax incentives to industries locating in rural areas: Now, therefore, be it

Resolved, That we support these bills, and others which have this objective and urge the Congress of the United States to take quick and appropriate action.

Senator TALMADGE. Senator Williams.

Senator WILLIAMS. No questions.

Senator TALMADGE. Senator Curtis.

Senator CURTIS. No questions.

Senator TALMADGE. Senator Pearson.

Senator PEARSON. No.

Senator TALMADGE. Thank you very much. We appreciate your appearing before us.

The next witness is Mr. Robert M. Millwee, Jr., executive director, Arkansas Industrial Development Commission, Little Rock, Ark.

Mr. Millwee, Senator Fulbright had hoped to attend this hearing and to introduce you to the committee. Unfortunately, it's necessary for him to attend another committee hearing, but he said he would read the record of this hearing with great interest.

He tells me that you are executive director of the Arkansas Industrial Development Commission, and in that capacity you have had significant experience in encouraging the development of business and industry in Arkansas, which is still predominately a rural State.

Since it's the purpose of S. 15 to encourage business to locate in rural areas, he was sure that you would give the committee the benefit of your experience and the experience of the Arkansas Industrial Development Commission.

You may proceed, sir, in any way you see fit. If you wish, you can insert your statement in the record in full and highlight it or extemporize it, as you see fit.

STATEMENT OF ROBERT M. MILLWEE, JR., EXECUTIVE DIRECTOR, ARKANSAS INDUSTRIAL DEVELOPMENT COMMISSION, LITTLE ROCK, ARK.

Mr. MILLWEE. Mr. Chairman and distinguished Senators, I would like to insert it in the record, and I will try to skip over some of the subject matter that has been covered previously.[1]

The financial strength of American business must be directed toward the solution of these social ills. You are fully aware of the problems that have been discussed of the ghetto and the problems of the rural to urban migration.

The plight of the rural people and rural cities is well documented and for a concise appraisal I would refer you to the report by the President's National Advisory Commission on Rural Poverty entitled "The People Left Behind."

While I agree with the appraisal of the problem in this report, I do not agree with the solution to the problem can be achieved by more massive Federal programs.

The solution to the problem is to encourage American business to build plants in the depressed areas and provide manufacturing payrolls and manpower training.

The loss of population from rural area has resulted in many economic problems for the once thriving and prosperous communities. These migrations have weakened the municipal tax base, the school tax base, the county tax base and deprived the small town merchants of their buying public, the schools of their students and the churches of their congregations. It has become increasingly difficult for small towns to provide the necessary utilities, fire protection, police protection and services needed by their citizens. New payrolls infused into these local economies will revitalize and restore the strength of the communities. The attitude of defeat and disillusionment now found in the smaller cities can be changed overnight to one of optimism and hope by the addition of plants providing manufacturing payrolls.

We have seen this happen time and time again in our Arkansas communities and this is repeated many times over in other agriculturally oriented States.

Private industry will spend approximately $10 million in 1969 in capital expenditures. Of this, approximately 30 percent or $21 billion could be devoted to modern plants in areas of labor availability and in communities where municipal facilities have already been provided for a population that is leaving.

Following World War II, when the threat of the atomic bomb was first visualized, there was an effort made to decentralize industry. During that period a number of plants were located in the rural environment. The successes of these installations have provided case his-

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[1] Mr. Millwee's prepared statement appears at p. 81.

tories of revitalized communities of rural populations providing skills and productivity equal to those in the urban centers and of the practical economics of locating plants in the less congested areas.

Some of the factors that favor a rural location include the following:

The plant's ability to recruit and maintain a loyal work force.

The plant's ability to provide a small town environment for employees including the enjoyment of outdoor recreation and greater participation in local civic activities.

Providing payrolls to the rural areas broadens the economic base for the purchase of consumer products thereby contributing to the national economic growth.

Recruiting labor in areas of high unemployment does not contribute to the inflationary competition for labor in the areas of labor shortage.

Providing jobs reduces the welfare and unemployment burden of other State and Federal programs.

Providing jobs to the unemployed or the underemployed restores the dignity and pride of the individual.

And as the individual gains dignity and pride, he also gains respect for the institutions on which he depends and thus becomes a better citizen.

While the purpose of Senate bill 15 is all that could be desired, the mechanics of the bill and implementation thereof leave much to question. The location of industry requires highly complex studies of the industry requirements and current community and labor availability evaluations. The community and labor data must be up-dated on a month-to-month basis on a 25-mile radius from the proposed plant location. This can only be done at the State and community level, or by private consulting firms.

The selection of the Department of Agriculture is a very unlikely choice to administer an industrial program. The designation of labor surplus areas could best be accomplished by the U.S. Department of Labor, Bureau of Labor Statistics, and administered in conjunction with other economic and regional development programs of the U.S. Department of Commerce.

I would like to suggest the following:

1. That the designation of qualified "rural job development areas" be certified by the Bureau of Labor Statistics, U.S. Department of Labor in conjunction with the related State agency. And that these designations should be up-dated quarterly and as industry provides jobs to alleviate a labor surplus, the designations should be removed.

2. That qualified "persons" be limited to those included in standard industrial classifications 19 through 39, which is manufacturing of durable and nondurable goods.

3. That the responsibility for the coordination of community, State, and Federal programs for industrial and community development be assigned to the States.

The request for $250,000 in Senate bill 15 is totally misleading and inadequate for the information program proposed. The State of Arkansas allocates that amount to try to accomplish the same objectives in 163 Arkansas communities. Our program has been established 14 years, and we could do a more effective job with funds up to $400,000. But to accomplish these objectives on a nationwide basis and provide valid information would require as much as $20 million per year. No appropriation is necessary because these services are available at the State and local level, through the States agencies, the railroads and the utility companies.

The program should be designed to be noninflationary in effect on the national economy. New plants located in areas of current labor shortages increased job turnover, lower productivity, and escalate wage increases without a comparable increase in productivity.

New plants located in areas of labor availability find a loyal and stable work force, reduce the welfare and unemployment burden of other State and Federal programs, and create new disposable income for a new group of consumers that broadens the market for consumer goods.

Some people feel that industrial development programs are rooted in competition between the States or between regions of the United States. This is not basically true. What is good for most States is good for Arkansas.

The industries that we lose in Arkansas that really hurt are the aluminum plants that go to the Dominican Republic; the chemical plants in Puerto Rico, Australia, West Germany and Spain; the paper mills in Spain, Honduras and Canada; or the many other plants built overseas because the investment climate is more favorable.

It also stifles our growth and that of our sister States when 175 million pairs of shoes, great amounts of textiles, chemicals, automobiles, motor bikes and electronic gear are imported from overseas in competition with industries that provide jobs for our people.

The American people in their generosity have financed the Export-Import Bank, the World Bank, the Alliance for Progress, the Agency for International Development and many other programs with billions of dollars of their money.

And our request is an equal opportunity for proud rural Americans who are willing to work.

Senator TALMADGE. Thank you, Mr. Millwee, for a very fine statement.

Any questions, Senator Curtis?

Senator CURTIS. No. I won't take any time at this time, but I appreciate your statement.

Senator TALMADGE. Thank you very much for appearing before us.

(Mr. Millwee's prepared statement follows:)

SUMMARY OF TESTIMONY OF ROBERT MILLWEE, JR.

SUBJECT—RURAL INDUSTRIALIZATION

(1) Incentives are necessary to locate industry in rural America.
(2) Rural communities need to be revitalized.
(3) $21 billion industry investment available.
(4) U.S. Department of Agriculture not recommended to administer—administration should be by U.S. Department of Commerce.
(5) Labor surplus areas designated by U.S. Dept. of Labor on temporary basis. Reevaluated quarterly and designation removed as labor surplus decreases.
(6) Eligible industries should be limited to durable and non-durable manufacturing concerns.
(7) Program is non-inflationary.
(8) Program expands consumer base and improves national economy.
(9) Program reduces unemployment and welfare costs.
(10) Program needed to compete on international basis.

TESTIMONY OF ROBERT M. MILLWEE, JR., EXECUTIVE DIRECTOR, ARKANSAS INDUSTRIAL DEVELOPMENT COMMISSION

Mr. Chairman and distinguished Senators, the finanical strength of American business must be directed toward the solution of our most serious social ills. You are fully aware of the problems of the ghetto and of the rural to urban migration.

The plight of the rural people and rural cities is well documented and for a concise appraisal I would refer you to the report by the President's National Advisory Commission on Rural Poverty entitled "The People Left Behind." This report showed that 14 million rural Americans are in poverty. This is seven times the total population of the State of Arkansas.

While I agree with the appraisal of the problem in this report, I do not agree that the solution to the problem can be achieved by more massive federal programs.

The solution to the problem is to encourage American business to build plants in the depressed areas and provide manufacturing payrolls and manpower training.

The loss of population from rural area has resulted in many economic problems for the once thriving and prosperous communities. These migrations have weakened the municipal tax base, the school tax base, the county tax base and deprived the small town merchants of their buying public, the schools of their students and the churches of their congregations. It has become increasingly difficult for small towns to provide the necessary utilities, fire protection, police protection and services needed by their citizens. New payrolls infused into these local economies will revitalize and restore the strength of the communities. The attitude of defeat and disillusionment now found in the smaller cities can be changed overnight to one of optimism and hope by the addition of plants providing manufacturing payrolls.

We have seen this happen time and time again in our Arkansas communities and this is repeated many times over in other agriculturally oriented states.

Private industry will spend approximately $70 billion dollars in 1969 in capital expenditures. Of this, approximately 30% or $21 billion dollars could be devoted to modern plants in areas of labor availability and in communities where municipal facilities have already been provided for a population that is leaving.

Following World War II, when the threat of the atomic bomb was first visualized, there was an effort made to de-centralize industry. During that period a number of plants were located in the rural environment. The successes of these installations have provided case histories of revitalized communities of rural populations providing skills and productivity equal to those in the urban centers and of the practical economics of locating plants in the less congested areas.

Some of the factors that favor a rural location include the following:

1. The plant's ability to recruit and maintain a loyal work force.

2. The plant's ability to provide a small town environment for employees including the enjoyment of outdoor recreation and greater participation in local civic activities.

3. Providing payrolls to the rural areas broadens the economic base for the purchase of consumer products thereby contributing to the national economic growth.

4. Recruiting labor in areas of high unemployment does not contribute to the inflationary competition for labor in areas of labor shortage.

5. Providing jobs reduces the welfare and unemployment burden of other State and Federal programs.

6. Providing jobs to the unemployed or the under-employed restores the dignity and pride of the individual.

7. As the individual gains dignity and pride, he also gains respect for the institutions on which he depends and thus becomes a better citizen.

While the purpose of SB 15 is all that could be desired, the mechanics of the bill and implementation thereof leave much to question. The location of industry requires highly complex studies of the industry requirements and current community and labor availability evaluations. The community and labor data must be up-dated on a month-to-month basis on a 25-mile radius from the proposed plant location. This can only be done at the state and community level, or by private consulting firms.

The selection of the Department of Agriculture is a very unlikely choice to administer an industrial program. The designation of labor surplus areas could best be accomplished by the U.S. Department of Labor, Bureau of Labor Statistics, and administered in conjunction with other economic and regional development programs of the U.S. Department of Commerce.

I would like to suggest the following:

(1) That the designation of qualified "rural job development areas" be certified by the Bureau of Labor Statistics, U.S. Department of Labor, in conjunction with the related State agency. These designations should be up-dated quarterly and as industry provides jobs to alleviate a labor surplus, the designations should be removed.

(2) That qualified "persons" be limited to those included in standard industrial classifications 19 through 39.

(3) That responsibility for the coordination of community, State, and Federal programs for industrial and community development be assigned to the States.

The request for $250,000 in SB 15 is totally misleading and inadequate for the information program proposed. The State of Arkansas allocates that amount to try to accomplish virtually the same objectives for 163 Arkansas communities. Our program has been established 14 years, and we could do a more effective job with funds up to $400,000. To accomplish these objectives on a Nation-wide basis and provide valid information would require 50 times that much or $20,000,000 per year. No appropriation is necessary because these services are available at the State and local level.

The program should be designed to be non-inflationary in effect on the national economy. New plants located in areas of current labor shortages increase job turnover, lower productivity, and escalate wage increases without a comparable increase in productivity.

New plants located in areas of *labor availability* find a loyal and stable work force, reduce the welfare and unemployment burden of other State and Federal programs, and create new disposable income for a new group of consumers that broadens the market for consumer goods.

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The American people in their generosity have financed the Export-Import Bank, the World Bank, the Alliance for Progress, the Agency for International Development and many other programs with billions of dollars of their money.

This is a request for equal economic opportunity for proud rural Americans who are willing to work.

Thank you, gentlemen.

Senator TALMADGE. The next witness is Mr. James W. Monroe, director of the Nebraska Department of Economic Development, Lincoln, Nebr.

Senator Curtis.

Senator CURTIS. Mr. Chairman, I am very happy to welcome Mr. Monroe to give testimony on this important matter.

Mr. Monroe was appointed by Hon. Norbert Tiemann, Governor of Nebraska, to be director of the Nebraska Department of Economic Development. He has provided intelligent and enthusiastic leadership. His ideas and his promotions are always well balanced with comments, and he's very much interested in rural America and is well qualified to make a contribution in reference to these hearings.

Senator TALMADGE. Thank you, Senator Curtis.

You come well recommended, Mr. Monroe. You may proceed as you see fit. If you desire, you can insert your statement in the record in full, or highlight it in any way you see fit, sir.

STATEMENT OF JAMES W. MONROE, DIRECTOR, NEBRASKA DEPARTMENT OF ECONOMIC DEVELOPMENT, LINCOLN, NEBR.

Mr. MONROE. Thank you, Senator, and thank you, Senator Curtis. I have a very brief statement, Senator. I would like to read it, and also have submitted for the record some attachments to my statement.

I am Jim Monroe, director of the Nebraska Department of Economic Development. I am appearing at this public hearing in support of Senate bill 15.

Nebraska is an agricultural State which is evidencing a steady decline in agricultural employment and an outmigration of people from its boundaries; this outmigration has and will cost Nebraska an average of $350 million annually in total expected lifetime income lost due to the projected outmigration during period of 1960 to 1975.

During that period that totals over $5 billion. This is broken down in appendix A.[1]

The outmigration of our labor force estimated by the Bureau of the Census for the same 15-year period is 30,370 persons. And this is also broken down, Senator, in appendixes B and C.

These figures tell us that not only does Nebraska suffer a significant economic loss but in addition 30,000 people will be joining the exodus to the larger cities competing for jobs thus compounding national urban problems.

I feel that passage of Senate bill 15 would be a positive step toward curbing out-migration from States such as Nebraska. The mere introduction of this bill and this public hearing will help to get American industry to focus more attention on this Nation's small communities, many of which possess all of the necessary human and physical resources needed by industry but which have not yet been discovered by American business.

States such as Nebraska are expending a great amount of effort and money in preparing our communities and in expanding existing industry and seeking new firms. Between 1957 and 1967 manufacturing jobs increased 31 percent, 19,000 jobs, in Nebraska. Only 14 other States had a greater percentage gain. But in this same period of time our agricultural employment declined by approximately 43,000 people.

I feel that an important feature of S. 15 is the allowance made for training people in rural America. I would like to suggest that in addition to the allowance for on-the-job training that a special program be developed to make funds available to State and area vocational-technical schools for providing job training programs for people in rural areas as industry is attracted to areas that provide a trained labor force.

In addition to the incentives provided by S. 15 we need to make sure that financing is available in rural areas. Financing by the Small Business Administration and the Economic Development Administration is helpful but an important financing tool was virtually elimi-

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[1] Appendixes appear at p. 89.

nated approximately 1 year ago when the industrial development revenue bond law was changed and which today is almost unworkable. I am confident that you will find that industrial development bonds were very important in locating new plants in our smaller communities. This has been the case in Nebraska, and I'm sure in several other so-called rural States legislation is needed to correct the present industrial development bond law, and I hope that the 38 Senators who joined in introducing S. 15 and the Senate Finance committee will support corrective legislation when it is introduced.

Mr. Chairman, I have several suggestions concerning rural industrialization which are not covered in S. 15 but which I feel will be of interest to your committee. I have included them in appendix D to this statement. I request that they be made a part of the record of this hearing.

Senator TALMADGE. Without objection, it is so ordered.[1]

Mr. MONROE. In closing, I want to further suggest that the Rural Job Development Act be implemented through the State development agencies which are created by State legislatures and given the responsibility for industrial development.

That's the end of my statement, Senator. I would be glad to answer any questions.

Senator TALMADGE. Senator Curtis.

Nebraskan Industry

Senator CURTIS. Mr. Monroe, you have observed a certain amount of industry coming into rural Nebraska. In general, has it proven a success?

Mr. MONROE. Pardon?

Senator CURTIS. Has it proven a success?

Mr. MONROE. Yes, it has. If I could elaborate——

Senator CURTIS. Please do so. Please do so.

Mr. MONROE (continuing). When we get a company to come into Nebraska, we find that they are very pleased with what they find. And we find that they have a rather rapid rate of expansion.

A good example is Becton, Dickinson & Co., which moved into Nebraska, in a small community about 10 years ago, and today has three plants in the State.

Senator CURTIS. In three different communities.

Mr. MONROE. In three different small communities; yes.

Senator CURTIS. And how many new jobs have been created since 1957?

Mr. MONROE. Since 1957, 10,000, from 1957 through 1967.

Senator CURTIS. But our problem is that the decline of people needed on the farms has exceeded that.

Mr. MONROE. Right; in the same period we lost about 43,000 in agricultural employment.

Senator CURTIS. It has been my experience as I visited various parts of our State that I find high praise of the small community on the part of the industry that's located there, and particularly the personnel who come in and become a part of the community.

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[1] See p. 90.

Has that been your experience, too?

Mr. MONROE. Yes, it has, sir.

Senator CURTIS. What has the State done, statewide and regionally, to increase vocational and technical training in recent years?

Mr. MONROE. There have been several new area vocational schools opened in the last 2 or 3 years in the State of Nebraska.

In addition to that, the legislature has made additional funds available for training in State vocational schools. We have a good system now, and this has been of very valuable assistance to the existing industry we have.

Senator CURTIS. I am quite familiar with the schools, and I am very familiar with one in particular, Central Nebraska Tech. They invited me to address their first commencement.

They have a 2-year technical school. It is accredited in the manner junior colleges are accredited. It is supported by the 18 or 19 counties that embrace the regional district.

I was impressed at the commencement; they graduated five or six dental technicians, a number of diesel engine mechanics, and just all manner of skills were represented there in the training, in the students who had finished the training.

The thing that struck me about it very much was that every graduate was offered several jobs, and with the exception of those who had to report for military service, all but two took a job in the 18 or 19 county areas that made up the regional vocational district.

Is that somewhat the general pattern of development?

Mr. MONROE. Yes. We see our industry lining up at the end of the school term waiting for the student, like the student lines up to start school.

The thing we need is to increase the availability of training in the State and our rural areas.

Senator CURTIS. I was further informed that many of the employers contacted the school a year or two in advance and gave information of their anticipated needs for employees of certain skills. And in some instances the employer was called into the school to help set up, or at least advise on, the courses to be offered, so that you were training not for jobs that had become obsolete or that didn't exist at all but for the job opportunities of today and those of next year and the year after.

Mr. MONROE. I think this has had a real impact on our area. I think, in addition to that, the one section of Senate bill 15 which provides for funds for on-the-job training would certainly supplement and complement the ongoing programs, so that a person could be trained even though right today the job isn't there, but he could be trained in a skill and then he becomes very much in demand.

Senator CURTIS. Yes. Now, the principal thrust of this bill—and I believe of the general remedy that you propose for rural America—is getting the industries to locate in rural America, is that right?

Mr. MONROE. Right.

Senator CURTIS. And in your opinion that calls for some action by the Federal Government in the way of tax incentives?

Mr. MONROE. I think it's a step in the right direction. And maybe it's an interim thing, to do it for a few years. I think after we see more industry going into rural America, we are going to see a very favorable trend starting, because, as I mentioned in my testimony, a lot of industry just hasn't discovered the advantages of rural America. And when I mentioned what the experience has been of companies that do locate in our smaller communities and continue to expand, I think we will see a lot more of this.

Senator CURTIS. Yes. And don't you also believe that rural communities and State departments of development and other agencies can perhaps improve the job that they have been doing in promoting the coming in of industry?

Mr. MONROE. Yes.

Locating Plants

Senator CURTIS. Some years ago, I was told of the great number of committees, departments, chambers of commerce, State agencies, local governments, and so on, that depended upon the executives of the business firm if the word got out they were about to build a new plant some place, and the great number of people depending upon a particular management frightened them. It took tremendous time to interview them. And it took a lot of time to sort out the wheat from the chaff, because, while most of these proposals were well founded, they could offer everything that they contended, there were always a few that probably couldn't do that.

And as a result I think we've gone through a period of time where business executives have failed to let it be known they're about to build a new facility in order to avoid pressure from so many different sources from so many localities. And perhaps a vast majority are well founded and know what they are talking about, and maybe a few of them do not, but that's created quite a problem. Do you have any suggestions on that?

Mr. MONROE. I really don't have the answer to that. I know that if an industry were to announce publicly that they were going to build a new plant, every one of us would try to get in touch with them. This is our job. But I think industry has become much more sophisticated in their search for industrial sites in a more professional manner as well as have the industrial developers at the State and local level become more sophisticated professionally in responding to the requests and inquiries of industry.

We have found that industry looks to a State as a central source for information on all communities, and this has eliminated every community getting into the act. We can help the industry pretty well screen the communities and find those that fit their requirements.

Senator CURTIS. Yes.

Mr. MONROE. So it's working out, Senator.

Senator CURTIS. And that was perhaps one of the reasons why you suggested that any program undertaken under this bill should be channeled through the State departments?

Programs Under the Bill Should Be Channeled Through the States

Mr. MONROE. Right. We feel that the State agencies have the most up-to-date and most accurate information available to pass on to industry, because we are in constant contact with the communities.

Senator CURTIS. And they act with the responsibility of a public body?

Mr. MONROE. Yes, sir.

Senator CURTIS. I think that's true. And they have a certain stability about it, and probably a newly formed committee couldn't assemble the information and couldn't treat the potential job provider with candid and full information.

Mr. MONROE. This is right, because the data, and so on, changes on a day-to-day basis. One community may have an industrial facility available today that we know about and tomorrow it's not available. If we had some central office here in Washington I don't know that it could feed that information rapidly enough for them to be really up to date.

Industrial Development Bonds

Senator CURTIS. Did the industrial development bonds before the recent abolition of them, later an extension under a very limited way, did the industrial development bond idea help in Nebraska's problem?

Mr. MONROE. Very much so. Nebraska started issuing industrial development bonds in 1962, and our growth period is between 1962 and 1967 as far as the new industrial jobs are concerned. It has been the source of financing for our smaller communities that really hasn't been available.

Senator CURTIS. You have been in touch with your colleagues who hold similar positions in many of the rural States about industrial bonds, have you not?

Mr. MONROE. Yes, sir.

Senator CURTIS. Has it been your observation and have you learned from them that the same is true in the other States, that it was a very workable, potent tool for improving job opportunities and life in rural America?

Mr. MONROE. In visiting with them and the response I get, it has been one of the most important tools we have had for industrial development, not only for getting companies in but expansion of existing industry.

Senator CURTIS. Has it been your observation that it has been used as a tool of pirating industry from one State to another? And by "pirating" I mean in a wrongful way inducing them to——

Mr. MONROE. Possibly in the very beginning there was some, but I would say in the last 10 years I am not aware of any of this pirating activity.

Senator CURTIS. Have we had any failures in Nebraska?

Mr. MONROE. We had a company that closed down, but another firm bought the company.

Senator CURTIS. I see.

Mr. MONROE. That has been the only default.

Senator CURTIS. You have had an excellent record——

Mr. MONROE. Excellent.

Senator CURTIS. In that regard.

Now, what happens when a local governing body issues revenue bonds is that it results in the issuance of bonds which are not taxable, and therefore lowers the cost to the incoming industry, isn't that correct?

Mr. MONROE. That's right.

Senator CURTIS. Now, if the incoming industry comes in and they pay less by reason of the fact that the bonds were taxfree, if they pay less in rental or amortization, or whatever it is, they have a lesser deduction for tax purposes for interest paid, isn't that correct?

Mr. MONROE. This is right.

Senator CURTIS. It increases, then, their taxable income.

Mr. MONROE. This is right.

Senator CURTIS. Quite frankly, I think that the Congress should have a study made of the effect on revenue of the industrial bonds as they operated before the Ribicoff amendment which upset them. It may well be that the figures used by both sides in this debate have not been quite complete. And I am referring not to distant and remote and indirect revenue, but in the direct revenue that derives from such a program.

Do you feel that that could well be looked into?

Mr. MONROE. I think it should be looked into because this has been a big question always, Senator, of what has this cost Treasury—have the new jobs that have been created overcome this, which we feel have to a large percentage.

Yes, I think this needs to be looked into very much in depth, and I would be very pleased to work with any government group in doing it.

Senator CURTIS. Yes. It's needless to cry about spilled milk, but I think it was most unfortunate, the Ribicoff amendment that was adopted when it was without any committee hearings, and that it had the active support of the Treasury at that time as well as the active support of certain labor leaders, because I seriously question the accuracy—not their motives but the accuracy of the conclusions they were drawing about the work of the program.

Senator HARRIS (presiding). Thank you very much.

Thank you very much for your presence here and your testimony.

Mr. MONROE. Thank you.

(Appendixes to Mr. Monroe's statement follow:)

APPENDIX A

TOTAL EXPECTED LIFETIME INCOME LOST DUE TO OUT-MIGRATION

[For State of Nebraska]

Age group	1960–65 Male	1960–65 Female	1965–75 Male	1965–75 Female
Under 18	$27,265,000	$8,834,000	$21,238,000	$6,881,000
18 to 24	81,627,000	26,447,000	64,428,000	20,875,000
25 to 44	152,720,000	49,481,000	119,784,000	38,810,000
45 to 65	38,016,000	12,317,000	29,700,000	9,623,000
65 and over	590,000	191,009	465,000	151,000
Annual total	300,218,000	97,270,000	235,615,000	76,340,000
Total, all labor force participants	397,488,000		311,955,000	

Source: U.S. Department of Commerce, Bureau of the Census, Technical Paper No. 16, Present Value of Estimated Lifetime Earnings.

Appendix B

ESTIMATED ANNUAL OUT-MIGRATION OF THE LABOR FORCE

Under 18	95	63	74	50
18 to 24	299	199	236	156
25 to 44	830	397	651	311
45 to 64	704	39	550	308
65 and over	118	45	93	36
Total	2,046	1,098	1,604	861

Source: U.S. Department of Commerce, Bureau of the Census, Current Population Reports: Population Estimates Series P-25, No. 375, Oct. 3, 1967.

Appendix C

AVERAGE ANNUAL NET OUT-MIGRATION

Under 18	1,464	1,587	1,146	1,241
18 to 24	372	403	293	317
25 to 44	864	936	677	733
45 to 64	787	853	614	665
65 and over	437	473	346	374
Total	3,924	4,252	3,076	3,331

Source: U.S. Department of Commerce, Bureau of the Census, Current Population Reports: Population Estimates Series P-25, No. 375, Oct. 3, 1967.

Appendix D

Proposal for New Emphasis on Rural Industrialization and New Growth Center Development

Many Federal and State programs are already focusing on the problems of rural America and as a result rural America is becoming more attractive to investors. But the major problem is getting American business and industry to recognize the advantages which rural America has to offer and also in establishing national policy and incentive programs which will make it even more beneficial to private industry to invest in rural communities.

I respectfully request that the Senate Finance committee consider the following suggestions for additional legislative action concerning rural job development.

A. Industrial development corporations (regional, county or community-based organized under the laws of the respective State) should be eligible for the following assistance:

1. Low-interest, long-term loans for industrial site acquisition and development including utilities and grading. The development corporation would have two years before any repayment on either interest or principal. Rural communities find it difficult and in many cases virtually impossible to raise adequate funds to purchase satisfactory industrial sites and develop the sites to the extent which industry expects.

2. Low-interest, long-term loans for building industrial buildings including shell buildings. The development corporation would have 2 years before any repayment of either interest or principal providing the building was not leased or sold in the 2-year period. The availability of prepared sites and industrial buildings will definitely appeal to expanding industry and also correct a deficiency which exists in many rural communities.

B. *Management, marketing and technical assistance.*—There is a dire need for the State technical services program in the office of State technical assistance in the U.S. Department of Commerce and the technical assistance program offered by the Small Business Administration to be merged. It is my proposal that these services be administered by the office of State technical services in the U.S. Department of Commerce and carried out through the State agency designated to administer the State technical services program under the State technical services act of 1965. At the present time effort is splintered and our small industries needing technical assistance are being confused by the seemingly duplication of programs. The State Technical Assistance Act of 1965 should be amended to include marketing and management assistance programs. Small industries in rural America need this type of assistance.

C. *Financing.*—In addition to continuing financial programs of the Small

Business Administration and the Economic Development Administration, it is imperative that rural counties and municipalities have the authority to issue industrial development revenue bonds for financing new and expanding industry (currently have the authority but industrial development bond law needs corrective legislation by Congress).

The current industrial development revenue bond law is too restrictive and virtually unworkable. Section 103(c)(6)(D)(ii) of the Internal Revenue Code of 1954, relating to the calculation of a $5 million limit in certain cases of industrial development bond issues should be amended by deleting the words "during the 6-year period beginning 3 years before the date of such issue and ending 3 years after such date" and substituting therefore the words "during the 5-year period before the date of such issue."

Senator HARRIS. I now call Mr. Jim Rice, Oklahoma Aerotronics at Hartshorne, Okla.

And I would like to suggest, if the witnesses are agreeable, rather than having to come back this afternoon, the possibility that we might proceed now with the balance of today's witnesses, if they are in the room and agreeable, and I think we could do it by perhaps filing the statements and by making brief summaries as that was the wish of the committee chairman.

Is Mr. Scott here from the Grange?

He is not here.

Dr. Smith from Kansas University? Would that be agreeable to you?

Dr. SMITH. Yes, sir.

Senator HARRIS. All right. Mr. Redden I know is here from Pryor, and I assume that would be all right with you, Gene.

Mr. REDDEN. Yes, sir.

Senator HARRIS. William Hackett, Louisiana. Is he here?

And what about Mr. William May from Wichita, Kans.

Yes, sir. Would that be agreeable to you, Mr. May?

Mr. MAY. That would be fine.

Senator HARRIS. All right. And then the committee staff might see if there is a possibility of finding those other witnesses.

Mr. Rice, we are very pleased to have you here, and I personally know, of course, about the wonderful job you have done in regard to rural job development and the development of opportunity in the small communities of Hartshorne and Haileyville, Okla. And so we are very pleased that you have taken time to come here and present your testimony. We would be glad to hear from you at this time.

STATEMENT OF JIM RICE, PRESIDENT, OKLAHOMA AEROTRONICS, INC., HARTSHORNE, OKLA.

Mr. RICE. Thank you, Senator Harris.

I brought some information with me including some backup which I would like to have included in the record, if I may.

Senator HARRIS. Without objection, we will place in the record this excellent brochure along with your testimony involving the concept proposal for a demonstration project in rural community development and expansion.[1]

I think that's very worthwhile.

Mr. RICE. We have got some folks who are working to the wee small hours of the morning, believe me, sir.

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[1] See p. 95.

Senate bill 15, the Rural Job Development Act, I think is rather important to note that this is not just a means of assisting or helping rural areas as distinct from urban areas; rather, it is one segment of an integrated attack on a general problem, a problem of nationwide importance, that problem being that while the United States is the most prosperous nation on earth, yet we have millions of people in both suburban and rural areas who are poverty stricken. Now, the vast majority of these people do not lack motivation toward self-improvement; rather, they don't have, or they can't see the opportunity for such self-improvement. Sometimes I think that there is a tendency to overcategorize people and to point out differences rather than points of similarity, points of oneness.

For example, I believe one of the basic and inherent characteristics of a human being is the desire for an opportunity to express himself, to move ahead. It's indicated first in his drive to support himself, support his family. You go beyond that. Then it is shown in his moving away from this into contributions to the community generally.

The gentlemen who are the members of this committee, the Senators, doubtless every one of those left opportunity for eployment in private industry or in professions where they could certainly make more money and make it easier than they are doing now serving their country as Members of this Senate, and certainly they would have a lot less criticism and a lot fewer problems and frustrations and head aches. They did this because they were searching for an opportunity again for self-expression. And it is precisely this same drive which brought the Senator into the Senate which is bringing the man from a rural area into an urban area. Whether this direct goal is to get a higher welfare check or whether it is to get a better job, it's still the same basic drive. And sometimes we tend to forget this.

But it's precisely the search for adequate opportunity which has triggered off the vast and continuing migration from rural to urban areas, and this, in turn, is creating problems in both areas, problems that are becoming daily more dangerous, more complex, and more difficult to resolve.

I would like to describe briefly, if I may, one particular rural area and what we are doing to resolve this problem and the assistance which I feel Senate bill 15 will provide toward it.

The adjoining towns of Haileyville and Hartshorne in Oklahoma—if you gentlemen will look on the first page of that little brochure that we put out, I think you will see a picture of the area. It's in Pittsburg County in southeastern Oklahoma. At one time it was the center of a prosperous mining area. These mines have long since been shut down. The population dropped from 5,500 in 1920 to 2,700 in 1964.

At that time, over a fourth of our population was over 55 years of age, and approximately two-thirds of our population over 25 were not high school graduates. The community had no industry. Its commercial buildings were standing empty. They were deteriorating. Almost no homes were being built. Welfare payments had become pretty much a way of life for a large segment of the community.

Now, in 1964 we founded a new industry, Oklahoma Aerotronics. Local businessmen, local people going up and down the street raised $13,000 toward the cost of remodeling a building which was then standing vacant. And this was provided initially to the new company on a no-rent basis.

In the next 4 years, Oklahoma Aerotronics has expanded from its initial 7,000 square feet to 33,000 square feet. It has taken on three additional vacant buildings. Again, these buildings don't look very nice on the outside. You will see on the front there these are buildings that were deteriorating. And we haven't spent a dollar uselessly or needlessly in renovating the outside. As a matter of fact, we didn't even take off the "Rigazzi Drug Store" sign on one. And we still have some people coming in occasionally looking for aspirins. Believe me, we have them.

However, inside these buildings we have now better than a half million dollars invested in equipment. We have without question one of the most complete and most modern facilities of its kind in the entire Southwest. We are employing over 200 people. We have a payroll of about a million and a quarter dollars a year. And we are shipping hardware plus paper work, we are shipping approximately $8 million a year.

Now, this has been accomplished strictly with local equity financing because there wasn't any other available. If we had had more to work with, we could have done more. We have had assistance from the Oklahome Industrial Finance Authority, from the Small Business Administration. We had an initial $19,500 loan from the Area Reconstruction Administration. Subsequently, we had a $78,000 loan fyrom the Economic Development Administration. And we have had $350,000 of loans from banks, working capital loans which are 90 percent guaranteed with EDA backing.

Now, we would not have been able to do what has been done without this assistance. Le me point out, however, that every monthly payment of both principal and interest on all of this money has been met and is being met on time. And it's pretty rough on the working capital loans where there are 5-year loans payable monthly over that period on both principal and interest. It's pretty difficult to generate the cash which is needed to continue expanding. We have been able to accomplish a certain amount.

Let's take a look at what has, at least a few indicators of what has happened in our community.

The population has increased since 1964 from 2,700 to 3,500. Bank deposits in the two little towns have increased from $2,300,000 to $3,250,000. There is a minor building boom in residential construction. The commercial area is coming to life.

Again, we could have done more faster if we had had more to work with.

Obviously, today we are facing problems, a multiplicity of them. Our water supply, our sewage disposal facilities are hopelessly obsolete. We lack adequate water distribution, sewer systems. This is critical. We need more fire protection. We need police protection. We need more paved streets, more housing, more schools. We need a community library. We need all kinds of community facilities.

But most important of all, we have got to have industry with expanding payrolls and an expanding tax base to support these things. Without this, none of the rest is feasible. A single industry providing the only major payroll in the community, it's not a healthy situation. We need growth in Oklahoma Aerotronics, yes, but we also need additional industry.

A question has been brought up a number of times as to what's the dollar pay-back on these things. Let me point out that the money which has been borrowed from the Government and with Government assistance has been and is being paid—every nickel of it—with interest. The taxes which have been generated in our area have already far more than paid back to the Federal Government as well as State and local governments, far more than paid back what has been invested in our area. And the Government will still get its money back.

Now, I have attached to this writeup the concepts proposal which outlines the steps which our community intends to take by which we are going to provide a minimum of 6,000 industrial jobs in Haileyville and Hartshorne. We are going to increase our population from the present 3,500 to 35,000. And we are doing this with the specific objective of assuring that the quality of the living environment of our community is enhanced with each forward step. We are stretching all the way through that industry, profitable industry, which, since it is profitable, will be paying fair and living wages, is essential and practical base for everything else.

And I think it is to this particular point, the fostering of profitable industry in rural areas, that S. 15 is specifically directed. Remember that all of the vast depreciations and all of the various benefits which S. 15 provides, they are provided against taxes, and you can't have taxes unless you have profits. So that in the long run S. 15 provides benefits only for those industries which in the long run are capable of generating profits, and therefore are capable of paying and will pay living wages.

In other words, S. 15 is encouraging potentially viable industry. It is not subsidizing marginal operations which can only pay marginal wages and which must inevitably go out of existence as soon as the Government aid is withdrawn.

The rural community of Haileyville-Hartshorne considers itself as a demonstration or as a pilot project which will lead the way in a practical and down-to-earth program for reversing this rural to urban migration.

This is neither the time nor the place to go into the details of our concept proposal. I hope that every member of the committee will read this, will look it over. And I would love to have an opportunity to talk to a few folks individually as to the program that we are trying to do, the methods that we are taking to reach our ultimate objective.

I think that when you look over our plans and our concept it will become increasingly apparent the reasons why we consider S. 15 to be of utmost importance in achieving this goal. For this reason, I respectfully urge favorable consideration and, in particular, some action at the earliest possible date.

Senator HARRIS. Jim, I certainly appreciate personally your appearance here. I think your statement in the record of these hearings will be very helpful to us. And I think the fact that you are here in person to present the statement adds a great deal of weight to it, as others view the record of this hearing.

Because there are others who want to be heard here; I won't go into any discussion with you about your testimony, but I think it's very responsive, right to the point, and I really appreciate it.

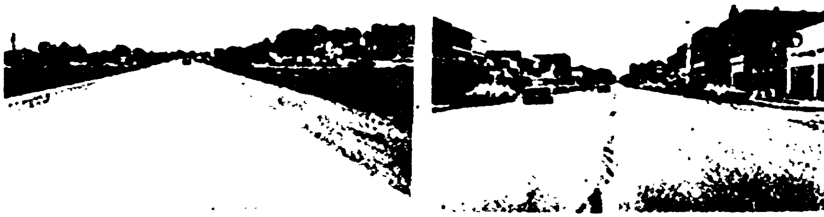
Mr. RICE. Thank you, sir.

(Mr. Rice's prepared statement follows:)

Presentation to the United States Senate Committee on Finance

the Development and Expansion of Industry and Job Opportunity in Rural Areas

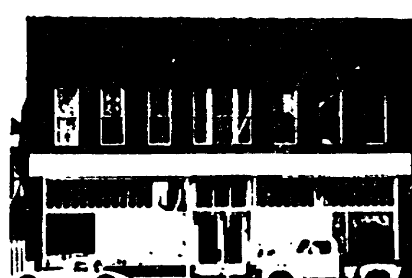
presentation by
Jim Rice, President,
Oklahoma Aerotronics, Inc.
May 21, 1969



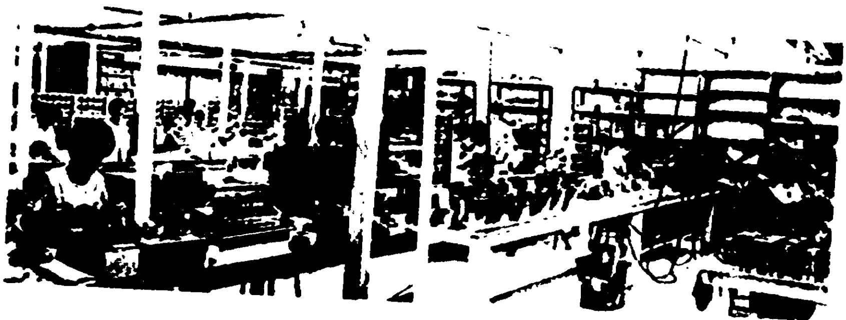
The Community of Haileyville-Hartshorne

Oklahoma Aerotronics Main Plant & Electronics Division

Chemographics Division



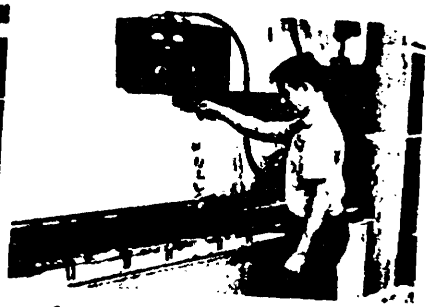
Machine Division



Electronics Assembly

Oklahoma Aerotronics, Inc. has utilized existing buildings and spent minimum dollars on exteriors. But inside is one of the most modern and complete facilities of its kind in the entire Southwest.

Portion of Milling Section



One of Many Electro-Plating Tanks

Mr. Chairman and Honorable Members of the Committee:

Senate Bill S-15 is entitled the "Rural Job Development Act." In essence it provides tax credit as an incentive for industrial and job development in rural areas. The declared purpose of the act is three-fold:

1. To increase the effective use of human and natural resources of rural America.
2. To slow the migration from rural areas due of lack of economic opportunity.
3. To reduce population pressures in urban centers resulting from such forced migration.

It is important to emphasize that this act does not propose simply to assist rural as distinct from urban areas; rather, it represents one essential segment of an overall integrated attack upon this specific nation-wide problem: That, while the United States is the most prosperous nation on earth, yet we have millions of people, in both urban and rural areas, who are poverty stricken. The vast majority of these people do not lack motivation toward self-improvement, but they do not have-or cannot perceive-adequate opportunity. It is precisely this search for adequate opportunity which triggers the vast and continuing migration from rural to urban areas-this, in turn, creating problems in both areas which are daily becoming more dangerous, more complex, and more difficult to resolve.

May I briefly describe one particular rural area, our program for resolving this problem, and the assistance which SB-15 will provide toward this effort.

The adjoining towns of Haileyville and Hartshorne form a single community in Pittsburg County in Southeastern Oklahoma. Haileyville-Hartshorne was once the center of a prosperous coal mining area, but these mines have long since shut down. The population dropped from 5,500 in 1920 to 2,700 in 1964, at which time over 25% of the population was over 55 years of age, and 67% of the people over 25 years of age had not completed highschool. The community had no industry, its commercial buildings were deteriorating, with many standing empty, almost no homes were being built, and welfare payments were a way of life for a large segment of the community.

In late 1964, the community founded a new industry, Oklahoma Aerotronics. It raised $13,000 in local money toward part of the cost of remodeling a building which was then vacant, and provided this initially to the new company on a no-rent basis. Since that time, Oklahoma Aerotronics has expanded into three additional vacant buildings, giving it a total floor space of 33,000 sq. ft. It has invested over $500,000 in equipment and now employs 200 people with a payroll of $1,250,000 per year. It manufactures and sells approximately $3,000,000 per year of highly sophisticated telemetry and communications equipment. This has been accomplished with strictly local equity financing-no other was available-together with assistance from the Oklahoma Industrial Finance Authority and the Small Business Administration, an initial $19,500 loan from the Area Reconstruction Association, a subsequent $78,000 loan from the Economic Development Administration, and an Economic Development Administration 90% guarantee of $350,000 in bank loans for working capital. Every monthly payment of both principal and interest on these loans has been met on time.

From 1964 to the present, the population of Haileyville-Hartshorne has increased from 2,700 to 3,500, bank deposits have increased from $2,200,000 to $3,250,000, there is a minor "building boom" in residential construction, and the commercial area of the community is coming to life.

Obviously, we are facing a multiplicity of problems: Our water supply and sewage disposal facilities are obsolete, our lack of adequate water distribution and sewer system is critical, we need more police protection, more fire protection, more paved streets, more housing, more schools, a community library, and other community facilities. Most important of all, we must have more industry, with expanding industrial payrolls and an expanding tax base, without which none of the above is feasible. A single industry providing the only major payroll in the community is not a healthy situation. We need growth of this industry, and we must also have additional industry.

Attached herewith is a "Concept Proposal" which outlines the steps by which we intend to resolve these problems, to provide a minimum of 6,000 industrial jobs in Haileyville-Hartshorne, and to increase the population from the present 3,500 to 35,000 —all directed toward the specific objective of assuring that the "quality" of the living environment of our community is enhanced with each forward step. Throughout this proposal it is stressed that industry operating at a fair profit, hence paying fair and living wages, is the essential practical base for all else. It is to this point—the fostering of PROFITABLE industry in rural areas—that S-15 is specifically directed. S-15 provides benefits only in the form of tax credits, hence it benefits only those industries which, in the long run, are capable of generating in a rural area the profits upon which taxes are based. In other words, it encourages potentially viable industry—it does not support marginal operations which can only pay marginal wages, and must go out of existence as soon as Government aid is withdrawn.

The rural community of Haileyville-Hartshorne considers itself a demonstration or "pilot" project, leading the way in a practical and down-to-earth program for reversing the rural to urban migration. Since we consider S-15 to be of the utmost importance in achieving this goal, we respectfully urge your favorable consideration and acceptance at the earliest possible date.

Concept Proposal

Demonstration Project in Rural Community Development and Expansion

Submitted By
The Joint Planning Commission
of
Haileyville and Hartshorne, Oklahoma

Technical Assistance By
The Oklahoma Economic Development Foundation, Inc.
Norman, Oklahoma

April, 1969

"We are beginning to see that what we call the Urban Problem has its roots in our Rural Areas."

"What the American people really want and will work for, they can have. We are not the helpless objects of blind economic forces; we are capable of shaping our own future."

"The future vitality of our small towns and rural areas depends largely on sound planning. . . . . . . .This is an essential first step to deversify and to strengthen the economic base of our rural areas."

RICHARD M. NIXON
NATIONAL MAGAZINE OF RURAL
AMERICA, Jan./Feb. 1969, p. 5

Demonstration Purpose:

The purpose of this experimental program is to prove that Americans will migrate to rural communities, building there an optimum enviroment for living and raising families, if private and public sector opportunities are made available: 1. For people to establish industry which will generate profits and provide jobs; 2. For people to train themselves for these jobs; 3. For people to build and develop their industry, their homes and their community in accordance with their own aspirations, needs and capabilities.

Demonstration Goal:

To increase the population of an existing rural community from 3,500 persons to 35,000 persons in seven years from the outset of the experiment.

Demonstration Philosophy:

The philosophy of the project rests in the firm belief that it is a basic and inherent characteristic of human beings to create, to build and to develop that which to them seems valuable and worthwhile, to themselves in the first instance and to their community in the second: The validity of this proposition holds, whether the people are black, yellow, red or white, and whether they are industrialists, scientists, professionals, common laborers, or hard core unemployed. People require, and increasingly today are demanding, the opportunity for self-expression. If opportunities are available, people will motivate themselves; they will not willingly accept nor tolerate direction and interference in their private lives and activities beyond that which is necessary to prohibit anti-social conduct and anarchy.

From economic, technological and sociological considerations, it is most desirable and feasible to develop these opportunities in presently existing rural communities: In the rural community we have adequate space-clean earth, clean water and clean air–not spoiled by haphazard and unplanned industrial growth and concentration of population which would require the investment of excessive (and frequently unavailable) time and capital resources to correct. The out-migration of people from conjested urban areas to existing rural communities will substantially diminish the present "big city" problems. The intermingling and melding of urban and rural attitudes and value standards will assure the continuing cultural evolution which is the American tradition.

The philosophy includes the notion that the desired levels of growth can only be achieved in the community if a meaningful planning and control system is established to enable both private and public facilities to be expanded in a compatible manner. Detailed planning is required to define the sub-goals of the demonstration. Controls over growth are necessary to ascertain how closely the plan is being met and what changes in the original plan are indicated by the execution of the plan.

The project originators assume that their community can be planned as a fully integrated social and economic sub-system without unmanageable complication. Opportunities will be available for all persons that have a willingness to improve themselves through the traditional mechanism of work and self-improvement. Training is an essential part of this philosophy and an adequate system for training in management and in job skills must be provided.

The originators believe that highly sophisticated industry can be attracted to and can develop in the demonstration community, and can operate at profit levels above normal profits for similar operations in conjested urban areas.

Demonstration Community:

Halleyville-Hartshorne, Oklahoma

Target Community Description:

The communities of Haileyville and Hartshorne are adjacent to one another in Pittsburg County, Oklahoma, and border on the Pittsburg-Latimer County line. These counties are in the Southeastern quadrant of the state, a part of the seven county Kiamichi Economic Development District, and are designated as a depressed area.

By 1960 census, the population of Pittsburg and Latimer Counties was 42,098. 15,219 of this population (plus an additional 2,200 inmates of the Oklahoma State Penitentiary) resided in McAlester, the single urban community of the area. The present population of Pittsburg and Latimer Counties is 10.6% non-white (primarily Negro and Indian), with median school years completed of 8.6 years. Unemployment rate (including McAlester) is 6%, with rural unemployment in excess of 15%.

The communities of Haileyville-Hartshorne attained a maximum population of 5,547 in 1920. The economic base at that time was primarily coal mining. All mining activities were discontinued during the 1950's, and the community population declined to 2,700 in 1964. In late 1964 the community established a manufacturing industry, Oklahoma Aerotronics, Inc. This company, locally owned and managed and with extremely meager capital, has, with financial assistance from the Economic Development Administration and the Oklahoma Industrial Finance Authority, been developed to a present employment of 200 with an annual payroll of approximately $1,250,000. Concurrent with this industrial development, the population of Haileyville-Hartshorne has increased to 3,500, and the general economy of the community reflects a sharply upward trend. The leadership and population of the community feel that their success with Oklahoma Aerotronics, Inc. demonstrates that:

1. A firm in an extremely sophisticated and especially competitive industry (the design, development and manufacture of communications and telemetry equipment) can operate profitably in a rural community.
2. Trained managerial, engineering and other professional talent will migrate to the rural community if provided adequate opportunity.
3. The labor force in such a rural community is highly trainable for such skilled work.
4. No incentive needs to be given this work force other than the provision of jobs and personal opportunity: These people desire and seek out work, and are far above average in productivity.
5. Industry in a rural community can provide exceptional community growth in terms of economic activity.

Demonstration Scope and Timetable:

The scope of this demonstration is exceptionally broad in that it involves a comprehensive plan for economic and social development, the execution of the plan, and a systems approach to both planning and follow-up to provide control and balance of this growth in each sector of the economy.

A systems model will be developed that describes the present social and economic features in the context of present geography; that develops business and private sector needs over time to achieve alternative goals, and describes the system in relation to probable future under decision manipulation. One unique feature of this systems approach is its emphasis on outputs or goals (in this case, a population of 35,000 people with a firm economic base of 6,000 jobs) and the comparison, at all stages of planning and development, of what is happening to what will in all probability happen; thus making it possible for decision makers to evaluate alternatives in providing for needs both public and private. The model provides points of comparison, permitting the decision makers to determine community posture in terms of the forecast and of actual economic base, and to determine with precision what public sector expenditures are essential to development.

This approach has been developed over a three year period by Professor George Reid of the Civil Engineering School of the University of Oklahoma. Field tests of the model indicate a high level of precision and accuracy in forecasting the needs of public and private sector investment. The model manipulation permits experimentation and evaluation of alternatives in advance of decisions, thus permitting community growth by design rather than by reaction.

The program here envisioned—the initial planning, consistant follow-up and replanning th ugh all phases of plan implementation, together with adequate interim and final program and evaluation reports—requires the services of a highly competent organization with adequat professional talent and experiences in this field.

The basic time frame for the demonstration is as follows:

April 1, 1969 – September 1, 1970—Comprehensive Planning Program.
Identification of required public and private facilities to obtain goal within time frame. Establishment of social-economic model for use in planning and replanning the growth of the community.
Identification of sub-goals in the public and private sectors. Detailed planning of industrial parks, residential sections, retail and wholesale sectors, and all public facilities. Preparation of the master growth schedule.

April 1, 1969 - April 1, 1976—Implementation Phase.
Construction of all physical facilities. This implementation phase overlaps the entire period for comprehensive planning: It is an essential feature of this concept that all growth must be based upon a solid foundation of industrial development and industrial payrolls. Hence, the beginning of this industrial development must be placed at the earliest point consistent with adequate planning, and continued industrial development must be carefully time-phased with respect to implementation of the balance of the program.

Conclusion:

It is recognized that this project, standing alone, can have only a minor effect in reversing the present rural to urban migration, with the consequent problems entailed by over concentration of population in urban areas. However, as the feasibility of this approach is demonstrated, the same or similar technique can be applied in many thousands of other rural communities throughout the United States, and it is believed that this will reverse the rural to urban migration while providing the opportunity for people everywhere to improve the quality of their environment and their lives.

Senator HARRIS. Dr. Floyd W. Smith, Director of Agriculture Experiment Station, Kansas State University, Manhattan, Kans.

Dr. Smith, we are very pleased that you are here. Do you have a prepared statement?

Dr. SMITH. Yes, sir.

Senator HARRIS. All right. Without objection, that will be placed in the record, and then if you would like to make some summary of it, I would appreciate it.

STATEMENT OF DR. FLOYD W. SMITH, DIRECTOR, AGRICULTURE EXPERIMENT STATION, KANSAS STATE UNIVERSITY, MANHATTAN, KANS.

Dr. SMITH. Senator Harris, I will present a short summary of my prepared statement.

First, I would want to emphasize that there is a need for stimulation of new investment in rural areas. And the increasing concentration of population of large metropolitan areas is creating a situation for both rural and large metropolitan areas that is becoming increasingly costly to the public.

Mayor Davis of Kansas City, Mo., has stated, and I quote, "A city can get too big simply because the cost of providing services increases all out of proportion to the total population growth. This becomes perfectly clear when put on a per capita basis which is about $120 a year in Kansas City. In a city twice this size the per capita cost would rise to more than $200 a person."

Conversely, in many instances the loss of population to the towns of rural America is followed by increasing per capita costs to those who remain, as schools stand half filled, and as taxable resources stagnate. Many of the 620 towns and cities in Kansas with populations below 50,000, want and need more people. But jobs must be provided if they are to come.

The alternative to the population migration to the metropolitan areas is to provide an opportunity for more people to obtain gainful employment in the rural areas. And this employment can consist of full time for residents in a community or part time to supplement income from small farms.

Secondly, I would want to point out that the tax and depreciation incentives provided in S. 15 would be effective in encouraging business to expand in small-town America. The proposed 14-percent credit on personal property, including machinery and other equipment, used in an industrial or commercial enterprise and a 7-percent tax credit on real property, should provide a powerful incentive for industrial firms to expand operations in rural areas.

The tax incentive of 17 percent on personal property and 10 percent on real property in the more rural areas with a population density of less than 25 per square mile is a recognition of the greater incentive needed to encourage investment in these areas.

The location of plants in rural communities could raise problems of insufficient resources to expand such public facilities as streets, water, sewers, schools, et cetera to accommodate the increased population. The bill very wisely requires that the proposed industrialization be consistent with local zoning ordinances and economic and physical planning.

The incentives provided in S. 15 would encourage the formation or expansion of small local enterprises.

In Kansas we have a considerable number of local people who have launched small industries based upon local management, local ideas, and local capital. Some of these are manufacturing original products not previously on the market, a small and versatile front-end loader, and a feed bunk cleaner for cattle feedlots are only two examples, both produced in small cities of 1,000 or 2,000 population. Firms like these are hard pressed for cash to expand. S. 15 would help them to grow, and would furnish the incentive for other local inventor-entrepreneurs to emerge.

The short-term reduction in tax revenues resulting from the program would probably be offset by taxes from growth of income and reduced welfare costs within a reasonable period of time.

Part of the cost to the Treasury of the program would be offset by taxes on increased personal incomes of the additional workers, part of it by reduced welfare costs, and part by the eventual growth in taxable business incomes. Since the initiative for taking action under the program is mainly with the business community, it should not entail burdensome administrative costs. It must be recognized that some tax credits would be given for business expansion that would take place either in rural or metropolitan areas without the tax credit provided under this bill, but the tax incentives of S. 15 should greatly increase the rate of expansion of business in rural areas and the ensuing private and social benefits would be greater than the short-term cost of the program to the Treasury.

Thank you, Senator Harris.

(Mr. Smith's prepared statement follows:)

SUMMARY OF STATEMENT BY FLOYD W. SMITH, ACTING VICE PRESIDENT FOR AGRICULTURE, KANSAS STATE UNIVERSITY, MANHATTAN, KANS.

1. There is need to stimulate new investment in rural areas. The increasing concentration of population in overcrowded urban centers is aggravating social and financial problems of the cities. At the same time small towns and rural areas are faced with an eroding tax base and a loss of jobs.

2. The tax and depreciation incentives provided in S-15 would be effective in encouraging business to expand in small-town America. Many local communities in Kansas would be ready to supplement this powerful tax incentive with local programs to improve the necessary local facilities.

3. The incentives provided in S-15 would encourage local entrepreneurs and investors to create new ventures or expand existing small firms. These firms are hard-pressed for cash to permit expansion.

4. The short term reduction in tax revenues resulting from the program would probably be offset by taxes from growth of personal and corporate income and from reduced welfare costs within a reasonable period. The social and private benefits from the proposed legislation should be greatly in excess of costs to the Treasury.

STATEMENT BY FLOYD W. SMITH

There is need for stimulation of new investment in rural areas. The continuing outmigration of the population in rural areas and the increasing population of the large metropolitan areas is creating a situation for both rural and large metropolitan areas that is becoming costly to the public. "A City can get too big simply because the cost of providing services increases all out of proportion to the total population growth," reports Mayor Davis of Kansas City. "This becomes perfectly clear when put on a per capita basis which is about $120 a year in Kansas City. In a city twice this size the per capita cost would rise to more than $200 a person."

Conversely, in many instances the loss of population to the towns of rural America is followed by increasing per capita costs to those who remain, as schools stand half-filled, and as taxable resources stagnate. Many of the 620 towns and cities in Kansas with populations below 50,000, want and need more people. But jobs must be provided if they are to come.

The alternative to the population migration to the metropolitan areas is to provide an opportunity for more people to obtain gainful employment in the rural areas and this employment can consist of full time for residents in a community or part time to supplement income from small farms.

Rural areas must expand job opportunities to absorb a larger share of the natural population growth and provide jobs for those who would prefer to move from impacted city centers to less populated areas. The tax and depreciation incentives provided in S-15 would be effective in encouraging business to expand in small-town America. The proposed 14 percent credit on personal property—(machinery and other equipment) used in an industrial or commercial enterprise and a 7 percent tax credit on real property—(land and buildings) should provide a powerful incentive for industrial firms to expand operations in rural areas.. The rural job development areas to be designated by the Secretary of Agriculture by definition do not include any of the standard metropolitan areas. The inclusion of the provision stating that a proposed enterprise must demonstrate that it has not discontinued a comparable enterprise in any other area and not reduced the employment in any other area would prevent the movement of plants from one area to another simply to gain a tax benefit.

The tax incentive of 17 percent on personal property and 10 percent on real property in the more rural areas with a population density of less than 25 per square mile is a recognition of the greater incentive needed to encourage investment in these areas.

The location of plants in rural communities could raise problems of insufficient resources to expand such public facilities as streets, water, sewers, schools, etc. to accommodate the increased population. The Bill very wisely requires that the proposed industrialization be consistent with local zoning ordinances and economic and physical planning.

The incentives provided in S-15 would encourage the formation or expansion of small local enterprises.

In Kansas we have a considerable number of local people who have launched small industries based upon local management, local ideas, and local capital. Some of these are manufacturing original products not previously on the market, a small and versatile front-end loader, and a feed bunk cleaner for cattle feedlots are only two examples, both produced in small cities of one or two thousand population. Firms like these are hard-pressed for cash to expand. S-15 would help them to grow, and would furnish the incentive for other local inventor-entrepreneurs to emerge. The short term reduction in tax revenues resulting from the program would probably be offset by taxes from growth of income and reduced welfare costs within a reasonable period of time.

Part of the cost to the Treasury of the program would be offset by taxes on increased personal incomes of the additional workers, part of it by reduced welfare costs, and part by the eventual growth in taxable business incomes. Since the initiative for taking action under the program is mainly with the business community, it should not entail burdensome administrative costs. It must be recognized that some tax credits would be given for business expansion that would take place either in rural or metropolitan areas without the tax credit provided under this bill, but the tax incentives of S-15 should greatly increase the rate of expansion of business in rural areas and the ensuing private and social benefits would be greater than the short-term cost of the program to the Treasury.

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Example of the effect of S-15 on Government tax revenues and incentives for business expansion

1. Assume a firm, with new resources, or expanded resources as follows:		
Land	$40,000	
Buildings	100,000	
		$140,000
Equipment and supplies		500,000
Total resources		640,000
2. Assumed corporate income from above assets		65,000
3. Corporate income tax:		
First $25,000 at 22 percent		5,500
Income above $25,000 at 18 percent		19,200
Surtax at 10 percent or tax		2,470
Total tax		27,170
4. Value of tax incentives under the S-15 program:		
Credit on personal property, 14 percent of $500,000		70,000
Credit on real property, 7 percent of $140,000		9,800
Total tax credits (which may be carried back 3 or forward 10 years)		79,800

5. Effect of taxes of accelerated depreciation. (Accelerated depreciation has the effect of reducing taxable income in early years and increasing it in later years as depreciation allowances become used up.)

Assuming 30-year normal life on buildings, accelerated depreciation of ⅔ normal life would have the effect of postponing some tax liability by an average of about 25 years. For personal property, the postponement would be about 8 years if normal life were taken at 10 years and accelerated life at 6⅔ years.

Tax advantages of this feature of the bill cannot be calculated precisely, since in many instances taxable income would be shifted into later years when corporate incomes would be higher and therefore might be subject to a higher tax rate. A young company with little or no net income but good future prospects might not want to accelerate depreciation. However, the advantages of postponing a tax liability may be judged by noting that at 6% interest, the present value of $1.00 to be paid 25 years from now is $0.23, and the present value of $1.00 to be paid 8 years hence is $0.63.

6. A tax deduction can be claimed equal to half of the wages paid to workers who are receiving on the job training from the enterprise.

Senator HARRIS. Thank you, Dr. Smith. And I say to you what I said to Mr. Rice, that the fact you cared enough to come here personally and present your statement I think will add weight to it in the record of this hearing.

Mr. Gene Redden, director of the Mid-America Industrial District, Pryor, Okla.

Gene, you don't have a prepared statement, do you?

Mr. REDDEN. No, sir; I do not.

Senator HARRIS. OK. Well, we will be pleased to hear from you.

STATEMENT OF GENE REDDEN, DIRECTOR, MID-AMERICA INDUSTRIAL DISTRICT, PRYOR, OKLA.

Mr. REDDEN. Senator, I feel that the problems of rural America have been well established through the testimony of these gentlemen today and through the research of the committee. I would prefer to address my testimony to the problem of rural industrialization.

It happens to be my privilege to be associated with and be the director of the Oklahoma Ordnance Works Authority which is a public trust and an agency of the State of Oklahoma.

Back in 1958, the Department of Defense determined that the Oklahoma Ordnance Works plant which was a smokeless powder manufacturing plant established in World War II, was surplus to the requirements of the Government. In 1960, the Oklahoma Ordnance Works Authority was formed, and we were able to purchase this property consisting of 10,000 acres of real estate from the General Services Administration at fair market value for cash of $1,700,000.

It was the purpose in acquiring this real estate for us to restore the real estate to useful purposes. In so doing, we decontaminated the areas, we removed over 500 special manufacturing buildings, concrete piers, and restored the real estate. We created an industrial district which we named the "Mid-America Industrial District."

In this same acreage, we upgraded the utility systems. We put in the necessary effluent-handling systems, hard surface streets, railroad spurs and sidings.

It was the purpose of acquiring this real estate to stimulate the economy of Oklahoma through industrial development. It was also hoped that this effort would insipre other communities of our State to acquire real estate and to commence a determined and professional industrial development effort.

In the years that we have had this, it has been a joint effort of the State of Oklahoma, Federal Government and of the business leadership of our State. We have conducted a national campaign and retain on our staff professional industrial engineers and salesmen. In the years, we have succeeded in locating 12 manufacturing plants in the areas. We are to commence construction of the 13th plant on the 16th day of June. This has brought to these rural areas a capital investment of $50.5 million and as of today 750 hourly jobs. When the new plant is constructed, that will increase by 150 additional hourly jobs.

We have been able to accomplish this through the use and utilization of private capital within Oklahoma. The only government dollars that have gone into financing plants has been a half a million dollars worth of industrial loans from the Oklahoma Industrial Finance Authority. But the banks of our State have provided all of the capital to do this thing, which I shall discuss later in greater detail than this.

In our effort to encourage companies to move to Oklahoma—and we do represent a rural area. We are located at Pryor, Okla., which is about 40 miles from Tulsa, Okla. The area we serve is primarily of seven counties of our State, and the seven counties had a total population in 1960 of 116,000 people.

People working in our plant regularly communate 30 and 40 miles a day from these small communities—in encouraging industry to come to Oklahoma, whether it be eastern industry, southern, western, or northern, the first thing we must prove to these people is that there is a market for their product. And in a State where you have 2 million people it is most difficult to justify the contention that you have adequate markets for most of the products.

Due to high transportation cost in these areas, the market opportunities are limited most often to a 30-mile radius from the point of manufacture. So it is that we have to come forward with other arguments that we can support and convince a company that they can come to our State and to our area and make a profit, be prosperous, and be stable.

Financing certainly is always a key problem to the location of a new industry. Companies coming into these areas find that our lending institutions are not accustomed to financing accounts receivable, capital financing, the financing of plants and the industries they represent; where as in the city or the areas from which they come, their banking connections are of long historical duration. The banks are knowledgeable about the industries. They are more willing to assist them and to cooperate. And I congratulate the Congress on the Industrial Bond Financing Act which has made available to us money to finance plants that otherwise would not have been benefited. You find that your local banking institutions, because of that tax incentive, are more willing to take a flyer on an industrial plant-financing project. If you are unable to get the money in your home State, that particular benefit is also attractive to the money centers of our Nation.

The labor in these areas that we represent are for the most part native of type and are more or less agriculture oriented. The vast majority of the unemployed or underemployed people do not have the trained skill required by manufacturing companies. They must be recruited, trained, and their native skills developed before they can become productive and useful to the company. This, of course, is time consuming and costly to the manufacturing company. It also involves risks on the part of a company of training these people on highly expensive production equipment.

They further run the risk of the product not being of the quality that meets the standards of the company during the early stages of training and production.

These are risks and problems that we must overcome to sell an industry to come to rural America. The one great incentive, of course, that we have used so far, as I have above refered to, has been the industrial tax-exempt financing of plant facilities.

Oklahoma, like many other States of this Nation, is historically and primarily oriented to agriculture production, oil and gas development, and these industries, due to automation, economics of the 1969 vintage, are unable to provide the job opportunities to maintain the proper population growth in our State. The State of Oklahoma is beset with problems of educating the youth, only to find that they must leave the State in order to find gainful and suitable employment. This condition has placed a severe burden upon the institutions of the State, and particularly the institutions of elementary and higher education. The birth rate of our State exceeds our death rate by 10 percent annually, and yet we have had a history of an average growth rate of 3 percent in population. The rural areas even then continue to lose population while our two major cities continue to gain.

The real solution to the economic growth of these areas is the development of manufacturing programs and being able to attract planned expansion to the areas. If this can be accomplished, then the ills of unemployment, underemployment, and a sick economy can be greatly improved, if not eradicated. The attraction of industry will further bring about the utilization of our natural resources of these areas which will in turn provide prosperity for the areas in addition to the employment of people.

We support the concept of S. 15, and particularly the concept of tax incentives. I feel that the tax incentive will bring a higher caliber manufacturing plant, a higher caliber company as opposed to loan guarantees. Too often loan guarantees are thought of in terms of somebody inventing something, somebody deciding because of the guarantee being available to create a manufacturing situation.

I feel, further, that the limits of liability as far as the Government goes would be more easily established under the tax incentive program than under loan guarantees, because under loan guarantees the original guarantor may only be the beginning of the exposure of liability of the Government if they have to run to the rescue of sick manufacturing programs.

Mr. Chairman, I appreciate the opportunity to be here and of having the opportunity to enter this testimony.

Senator HARRIS. Well, thank you, Gene. Of course, I know personally that you go anywhere any time to do whatever needs to be done to build your State and your area, and I think your willingness to come here and testify on this subject this morning is another indication of that, and I appreciate it very much.

Mr. REDDEN. Thank you, sir.

Senator HARRIS. Mr. William S. May, vice president of the Federal Land Bank of Wichita, in Wichita, Kans.

Mr. May, we are glad you are here.

Have you a prepared statement?

Mr. MAY. Yes. You have it, Senator.

Senator HARRIS. All right. Without objection, the prepared statement will be placed in the record,[1] and then you may summarize from it or however you please, Mr. May.

STATEMENT OF WILLIAM S. MAY, VICE PRESIDENT, FEDERAL LAND BANK OF WICHITA, WICHITA, KANS.

Mr. MAY. Mr. Chairman, my name is William S. May. I am vice president of the Federal Land Bank of Wichita. I appear here as a representative of that bank in support of the Rural Job Development Act. Our interest in this proposed legislation stems from our role as a longtime provider of dependable credit to agriculture and our concern for rural America.

Incidentally, Senator Harris, I had the opportunity of attending the meeting at Oklahoma State University to which you referred a moment ago; the conference on the rural to urban population shift—a national problem, the conference which you chaired and at which Senator Pearson appeared.

I speak only for the one Federal land bank in Wichita which covers the four States of Colorado, Kansas, New Mexico, and Oklahoma. It is chartered and has statutory powers and regulations similar to the other 11 Federal land banks of the Nation serving rural America with first mortgage farm real estate loans.

Incidentally, these 12 land banks hold 22 percent of this business in the nation, six and a quarter billions of dollars of private money. And so we are concerned about the economy of rural America.

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[1] See p. 113.

While we do not make loans to industrial or commercial firms in any manner, we do serve some of the credit requirements of many small rural producers and part-time farmers who depend upon nonagricultural sources of employment for much of their net income, and therefore we are aware of the need and appreciate legislation of this type to help stabilize at some point the vanishing rural communities by bringing opportunities for local employment.

Our lending policies do not specify any minimum acreage for making a loan. We have loans of $500 and we have them in much larger amounts. We serve in every county of the four States, with more than 34,000 individual loans. But a property has to have certain requirements to qualify for our lending. It has to be capable of producing under typical operation sufficient normal agricultural earnings to pay farm operating expenses including the taxes and other fixed charges, maintain the property, and meet the family's living expenses, and installments on a loan that would be proper to property of that type. However, we have a provision whereby if there is dependable outside income, sources of outside income available to these people, then we can qualify the property for a loan based upon those sources, and this is where we are primarily interested in new job opportunities in rural areas.

Our lending policies thus preclude qualifying for our type of lending properties which are strictly rural residences, just a home in the country, houses on lots or small nonagricultural acreages in and around many of our small cities. To be eligible for our lending, properties must have a good degree of desirability, must have some net income from agricultural endeavor and must have the general characteristics of agricultural property.

Although we find that the average size of farm properties continue to increase across the Nation, in the four States that we serve, Kansas, Oklahoma, Colorado, and New Mexico, we find that 40 percent of all the new loans that we close are on 160 acres or less in size, indicating the affinity and desire people have for ownership of property even if it's a small property. These figures are taken from annual closings of loans in our district of anywhere from 4,000 a year to 5,500 loans a year for the past 3 or 4 years. Two-thirds of all of these loans that we have closed are on 320 acres or less in size. About 4 percent of them are on properties of 50 acres or less, and 1½ percent on 20 acres or less. We make many loans on small part-time farms, people living on those farms seeking opportunity for employment elsewhere. We know as these new highways cross our country they may bring people closer to opportunities of employment, and we find that they can commute 40, 50, or 60 miles to these areas but still expressing their desire and intent to remain on the farm.

While we serve many of these farmers, and we recognize a large number of these operators do depend on other sources of income, we have certain limitations in the financial field that keep us from serving many of the rural residents.

We do encourage this legislation and express our desire to be as helpful as possible in lending wherever our statutory powers and our regulations permit.

Thank you, sir.

Senator HARRIS. Well, I know in my own State what an important factor in the development of rural areas and small towns the Federal Land Bank of Wichita has been, and we are glad you are here.

Mr. MAY. Thank you.

(Mr. May's prepared statement follows:)

STATEMENT BY WM. S. MAY, VICE PRESIDENT, FEDERAL LAND BANK OF WICHITA, KANS.

SUMMARY

The Federal Land Bank of Wichita as a long-established agricultural lender serves the credit needs of many part-time farmers and operators of small farms and ranches.

It does not make industrial or commercial loans such as might be pertinent to firms locating in rural areas as defined in this Act, but serves many rural people who depend upon sources of non-agricultural income.

The Federal Land Bank, through statutory power and regulations does not make loans on rural residences nor properties having no agricultural income or identity, but desires to be as helpful as possible in lending to rural America.

RURAL JOB DEVELOPMENT ACT

Mr. Chairman, I appear as a representative of the Federal Land Bank of Wichita, Kansas, in support of the Rural Job Development Act. Our interest in this proposed legislation stems from our role as a long-time provider of dependable credit to farmers and ranchers and our concern for rural America.

I speak only for the Federal Lank Bank of Wichita; however, its charter, statutory powers and regulations are similar to the other eleven Federal Land Banks serving our national agriculture with first mortgage farm real estate credit.

While we do not make loans to industrial or commercial firms, we do serve some of the credit requirements of many small rural producers and part-time farmers who depend upon non-agricultural sources of employment for much of their net income. We therefore are aware of the need and appreciate the purpose of this legislation to help stabilize at some point our vanishing rural communities by bringing opportunities for local employment.

Our lending policies do not specify any minimum acreage for loan qualification; however, they do require that the property "be capable of producing, under typical operation, sufficient normal agricultural earnings to pay farm operating expenses, including taxes and other fixed charges, maintain the property, and meet family living expenses and installments on a loan that would be proper to a typical operator; provided that, where income from dependable sources other than farm earnings is available to a typical operator, such income may be relied upon to meet loan installments and family living expenses including that part of the taxes, insurance, and maintenance costs chargeable to the dwelling."

This precludes qualifying for loans any properties which are strictly rural residences, houses on lots or small non-agricultural acreages in and around many of our agricultural towns, as well as our cities. To be eligible for our lending, properties must have a good degree of desirability, must have some net income from agricultural endeavor and must have general characteristics of agricultural property.

Although the average size of farms continues to increase in the four states of Kansas, Oklahoma, Colorado and New Mexico served by our bank, we find that 40 percent of all new loans closed are on properties 160 acres or less in size. These figures are from annual closings of from 4,000 to 5,500 loans during the period 1965–1968. Two-thirds of all loans closed were on 320 acres or less. Only about 4% of our loans are on properties of 50 acres or less, and 1.5% on properties of 20 acres or less.

While we serve many part-time farmers and while we recognize that a large number of farm operators depend on other sources of income, we do have limitation in serving many of the rural residents concerned by this proposed legislation.

We do however encourage the legislation and express our desire to be as helpful as possible in lending wherever our statutory powers and regulations permit.

Senator HARRIS. Is Mr. John Scott here?

If not, the record will be kept open for the filing of his statement.

And I understand Mr. William Hackett will not be appearing.

A telegram from Mr. Hackett which he has submitted will be included in the record at this point.

(The telegram referred to follows:)

BATON ROUGE, LA., *May 20, 1969.*

Hon. RUSSELL B. LONG,
Chairman, Committee on Finance,
Senate Office Building, Washington, D.C.:

Regret appearance before legislative committee makes it impossible for me to be in Washington on May 21 for Senate Finance Committee hearing on S. 15. Would greatly appreciate if you could see that the following comments are included in records of the hearing:

"The proposed plan could be of considerable assistance in selling business on rural locations. Such a plan would be most useful in Lou'siana and, I feel, in every other State. Louisiana heartily endorses the program.

"I would, however, like to make one suggestion: That the bill if passed make maximum use of existing State industrial development agencies to implement the program, rather than county agricultural agents. The industrial location needs of business are quite specialized and it seems practical to make use of the industrial development expertise in State government rather than to try to convert a specialist in agriculture to a new field." Again, thank you for your consideration in this matter, and my regrets at not being able to attend this important hearing.

W. T. HACKETT,
Executive Director, Louisiana Department of Commerce and Industry.

Senator HARRIS. The committee will stand in recess then until 10 a.m. tomorrow.

(Whereupon, at 1:05 p.m., a recess was taken, to reconvene at 10 a.m., Thursday, May 22, 1969.)

TAX CREDITS TO STIMULATE JOB OPPORTUNITIES IN RURAL AREAS

THURSDAY, MAY 22, 1969

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to recess, at 10:05 a.m., in room 2221, New Senate Office Building, Senator Clinton P. Anderson presiding.

Present: Senators Anderson, Gore, Harris, Byrd, Jr., Williams, and Jordan.

Opening Statement of Senator Anderson

Senator ANDERSON. The hearing will come to order.

This morning we conclude the hearings on suggestions for revitalizing the rural communities of this Nation through the use of tax credits and deductions.

We have many witnesses to hear today, and, in the interest of expediting the hearing and conserving the time of committee members, we urge that witnesses submit their statements for the record and abbreviate their statements to the maximum extent possible.

Yesterday, rather than interrupt the hearing for lunch, the committee decided to proceed with the testimony. This made it possible to conclude our work without returning for an afternoon session. I believe it would be well for us to follow the same procedure this morning.

Today's first witness is Robert Frederick, legislative representative, National Grange in Washington, D.C. Mr. Frederick was scheduled to testify yesterday afternoon, but the hearing had ended before he arrived at the hearing room.

Mr. Frederick, you may begin.

STATEMENT OF ROBERT FREDERICK, LEGISLATIVE REPRESENTATIVE, NATIONAL GRANGE

Mr. FREDERICK. First, Mr. Chairman, with your permission, I would like to apologize for my tardiness yesterday. Mr. Scott also would like to extend his apologies. He would have liked to be here to present his Grange testimony. He would have been yesterday, but, because of our tardiness, we had to run over to today, and it was necessary for him to be elsewhere today. I will present a brief statement.

I would like, with your permission, sir, that our entire statement be a part of the record, and I shall just highlight it.

Senator ANDERSON. Without objection; so ordered.[1]

[1] Mr. Frederick's prepared statement appears at p. 121.

Mr. FREDERICK. I am Robert F. Frederick, legislative representative of the National Grange, with offices at 1616 H Street, Washington, D.C.

The Grange

The Grange is a farm and rural-urban family organization, representing 7,000 community Granges located in small towns and rural centers in 40 of our 50 States. Our membership is composed of large, medium, and small commercial family farms and other residents of rural-urban communities that recognize the importance of a prosperous, viable, rural America to the continued growth of our free democratic society.

The Grange appreciates this opportunity to add to the record of its continued expression of concern for the impoverished conditions in which thousands of rural Americans exist and have existed during the 102 years that our organization has served rural America. If we have had any one concern that stands out above all others in this century of service, it is our sincere interest in alleviating the conditions in American life which set those who obtain their economic rewards from the soil apart from the rest of our economic society, both in income and the opportunity to enjoy increasing social benefits.

The objectives of the Grange in 1969 are no different than they were 102 years ago, in 1867, when we were organized. In fact, it was the impoverished conditions of rural America, following the War Between the States, that led Oliver Hudson Kelley, the founder of the National Grange, to see the need of an organization in rural America that had as its purpose the following:

> We desire a proper equality, equity, and fairness; protection for the weak; restraint upon the strong; in short, justly distributed burdens and justly distributed power. These are American ideals, the very essence of American independence, and to advocate the contrary is unworthy of the sons and daughters of an American republic.

The National Grange appears before you today, dedicated to a second century of service to rural America, and as an organization deeply concerned over the development of a prosperous rural America. Residents of rural America should receive a fair share of the profits from an increasingly large gross national product as payment for their contribution to the general welfare in the production and distribution of food. Their income should bear a reasonable relationship to the compensation received by any other segment of our economy for the same factors of production.

The Grange is vitally concerned about rural America as a student of its past, deeply involved in its present, and much more importantly, apprehensive about its future. We view rural America, not through nostalgic eyes of the past, wishing for the "good old days," but through eyes of optimism of what rural America can and must be if we are to bring to a halt the rural-urban imbalance and provide for rural America the equal opportunity it justly deserves and our Nation desperately needs.

The Grange has long taught that the "welfare of each is bound up in the good of all." The cities suffer equally, or even more, as a result of the rural depression from which we seem unable to extricate ourselves. Families unable to make a living on the farm migrate to the city. If there is no job to be had, they are added to the welfare list, or relief rolls. If they take a job that was being held by another, they simply change places. Either way, the city is worse off and so is the country.

National Grange Policy

The National Grange policy, as stated in a resolution adopted at its 101st annual session in Syracuse, N.Y., in November 1967, reads:

RURAL AREAS DEVELOPMENT

Whereas our nation is facing a crisis in the cities, and since the basic cause is the flocking of our people to the cities in search of a better way of life—nearly all of them from a countryside which no longer offers a living—resulting in 70 percent of our population crowded into one percent of our land; and

Whereas this migration from rural areas, which no longer requires the labor of a large number of people in its agricultural pursuits, has been recognized by the President and the Congress; therefore, be it

Resolved, That we commend the President and the Congress for the steps taken and legislation enacted, but urge the acceleration of programs to produce job opportunities for rural areas along with medical, literary, water and sanitary facilities so that our rural areas may provide the attractive living space the people so desperately seek.

In addition, at the 102d annual session of the National Grange held in Peoria, Ill., in November 1968, the delegate body passed the following resolution on goals for rural America:

GOAL FOR RURAL AMERICA

Resolved, That public policy goals should include (1) adequate assistance to help rural people adjust to changes within agriculture or to obtain the means to enable them to make rewarding contributions in nonfarm employment; (2) adequate assistance to help them adjust their community institutions such as health, education and welfare, to a changed environment.

It is because of our firm conviction that the answers to tomorrow's urban problems can be found in a healthy, strong economic rural America, that we strongly support S. 15, a bill to provide incentives for the establishment of new or expanded job-producing industrial and commercial establishments in rural areas. In fact, it is because of our neglect of the problems of rural America that our urban centers are in such a state of poverty, confusion, and overcrowded conditions.

We see this condition in our urban areas and say "they are slums—a blight on our society—they must be removed." These same people are willing to travel down any road in rural America and see a rundown farm, with an old barn, a deserted country store, or a row of empty houses, and say—this is rural America—our heritage—we must preserve it. To this we say—preserve rural America—yes; but a 20th century version, not the 1800's.

Rural America's Resources Depleted

We have so depleted the human and financial resources of rural America that it is becoming almost impossible to lift ourselves up by our own bootstraps. We need such legislation as S. 15 and other legislative authority to start to replace some of the resources that have been torn from rural people and rural America.

Our rural population continues to decrease and our cities continue to spread and burst out at the seams like a growing boy with only one pair of pants. This imbalance of population has upset normal economics and social relations and has spread havoc throughout the land. Rural slums and city ghettos cause equal or perhaps a greater volume of political rhetoric than the outworn "farm problem." Yet, the problem continues to grow rather than to decrease.

At best, job opportunities in rural areas are scarce, and in many places they are getting scarcer year by year. For rural people living within commuting distance of nonfarm jobs, it is sometimes possible to combine farming with a variety of jobs off the farm, but in isolated areas the need for such opportunities is far greater than the supply. The agricultural industry has the highest proportion of low-income persons of any major industry in the United States. Many have levels of living well below the minimum standards for our society.

Underemployment is hidden unemployment. Many rural people have too little land or other productive resources, too little education or training, or for some other reason are not occupied full time in productive work. If you aren't productively employed full time you can't expect full income.

A very high proportion of the occupation mobility out of the farm labor force is in unskilled occupations and into industries where, as in farming, unskilled labor is rapidly being replaced by machines. S. 15 makes provisions to induce industry to locate in rural America and provides incentives to train this pool of underskilled labor so that they can continue to live in rural areas and make an economic contribution to society.

The nonfarm or urban sector suffers, too, when people ill-equipped for urban living are forced to relocate in cities, because it must provide schools, housing, and other services as well as jobs for these immigrants who are not always prepared for city living.

The National Advisory Commission on Food and Fiber, in its report to the President, outlined three ways to improve life in rural America:

1. A more comprehensive national employment policy which will take into account the rural problem of underemployment as well as the better known problem of unemployment.

2. A social investment policy which will put more money into providing people with greater skills and into industries and communities with potential for rural economic development.

3. A personal-income policy which will assure the rural poor of a decent living standard until the investments in people and areas can pay off.

The Commission concludes:

> From every standpoint it would seem preferable to create more off-farm employment accessible to farmworkers in the rural areas themselves. If rural communities could achieve higher rates of economic growth, they could furnish more of the nonfarm jobs needed, increase their tax bases and finance better education and other public services for their people. At the same time, they would slow down the drain on their resources, represented by outmigration, and ease the burden that urban areas carry in public services for rural emigants.

Support for S. 15

The National Grange has been an advocate of helping each other over our long history of services to rural America and will continue to speak out on the injustices and inequities, when we think it's in the best interest of rural America to do so. Therefore, we are in support of S. 15, and the tax incentives that it provides to induce industry to locate in rural America. We ask and urge industry to accept an active role in creating a national policy toward rural America, providing opportunity for rural economic growth and relocating economic opportunity rather than relocating people.

We feel that the legislation being considered by this committee contains sufficient safeguards to prohibit "runaway firms," and other means or methods of exploiting rural America and our already industrialized areas.

One of the most important features of the bill is in providing sufficient funds to implement the rural industrial program which was created in 1966 to stimulate industrial development in rural areas by:

1. Telling businessmen of the advantages of locating plants in rural America;
2. Providing a site location and analysis service;
3. Bringing together community, State, and Federal programs for industrial and community development.

Location of Government Agencies

The National Grange urges other Government agencies and departments to end further expansion of Government facilities in overcrowded cities and that such future development be directed into rural areas to generate jobs, create new rural economic opportunities, and slow the migration of farm people without jobs into major cities.

Services are provided for by the local chamber of commerce or development commission in our larger cities, but rural communities do not have such expert planning at their disposal. In fact, rural areas are fair game for organized groups to prey upon in securing industrial growth for the metropolitan areas.

It is obvious that the Government cannot dictate to private industry where it should locate its plants, nor can it dictate the whole policy of the allocation of resources and economic development. However, it can compensate for those factors not available in the areas where it feels there should be some additional industrial or agricultural development and assume some of the risks inherent in this kind of operation. Such planning could and should obviously take into consideration the social factors involved, as well as the possibility of the simple making of a profit by a private entrepreneur.

We believe this can be accomplished within the private and individual enterprise system. It need not be a socialization of industry or of our society, but the cooperative relationship between rural areas and the urban-oriented businesses, as well as with a Federal Government which is creative in purpose and intent, can make a maximum impact on those problems in rural areas.

National Grange Support for Legislation Helping Rural Areas

Therefore, the Grange is pleased to support S. 15, as we have supported past programs to help alleviate some of these situations in rural areas.

Grange support on legislation like S. 15 goes back to our support of the Hill-Burton Act, designed to bring better medical services to rural areas; our support of the Federal Aid to Education Act, recognizing that the finacial resources were no longer available in rural areas to provide adequate education; and most recently our support for the concept of the war on poverty.

We have been concerned that programs designed to alleviate some of these problems have not functioned in the rural areas as we had hoped. Congress made provisions for rural water and sewer systems on paper, through the passage of legislation, without adequately funding the programs. The necessity of upgrading our rural electric and telephone systems has always been, and still remains, a constant battle in Congress. In addition, we have seen the Budget Bureau withhold appropriations of the Congress for services which are badly needed in the rural areas.

Even with what has been planned and acccomplished, we appear to be attacking the symptoms of the problem instead of attacking the problem at its roots. We need greatly expanded manpower training programs for rural areas and, mostly, the abandonment of the laissez-faire system for allocation of the human and financial resources on the basis of efficiency only.

The enactment of S. 15 into law will not be a panacea for the ills of rural America, but it may raise the curtain on a new day in our rural communities. However, we would like to bring to this committee's attention that we have had high hopes before, only to see those hopes dashed on the rocks by economy-minded Congressmen who would rather spend millions on antipoverty programs after the people reach the city than properly fund such programs as REA, FHA, rural area development, conservation programs, and programs of supply-management, all designed to improve the economic opportunity of residents of rural America.

Mr. Chairman and members of the committee, S. 15 will do little good if we do not have in rural America adequate water and sewer systems, modern and up-to-date electrical and telephone systems, proper hospital and medical aid, good school systems, and up-to-date modern means of transportation. These are needed first, because all the tax incentive programs in the world will not attract industry to an economic and social wilderness, devoid of the requirements of a modern industrial building site. And, gentlemen, we must act soon or all of the people will also be gone from rural America. Is this the direction we want our country to take?

In conclusion, the following is an important part of Grange policy:

> The family-type farm of America has been the foundation of the most progressive and efficient agriculture the world has ever known. It has contributed to the economic growth of the Nation, provided an abundant supply of food for domestic consumption and relief of hunger over the world, and through its basic characteristics, has stabilized the political and social life of America. We reaffirm our traditional support of the family-type farm unit and urge that Government programs—farm and nonfarm—tax policies, land use and ownership, marketing methods and practices be constituted and implemented to protect and promote the well-being and continuance of the family-type farm.

It is the Grange's firm belief that the legislation under consideration by this committee will help preserve rural America. On the other hand, any legislation passed by this Congress or any subsequent Congress that chips away at the family farm structure only compounds the very problems we are so desperately trying to solve.

We appreciate this opportunity of making our views known to this committee and thank the chairman for his interest in rural America and for calling early hearings on this important legislation.

Senator ANDERSON. Thank you.

Senator Byrd?

Senator BYRD. No questions.

Senator ANDERSON. Senator Jordan?

Senator JORDAN. No questions.

Senator ANDERSON. Thank you very much for a fine paper.

(The prepared statement of Mr. Frederick follows:)

STATEMENT OF ROBERT FREDERICK, LEGISLATIVE REPRESENTATIVE, NATIONAL GRANGE

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The Grange appreciates this opportunity to add to the record of its continued expression of concern for the impoverished conditions in which thousands of rural Americans exist and have existed during the 102 years that our organization has served rural America. If we have had any one concern that stands out above all others in this century of service, it is our sincere interest in alleviating the conditions in American life which set those who obtain their economic rewards from the soil apart from the rest of our economic society, both in income and the opportunity to enjoy increasing social benefits.

The objectives of the Grange in 1969 are no different than they were 102 years ago, in 1867, when we were organized. In fact, it was the impoverished conditions of rural America, following the war between the states, that led Oliver Hudson Kelley, the founder of the National Grange, to see the need of an organization in rural America that had as its purpose the following:

"We desire a proper equality, equity, and fairness; protection for the weak; restraint upon the strong; in short justly distributed burdens and justly distributed power. These are American ideals, the very essence of American independence, and to advocate the contrary is unworthy of the sons and daughters of and American republic."

The National Grange appears before you today, dedicated to a second century of service to rural America, and as an organization deeply concerned over the development of a prosperous rural America. Residents of rural America should receive a fair share of the profits from an increasingly large Gross National Product, as payment for their contribution to the general welfare in the production and distribution of food. Their income should bear a reasonable relationship to the compensation received by any other segment of our economy for the same factors of production.

The Grange is vitally concerned about rural America as a student of its past, deeply involved in its present, and much more importantly, apprehensive about its future. We view rural America, not through nostalgic eyes of the past, wishing for the "good old days," but through eyes of optimism of what rural America can and must be if we are to bring to a halt the rural-urban imbalance and provide for rural America the equal opportunity it justly deserves and our nation desperately needs.

The Grange has long taught that the "Welfare of each is bound up in the good of all." The cities suffer equally or even more as a result of the rural depression from which we seem unable to extricate ourselves. Families unable to make a living on the farm migrate to the city. If there is no job to be had, they are added to the welfare list, or relief rolls. If they take a job that was being held by another, they simply change places. Either way, the city is worse off and so is the country.

The National Grange policy, as stated in a resolution adopted at its 101st Annual Session in Syracuse, New York, in November, 1967 reads:

"RURAL AREAS DEVELOPMENT

"Whereas, our nation is facing a crisis in the cities, and since the basic cause is the flocking of our people to the cities in search of a better way of life—nearly all of them from a countryside which no longer offers a living—resulting in seventy percent of our population crowded into one percent of our land; and

"Whereas, this migration from rural areas, which no longer requires the labor of a large number of people in its agricultural pursuits, has been recognized by the President and the Congress; therefore, be it

"*Resolved*, That we commend the President and the Congress for the steps taken and legislation enacted, but urge the acceleration of programs to produce job opportunities for rural areas along with medical, literary, water and sanitary facilities so that our rural areas may provide the attractve living space the people so desperately seek."

In addition, at the 102nd Annual Session of the National Grange held in Peoria, Illinois, in November, 1968, the Delegate Body passed the following resolution on goals for rural America:

"GOAL FOR RURAL AMERICA

"*Resolved*, That public policy goals should include (1) Adequate assistance to help rural people adjust to changes within agriculture or to obtain the means to enable them to make rewarding contributions in non-farm employment; (2) Adequate assistance to help them adjust their community institutions such as health, education and welfare, to a changed environment."

It is because of our firm conviction that the answers to tomorrow's urban problems can be found in a healthy, strong economic rural America, that we strongly support S. 15, a bill to provide incentives for the estblishment of new or expanded job-producing industrial and commercial establishments in rural areas. In fact, it is because of our neglect of the problems of rural America, that our urban centers are in such a state of poverty, confusion and overcrowded conditions.

We see this condition in our urban areas and say "they are slums—a blight on our society—they must be removed." These same people are willing to travel down any road in rural America and see a run-down farm, with an old barn, a deserted country store, or a row of empty houses, and say—this is rural America—our heritage—we must preserve it. To this we say—*preserve rural America—yes;* but a 20th century version, not the 1800's.

Up until just a few short years ago, the only economic or social planning we had done in rural areas was in the field of land reclamation, irrigation and conservation. In general, agriculture has been left in a laissez-faire economy while industry has continued to follow the pattern of programming its industrial complexes into areas where there are skilled workmen and other economic incentives. The result of this situation has been the outflow of populaton from rural areas into the cities. There was a time in our history when this was necessary, but in these times of lower employment and maladjustment of employment opportunities, this migration has fed the fires of unrest in our ghettos.

Some unwise farm programs made their contribution to the out-migration from the land as well. The problems of rural America cannot be solved by pure economics.

For the past century, we have seen a gradual outflow of the resources of rural America into the urban centers. This has taken place through depressed prices of farm products. It has taken place through the educational processes in which the rural communities have invested their wealth in the education of their children only to see those children become part of the productive capacity of an urban industrial community.

We have so depleted the human and financial resources of rural America that it it is becoming almost impossible to lift ourselves up by our own bootstraps. We need such legislation as S. 15 and other legislative authority to start to replace some of the resources that have been torn from rural people and rural America.

We hasten to point out to this Committee that the very heart of a prosperous rural America is a strong, healthy, independently-managed family farm structure. The problems of rural America can not be solved with mere appropriations to employ the unemployed in a series of public works projects. Such projects can assist in rebuilding and maintaining a healthy rural community by providing some off-farm employment and attracting industry to rural poverty areas where the need is particularly great. But they can be only back-up programs to a strong agricultural community if we want a long-term solution to the poverty areas of rural America and the development of community life that will help to preserve those elements of rural living that have made America great.

Our rural population continues to decrease and our cities continue to spread and burst out at the seams like a growing boy with only one pair of pants. This imbalance of population has upset normal economics and social relations and has spread havoc throughout the land. Rural slums and city ghettos cause equal or perhaps a greater volume of political rhetoric than the outworn "farm problem". Yet, the problem continues to grow rather than to decrease.

The rural-urban imbalance can be reversed some by improved farm prices for agricultural commodities, provided the corporate invasion of American agriculture can be stopped. This must be done if the family farm structure of our nation's agriculture is to be preserved. U.S.D.A. studies have proven that the family farm with 2.5 employees is the most efficient means of providing our nation with food and fiber. Why then do we allow non-farm interests to use profit from non-farm business, much of it obtained by the advantage of the liberal income tax code provided for the bonafide farmer, to invade American agriculture, forcing the smaller producer off the land?

These are some of the reasons that 14 million rural people—one of every four rural residents—live in poverty.[1] Rural America accounts for 30 percent of the poor.

Most of the rural poor live in villages, small towns, or in the open country, rather than on farms. Only about one-fourth of the total live on farms. The 14 million rural poor include some 3 million families. When a family's income is less than $3,000, that family is usually defined as poor. Of the poor families in these areas, more than 70 percent struggle along on less than $2,000 a year. Most of the 14 million—about 11 million—are white. However, a much higher proportion of the non-white are poor.

It is especially difficult for rural people handicapped educationally to acquire new skills, or get new jobs, or otherwise adjust to a society increasingly urbanized. This is as true on the farm as in urban industry, for modern farming requires skills that the poorly-educated lack. The less the schooling the poorer the job and the lower the income.

At best, job opportunities in rural areas are scarce, and in many places they are getting scarcer year by year. For rural people living within commuting distance of non-farm jobs, it is sometimes possible to combine farming with a variety of jobs off the farm, but in isolated areas the need for such opportunities is far greater than the supply. The agricultural industry has the highest proportion of low-income persons of any major industry in the United States. Many have levels of living well below the minimum standards for our society.

[According to the census we have 3,252,000 farms. Only about three out of ten of these gross more than $10,000 per year. About 446,000 have gross sales between $5,000 and $10,000. Many of these would net less than $3,000 and would at best be on the borderline of poverty. Another group of nearly 350,000 have gross sales between $2,500 and $5,000. Most of these are in the poverty class.

[About 43 percent of the census farms have gross sales of less than $2,500. Over 800,000 are called part-time farmers. However, their income from nonfarm sources could well be substantial. Nearly 400,000 are classified as part-retirement and abnormal. There also are some 200,000 others in the less-than-$2,500-sales group.

[It is very difficult for the seven out of ten farmers with gross sales of less than $10,000 to have an adequate income from farming alone. Fortunately about half of them have some additional income from off-farm employment or other sources. Even so, about 45 percent of the families of farmers and farm managers have total income of less than $3,000. These include one of eight families with less than $1,000 and one of seven with $1,000 to $2,000. The poverty problem of farm laborers and foremen is even more serious. Sixty percent (three out of every five) have less than $3,000.

[One of the reasons for the low incomes of these farm operators is that the productive level of the natural resources in most of the areas tends to be low. Another reason is the low capital investment. In addition, most of this is represented by the value of land and buildings rather than productive working capital.

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[1] President's Report on Rural Poverty.

30-015—69——9

[Studies of low-income farm areas find a generally low level of human resources on such farms. Many are old, a significant portion have physical handicaps, and educational levels are generally low. For example, about a fourth of those with gross sales over $2,500 are over 65 years of age and another fourth between 55 and 64. Over half of them have only an elementary education—three out of ten didn't make it to the eighth grade.

[We must face the fact that most of our so-called farmers have farms that are just too small to provide an adequate volume of business to make it possible to get an income comparable to that attained by those employed in nonfarm activities. They make very little contribution to our economy. Hence, while they are poor, we cannot say that they necessarily are underpaid.

[Hired farm laborers as a group have incomes from farming even below the level of the low-income farmers.

[Although it is not germane to S. 15, we would like to point out that it is not this group of small and part time farmers that are contributing to our farm surpluses and are not being sufficiently benefitted, if at all, by present supply-management programs.]

Underemployment is hidden unemployment. Many rural people have too little land or other productive resources, too little education or training, or for some other reason are not occupied full time in productive work. If you aren't productively employed full time you can't expect full income.

It is well known that many people who remain in rural areas are not remunerated at the same rate as persons of similar income-earning capacities in the country as a whole. The Economic Research Service of the U.S.D.A. had estmated that in 1960 economic underemployment of employed rural persons between the ages 20 and 64 was the equivalent of one year of unutilized labor for about 2 million men. This was about 13 percent of the employed rural persons in 1960.

About one-third of this rural underemployment was among farm residents and was equivalent to one-fifth of employed farm people.

Information on the extent of migration between rural and urban areas that has occurred in recent years is perhaps one of the most direct human indicators of pressures on rural resources that we have. Between 1940 and 1960 an estimated 21 to 22 million people may have left rural areas for the city.

A very high proportion of the occupation mobility out of the farm labor force is in unskilled occupations and into industries where, as in farming, unskilled labor is rapidly being replaced by machines. S. 15 makes provisions to induce industry to locate in rural America and provides incentives to train this pool of underskilled labor so that they can continue to live in rural areas and make an economic contribution to society.

The nonfarm or urban sector suffers, too, when people ill-equipped for urban living are forced to relocate in cities, because it must provide schools, housing, and other services as well as jobs for these immigrants who are not always prepared for city living.

The National Advisory Commission on Food and Fiber, in its report to the President, outlined three ways to improve life in rural America.

1—A more comprehensive national employment policy which will take into account the rural problem of underemployment as well as the better-known problem of unemployment.

2—A social investment policy which will put more money into providing people with greater skills and into industries and communities with potential for rural economic development.

3—A personal income policy which will assure the rural poor of a decent living standard until the investments in people and areas can pay off.

"From every standpoint," the Commission concludes, "it would seem preferable to create more off-farm employment accessible to farmworkers in the rural areas themselves. If rural communities could achieve higher rates of economic growth, they could furnish more of the nonfarm jobs needed, increase their tax bases and finance better education and other public services for their people. At the same time, they would slow down the drain on their resources, represented by outmigration, and ease the burden that urban areas carry in public services for rural emigants."

The National Grange has been an advocate of helping each other over our long history of services to rural America and will continue to speak out on the injustices and inequities, when we think it's in the best interest of rural America to do so. Therefore, we are in support of S. 15, and the tax incentives that it provides to induct industry to locate in rural America. However, we feel that it is a sad commentary on American industry if it has to be subsidized by tax incentives to exercise the good judgment and common sense that a progressive and an alert management would have made a long time ago. We ask and urge industry to accept an active role in creating a national policy toward rural America, providing opportunity for rural economic growth and relocating economic opportunity rather than relocating people.

An example of the type of industrial expansion that is needed in rural areas is contained in a recent statement released by the Farmer Cooperative Service, U.S. Department of Agriculture.

"Farmer Cooperative Service estimates for 1968 show cooperatives invested $94.9 million in major facilities—$83.7 million in rural areas and $11.2 million in metropolitan areas.

"Feed mills, fertilizer plants, petroleum refineries, food processing plants, and other major facilities involving $500,000 or more were among investments by farmers owning the cooperatives.

"Mr. Angevine pointed out that these investments in their home areas by cooperatives—true rural-based industries—provide jobs and other income to the communities during the construction phases. In addition, they open up new jobs for rural people after the plants are completed. They also bring in other income to the community for business services they must pay for, add to the tax base, and increase returns of farmers who own the plants, he said.

" 'Thus, these cooperatives are examples of the kind of industry effort needed to help solve problems of smaller towns and cities', Mr. Angevine said.

"The Farmer Cooperative Service cited these investments in the last quarter of the 1968 year as examples of how cooperatives are helping to bring added vitality to the rural communities:

"New processing and cold storage facilities costing $1.5 million at Modesto, California, by the San Joaquin Valley Turkey Growers Association.

"Grain elevator costing $500,000 at Woolstock, Iowa by Farmers Cooperative Company.

"Asparagus processing plant costing $500,000 at Milton-Freewater, Oregon, by Western Farmers Association (headquartered in Seattle, Wash.)

"Expanded packing facilities and refrigerated warehouse at Lake Wales, Fla., by Florida Citrus Canners Cooperative."

We feel that the legislation being considered by this Committee contains sufficient safeguards to prohibit "runaway firms", and other means or methods of exploiting rural America and our already industrialized areas.

One of the most important features of the bill is in providing sufficient funds to implement the Rural Industrial Program which was created in 1966 to stimulate industrial development in rural areas by:

1. Telling businessmen of the advantages of locating plants in rural America;
2. Providing a site location and analysis service;
3. Bringing together community, state, and Federal programs for industrial and community development.

The National Grange urges other Government agencies and departments to end further expansion of government facilities in overcrowded cities and that such future development be directed into rural areas to generate jobs, create new rural economic opportunities and slow the migration of farm people without jobs into major cities.

Services are provided for by the local Chamber of Commerce or development commission in our larger cities, but rural communities do not have such expert planning at their disposal. In fact, rural areas are fair game for organized groups to prey upon in securing industrial growth for the metropolitan areas.

It is obvious that the government cannot dictate to private industry where it should locate its plants, nor can it dictate the whole policy of the allocation of resources and economic development. However, it can compensate for those factors not available in the areas where it feels there should be some additional industrial or agricultural development and assume some of the risks inherent in this kind of operation. Such planning could and should obviously take into consideration the social factors involved, as well as the possibility of the simple making of a profit by a private entrepreneur.

We believe this can be accomplished within the private and individual enterprise system. It need not be a socialization of industry or of our society, but the cooperative relationship between rural areas and the urban-oriented businesses, as well as with a Federal Government which is creative in purpose and intent; can make a maximum impact on those problems in rural areas.

Therefore, the Grange is pleased to support S. 15, as we have supported past programs to help alleviate some of these situations in rural areas.

Grange support on legislation like S. 15 goes back to our support of the Hill-Burton Act designed to bring better medical services to rural areas, our support of the Federal Aid to Education Act, recognizing that the financial resources were no longer available in rural areas to provide adequate education, and most recently our support for the concept of the War on Poverty.

We have been concerned that programs designed to alleviate some of these problems have not functioned in the rural areas as we had hoped. Congress made provisions for rural water and sewer systems on paper, through the passage of legislation, without adequately funding the programs. The necessity of upgrading our rural electric and telephone systems has always been, and still remains, a constant battle in Congress. In addition, we have seen the Budget Bureau withhold appropriations of the Congress for services which are badly needed in the rural areas.

Even with what has been planned and accomplished, we appear to be attacking the symptoms of the problem instead of attacking the problem at its roots. We need grealy expanded manpower training programs for rural areas and mostly, the abandonment of the laissez-faire system for allocation of the human and financial resources on the basis of efficiency only.

There have been some examples of communities thta have really wrestled with this problem and been successful to some extent in stemming the flow of the tide. These have been areas where there have been aggressive and farsighted businessmen and local leaders in both the town and the country, where they have actively recruited small business to be located in small communities, to absorb the excess manpower available in the farm areas due to the technological revolution which has taken place in agriculture. These have been fortunate communities, and they have been decidedly in the minority.

In many cases, these rural areas really have nothing to offer to industry in terms of location, the relationship to resources, or to the avenues of transportation and distribution. Even the labor reserve has already been lost to the cities.

As a result of all these factors, there has been an air of fatalism in our rural communities which has paralyzed them as far as any positive action is concerned. This has been aided and abetted by those social planners and economists who have written the rural areas off as economic liabilities and who were unwilling to concede any social advantage to rural living.

The role of business in re-building these areas, if it intends to make a contribution, is the dispersal of plants and plant facilities on a deliberately planned basis, so that job and economic opportunities are available for people in the rural areas. Small, local business groups, such as the local Chambers of Commerce, in villages too small for comprehensive planning may work with local Granges, Lions Clubs or other organizations to organize efforts to improve the life of the community through improved job opportunities and economic assistance.

The enactment of S. 15 into law will not be a panacea for the ills of rural America, but it may raise the curtain on a new day in our rural communities. However, we would like to bring to this Committee's attention that we have had high hopes before, only to see those hopes dashed on the rocks by economy-minded Congressmen who would rather spend millions on anti-poverty programs after the people reach the city than properly fund such programs as R.E.A., F.H.A., rural area development, conservation programs, and programs of supply-manangement, all designed to improve the economic opportunity of residents of rural America.

Mr. Chairman and members of the Committee, S. 15 will do little good if we do not have in rural America adequate water and sewer systems, modern and up-to-date electrical and telephone systems, proper hospital and medical aid, good school systems and up-to-date modern means of transportation. These are needed first, because all the tax incentive programs in the world will not attract industry to an economic and social wilderness, devoid of the requirements of a modern industrial building site. And, gentlemen, we must act soon or all of the people will also be gone from rural America. Is this the direction we want our country to take?

In conclusion, the following is an important part of Grange policy:

"The family-type farm of America has been the foundation of the most progressive and efficient agriculture the world has ever known. It has contributed to the economic growth of the nation, provided an abundant supply of food for domestic consumption and relief of hunger over the world, and through its basic characteristics, has stabilized the political and social life of America. We reaffirm our traditional support of the family-type farm unit and urge that government programs (farm and non-farm), tax policies, land use and ownership, marketing methods and practices be constituted and implemented to protect and promote the well-being and continuance of the family-type farm."

It is the Grange's firm belief that the legislation under consideration by this Committee will help preserve rural America. On the other hand, any legislation passed by this Congress or any subsequent Congress that chips away at the family farm structure only compounds the very problems we are so desperately trying to solve.

We appreciate this opportunity of making our views known to this Committee and thank the Chairman for his interest in rural America and for calling early hearings on this important legislation.

Senator ANDERSON. Mr. Moore?

STATEMENT OF RICHARD W. MOORE, CHAIRMAN, OKLAHOMA'S INDUSTRIAL TEAM

Mr. MOORE. Mr. Chairman, members of the committee, I am R. W. Moore from Oklahoma, chairman of our Oklahoma Industrial Team. It is a pleasure for me to testify before this Committee on Finance on the matter concerning Senate bill 15.

I would like to quickly identify our terminology of Oklahoma's Industrial Team, which came into being by executive appointment 3 years ago. Oklahoma's team consists of 22 members, representative of existing industry in Oklahoma, financial institutions, utilities, State and area chambers of commerce, representatives of Oklahoma's Industrial Department, and representatives of the Governor's office. Most of these Oklahomans have been formerly involved in some area of industrial development responsibilities. In other words, presently, Oklahoma is putting all its industrial efforts under one umbrella, which we think results in a more sophisticated approach to the problems of industrial prospects interested in expansion. Our State is using one advertising approach all over America for telling Oklahoma's story and submitting one set of factual information on communities throughout the State, and we feel we are having moderate success with this approach.

Oklahoma

I would like to tell you a little more about Oklahoma. We have 2½ million citizens there residing in 77 counties. Only three of these communities have a population in excess of 50,000 people. I think possibly you could anticipate what our State's population shift was in the decade from 1950 to 1960. Sixty-six of our 77 counties lost population and our three most populous counties gained from 33 to 64 percent during this period. From 1960 through 1967, 28 of our counties continued to lose population and our three larger counties continued to increase from 9½ to 33 percent. It is our judgment that the concept of S. 15 will deter this kind of exodus.

I think it is immediately obvious that most of the State of Oklahoma could and would quickly utilize the benefits of this legislation. Certainly, we in Oklahoma understand that industrial development is a slow and tedious process. We also understand that the results gained from long hours and hard work are of much more value than results gained by no real effort extended at all.

I would like to quickly take a look with you at some statistics that were presented by the U.S. Chamber of Commerce at just what 100 industrial jobs will do in a community. They indicate that these 100 industrial jobs will add $710,000 of personal income a year to that community; add 165 more workers in associated businesses and services in the community; 100 more households, $220,000 more in bank deposits, three more retail establishments, 91 more schoolchildren in the school system; 97 more passenger cars registered in the community; $331,000 more money in retail sales and invested in the local banks. In other words, what we are saying is that 100 industrial jobs will have a much greater impact than the industrial jobs themselves.

It is our judgment that the successful industrial development of Oklahoma's 77 counties that are composed of 754 communities can happen if we as the State of Oklahoma do our part, coupled with the assistance of favorable legislation providing for tax depreciation and incentives provided for in S. 15. The State of Oklahoma or any State for that matter has the responsibilities and we think some of these responsibilities could include some of the following: I think a quick look at education in the State might be worth while. We would like to point with pride that Oklahoma already has in being 19 institutions scattered throughout the State which offer now vocational education and technical education courses, with 100,000 students now enrolled. I would like to say right there that industry now coming to Oklahoma has an option to pick the particular curriculum in a school that is closer to their area, so we are not training somebody to make plowshares when they are putting lingerie in the area.

Oklahoma ranks first in the 50 States in the number of engineering students per dollar invested in manufacturing facilities and fifth in the number of bachelor of science degrees per capita in the 34 most industrialized States.

Oklahoma leads the Nation in percentage of youth from age 5 to 17 going to school and that percentage is 96.6 percent. We are first of all States in percentage of teachers with college degrees. We could go on and on in the educational facet. We think it is all important.

I would like to make a couple of points about the industrial climate. Oklahoma ranks eighth lowest nationwide in plant construction costs at the present time. Oklahoma ranks fourth best nationwide in percentage of time lost due to employee absenteeism.

Recently, in order to bolster the availability of professional people to the industries within Oklahoma, our Governor's office has contacted the recent graduates of our two major universities and Okmulgee Tech that are now working in like industries outside the State. Over 7,000 replied, and of that, 81 percent of these 7,000 indicated that you bet they would like to move back to Oklahoma if they had a job opportunity there.

Let me suggest to you that the State of Oklahoma is now, in part at least, doing its homework toward attracting new industry and expanding the existing industry we have. Together we think it is possible and probable that through continued industrial expansion throughout Oklahoma we can raise the per capita income of all Oklahomans to at least the national average of $3,412 annually. This would yield in Oklahoma alone to our annual State tax revenue a figure in excess of $70 million. Is it not reasonable to assume that the Federal tax take would be even greater than that? Multiply this figure, if you will, by 30 or 40 States and it becomes immediately recognizable that a sizable potential tax increase figure is possible.

Let me just simply suggest to you that Oklahoma, and I suspect most other States, are not up here looking for some kind of industrial handout. We are here to encourage your favorable consideration of legislation such as Senate bill 15, which will allow those States and communities who are willing to extend their resources the opportunity of just simply expediting this job of self-improvement. Thank you very much.

Senator ANDERSON. Senator Gore, any questions?

Senator GORE. No, thank you.

Senator HARRIS. Mr. Chairman, I know personally the excellent job Mr. Moore has done as chairman of the Oklahoma Industrial Team.

Dick, I think that your willingness to come up here and testify on this bill will be very helpful to us as we try to enact Senate bill 15, or some bill like that.

I am informed that there are other countries in the world that are beginning to believe that you have to have a national policy of some kind which will encourage people to live in smaller towns and smaller cities—Great Britain, for example, has a policy which they call the decant policy. A decanter is something you pour something out of. The decant policy is designed to pour people out of London into the smaller towns and cities, and they are willing to subsidize the creation of private jobs in those areas that can attract people. It seems to me that this country ought to have the same kind of interest in decentralization and, therefore, I am grateful that you, I take it, agree that what we are talking about here is not just something for Oklahoma, but something of national significance and national policy.

Mr. MOORE. That is right. I think the information that was recently revealed by our survey of Oklahomans living primarily in metropolitan areas, where over 80 percent of them said, "Yes, sir, I would like to come back to Oklahoma if I had a similar job opportunity"—I think that in part would be true of all the States. They would like to go back.

Senator HARRIS. There is a recent Gallup poll that showed the same thing nationally—that 50 percent of the people would like to live in a small town or city, when less than a third do—or, to put it a better way, less than a third can, because there are just not the jobs out there that will allow them to.

I think we are getting a lot of our smaller towns and cities now in shape with what you might call infrastructure—hospitals, schools, and highways, and so forth. In order to continue that, you are going to have to improve your tax structure locally, and you are going to have to have, primarily, jobs.

Well, I think we are going to have to pay a lot of attention to the new cities idea. But I also believe that you ought not to waste a lot of smaller cities and towns now that can become the new cities.

I appreciate very much what you have been doing in Oklahoma and I am glad you are here to testify on this bill.

Senator ANDERSON. Senator Byrd?

Senator BYRD. Mr. Chairman, may I make this comment? I was very much impressed with Mr. Moore's testimony.

I served for 5 years, beginning in 1962, as chairman of Virginia's industrial development effort. I assume that my position was somewhat similar to yours. The figures you have given, and the remarks you have made with regard to what's happening in Oklahoma, are impressive. We felt we were going a fairly good job in Virginia, but I believe you are doing a better job in Oklahoma and, certainly, Oklahoma has a very effective salesman in you, Mr. Moore.

Mr. MOORE. Thank you, Senator. We are trying to do a good job here so we can go on and finish the job.

Senator ANDERSON. Senator Jordan?

Senator JORDAN. I have no questions.

(The prepared statement of Mr. Moore follows:)

STATEMENT OF RICHARD W. MOORE, CHAIRMAN, OKLAHOMA'S INDUSTRIAL TEAM

As Chairman of Oklahoma's Industrial Team, it is a genuine pleasure to testify before the Senate Committee on Finance concerning Senate Bill 15. Let me quickly identify our terminology of "industrial team," which came into being by Executive Appointment three years ago. "Oklahoma's Team" consists of 22 members representative of Oklahoma's existing industry, financial institutions, utilities, state and area Chambers of Commerce, representatives of Oklahoma's Industrial Department and representatives of the Governor's office. Most of these Oklahomans have been formerly involved in the area of industrial development responsibilities. In other words, Oklahoma has put all of its industrial efforts under one umbrella which results in a more sophisticated approach to industrial prospects interested in expansion. Our state is using one advertising approach telling the Oklahoma story. We are submitting a single set of factual information on communities throughout the state, and we feel we are having modest success with this approach.

Let me tell you a little about Oklahoma. We have 2½ million citizens living in 77 counties with only three cities having a population in excess of 50,000. You can possibly anticipate our state's population shift during the decade from 1950 to 1960 [1]—66 of our 77 counties lost population while our three most populous counties gained from 35 to 64 percent. For the period of 1960 through 1967 [2] 28 of our counties continued to lose population with our three larger counties continuing to increase from 9.5 to 33 percent. It is our judgment that the concepts of S. 15 will deter this type of exodus since it is immediately obvious that most of our state of Oklahoma could and would quickly utilize the benefits of this legislation. Certainly we understand that industrial development is a slow and tedious process, but we also understand the *results* gained from long hours and hard work is of more value than the *results* gained by no real effort.

Let us look at the U.S. Chamber of Commerce estimates of what 100 new industrial workers mean to an average community.

Each 100 new industrial workers mean 350 more people.
$710,000 more personal income per year.
165 more workers employed.
100 more households.
$220,000 more in bank deposits.
3 more retail establishments.
81 more school children.
97 more passenger cars registered.
$331,000 more in retail sales per year.

It is our judgment that the successful industrial development of all of Oklahoma's 77 counties composed of 754 communities "can happen" if as a state we do our part, coupled with the assistance of favorable legislation providing for tax and depreciation incentives so provided in S. 15. The State of Oklahoma's (or any state's) responsibility could include the following:

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[1] U.S. Department of Commerce, Bureau of the Census, *U.S. Census of Population, 1960, Oklahoma, Number of Inhabitants*, Table 6.

[2] Research and Planning Division—Oklahoma Security Commission.

I. EDUCATION

A. Oklahoma has 19 institutions scattered throughout the state which offer vocational-technical education courses with 10,100 students presently enrolled.

B. Oklahoma ranks first in the 50 states in the number of engineering students per dollar invested in manufacturing facilities[3] and fifth in the number of bachelor of science degrees per capita among the 24 most industrialized states.

C. Oklahoma leads the nation in the percentage of youth age 5 to 17 going to school, with 98.6 percent.

D. We are first of all states in the percentage of teachers with college degrees.

II. INDUSTRIAL CLIMATE

A. Oklahoma ranks 8th lowest, nationwide, in plant construction costs.

B. Oklahoma ranks 4th best, nationwide, in the percentage of time lost due to absenteeism.

Recently, in order to bolster the availability of professional people to the industries within Oklahoma, our Governor's office has contacted graduates of our two universities and Okmulgee Tech who are now working out of state—out of the 7,157 replies, 5,764 or 81 percent indicated a great interest in returning to Oklahoma if jobs are available. Let me suggest to you that the State of Oklahoma is now in part doing its homework toward attracting new industry and expanding existing industry. Together we think it is possible and probable that through the continued industrial expansion throughout all Okhahoma, we can raise the per capita income of all Oklahomans to the national average of $3,412 annually. This would yield in Oklahoma alone to the state's annual tax revenue $70 million. Isn't it reasonable to assume that the federal tax take would be even greater? Multiply that times 30 or 40 states and it immediately becomes a sizable potential tax increase figure. Let me suggest that Oklahoma and I suspect most of the states are not here looking for an Industrial Handout. We are here to encourage your favorable consideration of legislation such as S. 15 which will allow those states and communities who are willing to extend their resources the opportunity of expediting the task of self-improvement.

Senator ANDERSON. Mr. Garver.

STATEMENT OF JAMES A. GARVER, EXECUTIVE VICE PRESIDENT, MID-AMERICA, INC., PARSONS, KANS.

Mr. GARVER. I am James A. Garver, executive vice president of Mid-America, Inc., Parsons, Kans. The background of Mid-America I will reveal further on in the text of my remarks. We are a 9-county economic development corporation in southeast Kansas, a predominantly rural area, population ranging in our 197 communities from approximately a few persons to somewhere in the neighborhood of 28,000.

Economic Balance Between Urban and Rural Areas

Economic balance between urban and rural areas is a subject much discussed and often written about. The problem of the rural resident, whether on the farm, in the small community, or merely isolated from the large city, has concerned government officials, politicians, economic planners, industry, and myriad other bodies since the industrial revolution began. Likewise, the "asphalt jungle" of the metropolis has sought and demanded attention for decades. Only within recent years, however, has there been a concentrated effort to establish a balance between the two problem areas. The "why" of

[3] Oklahoma Regents for Higher Education.

such a balance between these areas has been shown, but the "how" remains unsolved.

Allow me to use examples I know best. In 1957, Mid-America, Inc., was organized in southeast Kansas. Mid-America, Inc., is a private nonprofit group that was conceived to promote nine counties in southeast Kansas for the principal purpose of attracting industry to a rural area. Support was gathered from hundreds of businessmen, utility companies, financial institutions, city and county governments, and private individuals, who willingly contributed thousands of dollars. They each had one concern—that of boosting the economy of their own community and the region as a whole.

Let me digress here to tell you that, in the 12 years of our existence, approximately $45,000 to $50,000 from the private sector has been injected into this organization each year.

While the regional concept was embryonic at that time, southeast Kansans had experienced the problem of outmigration of its people resulting primarily from the decline of the mining and mineral extraction industry, along with the decline of rail transportation, and a multiplicity of other economic facets that were deteriorating. As a result, the business sector suffered tremendously. The facts revealed that, between 1920 and 1950, population within the nine-county area had declined by some 100,000 people. Unemployment was high. The approach this new regional group took, after the "why," was to attempt to "rebuild" southeast Kansas by providing job opportunities through assistance to existing industry in expansions and through the attraction of new industry. To date some 209 industries have located in the nine-county southeast Kansas region, creating, to the best of our calculations, direct job opportunities for some 9,500 persons. In addition, over 450 business establishments have expanded and, indeed, the total outlook is completely revised. Vocational-technical education, transportation systems, housing, community renewal, and hosts of other areas are being viewed by the leadership of southeast Kansas for future development.

But southeast Kansas is no different from any other rural regions throughout our great Nation.

The solution then, gentlemen, for rural revitalization is "industrialization"; the balancing of urban-rural manufacturing with a complete rural development program.

The economic balance created in southeast Kansas effected a great opportunity for the future. But it has required unusual persistence, patience, and dedication among the citizenry in southeast Kansas. And while great strides have been made, there remains much to be accomplished. Progress or change is the hallmark; a static condition is nonexistent.

But roadblocks to growth include isolation from larger population centers, nonavailability of skills, and lack of services and facilities found in larger communities. The availability of financing, lack of transportation systems, and absence of cultural activities add further to restrict industrialization.

The assets, as proved in southeast Kansas and other areas across the Nation, with the opportunity for growth, planned, orderly, and directed, far outweigh the liability side of the balance sheet. But to speed the balance, now the "how," the incentive for development must be applied. The use of local resources and markets, the training and employment of the local labor force, and the provision of support facilities and services can all be beneficial provided they are developed for use by prospective industry.

The urban decentralization of industry to the rural countryside provides more than just an economic balance. The social aspect of becoming a part of the community and becoming involved in the promotion of "Americanism," not being caught up in the 5 o'clock rush and being just another number. The location of retail establishments, banks, utility concerns, and other service groups are generally where the people are concentrated, but there is no law, rule, or regulation which dictates the size of the concentration of people, and the rural community, in most cases, is as prepared to administer the problems it will encounter as is the urban metropolis.

Let me digress from my written text to disagree with the theorists saying there is no future for communities under 25,000. In our experience, we have called upon the insurance companies, the large department stores, and a multitude of other retail and commercial establishments who will give not one single look to a rural community with a population of under 24,000. Gentlemen, we believe that, indeed, the future lies with a community of 25,000 and less.

The effort and money directed toward a buildup of smaller cities and communities in some of the "wide open spaces" of America can perhaps have a larger net effect on the national economy than many programs presently directed toward the large city. While we recognize that there is no simple, one-answer solution, we also must submit that until the rural outmigration is halted, until the agricultural "poverty pockets" are treated, and until a balance between the urban and rural area is consummated, there can be little true economic progress in the rural community. And until a program of rural industrialization incentives, the "how," is undertaken, the objectives of rural development remain somewhat obscure. It is imperative that an accelerated program of rural job development, such as included in S. 15, be initiated at the Federal level immediately if we are to arrest the problems of the rural lag. "America, the great" is only a myth of affluence if that portion that made her great is left unheeded and without help.

On behalf of Mid-America, Inc., and the people of southeast Kansas, may I commend you gentlemen in your deliberations to assist the rural portion of our Nation; your interest and insight will assist in solving their plight and will provide direction for their future.

Thank you.

Senator HARRIS (presiding). Thank you, Mr. Garver. Tell me again what Mid-America is.

Mr. GARVER. We are a nine-county, basically, industrial development group. We have now gone into——

Senator HARRIS. Is it nonprofit?

Mr. GARVER. It is a nonprofit organization. We received in the past 2 years from the Economic Development Administration planning funds. We are not a Government program. We do receive contributions, $45,000 to $50,000 each year from the private business sector. But we are attempting to work through the private sector as well as in the utilization of Federal programs, which we feel are a necessity for guidelines. This is why we view Senate bill 15 as being an encompassing body for further accelerated development and growth.

Senator HARRIS. I take it from what you said that you are familiar with the line of economic development thought concerning growth centers and that 25,000 seeming to be the magic number?

Mr. GARVER. Yes, sir.

Senator HARRIS. And that you disagree with that? I know you disagree with it from what you have said. I take it you are familiar with that line of thought.

Do you have anything further to back that up?

Mr. GARVER. Only from what our experience over the past 12 years has been.

Senator HARRIS. Yes; tell me about that.

Mr. GARVER. We have approximately seven communities ranging in size from 7,000 to 12,000. We have seen the utilization of urban and community programs, both Federal and private programs. We have seen housing programs, many of the Government's programs in rent subsidy, low-rent housing, moderate income, high-rise for the elderly. We feel that the opportunities created in a community of 10,000 or 15,000 allow the basic interchange of ideas, allow for orderly growth, for planning, and feel that a community of over 25,000 perhaps may be able to cope with this problem as it grows, but we feel that the true stage for growth and development should be at 10,000 to 15,000. We realize that if these communities grow, yes, indeed, at one stage, they will be 25,000. But we think that, at the 25,000 level, to cut off and say that there will be no support by insurance companies, that there is no future for large department stores—in this we feel the theorists are wrong.

Senator HARRIS. Do you have any knowledge presently of what's happening in the nine counties you are familiar with in southeast Kansas; what happens to a town the size of 2,500 or what's happening to one the size of 5,000 or 10,000, 15,000, whether they are staying static, or are they going up or down? Do you know anything about that presently?

Mr. GARVER. Yes, sir. Basically, perhaps, I can tell you we have a community of 3,500, St. Paul, Kans., which has embarked upon an urban renewal program. Likewise, within the past year or so, they have built some 120, I believe, new homes. They view themselves not as a community where the retail and commercial establishments will locate, but indeed as a bedroom community for some of the larger communities which will provide job opportunities.

We have attempted to instill in these communities of 3,500, 2,500, 5,000, that perhaps they should be taking an overview of the region. The balancing of the agricultural aspect with the industrialization is most difficult, as you well know. It is very long. I think probably we have the same problem in our corner of the State as you do in Oklahoma in the fact that these communities have suffered immeasurably, they have lost population. We are attempting now to halt the outmigration, to catch up, really, before we can forge ahead.

In most cases, our communities in southeast Kansas have at least held their own. We have had some of the smaller communities, and I am speaking here of the 250, 500, 750 to 1,000 range that have lost population. But again, I think in at least 50 percent of those cases, they have at least held their own. We are looking at programs in agriculture, industrialization, areawide comprehensive health planning and other programs which would instill in the people to remain there and give them a job.

Senator HARRIS. Thank you very much.

We next hear from Mr. Czar Langston, who is manager of the Oklahoma Association of Electric Cooperatives, located in Oklahoma City.

Czar, we welcome you here. I want to say that the fact that you are willing to come here and present your testimony in person I think will really add weight to it in the record of these hearings as other members of the committee have an opportunity to study this record.

STATEMENT OF CZAR D. LANGSTON, JR., GENERAL MANAGER, OKLAHOMA ASSOCIATION OF ELECTRIC COOPERATIVES

Mr. LANGSTON. Mr. Chairman, members of the Senate Committee on Finance, my name is Czar Langston, general manager of the Oklahoma Association of Electrical Cooperatives in Oklahoma City.

I formerly served as director of the Industrial Development Department of the Oklahoma Planning Resources Board; acting director of the Department of Commerce and Industry, and manager of chambers of commerce in a number of Oklahoma cities.

I am here today to testify in support of S. 15.

During my 28 years of working in all parts of Oklahoma, I have witnessed with concern the steady decline in population and the deterioration of the economy of rural Oklahoma.

This loss in population is reflected in U.S. Census Bureau figures, which show that 63 of the 77 counties in Oklahoma lost 553,214 persons between 1930 and 1960. This means 30 percent of the persons living in rural Oklahoma migrated to the cities during that 30-year period. During this same span the State's two largest counties gained 376,232 in population.

Dr. James D. Tarver made a thorough study of Oklahoma population shifts while a professor at Oklahoma State University. He found that in 1920 about 50 percent of Oklahoma's population lived on farms, 25 percent lived in small towns of 2,500 or less, and the remaining 25 percent lived in cities and towns over 2,500.

Today, about 62 percent of the State's population resides in the cities, 32 percent in small towns, and only 6 percent on farms. About 40 percent of the population is concentrated in the two major metropolitan areas—Oklahoma City and Tulsa.

Based on 1966 U.S. Commerce Department census reports, the per capita income in rural areas was $2,236 annually. Multiplying the per capita income figure by the number of rural population lost, we find rural Oklahoma is losing more than $1.2 billion income annually.

A recent survey of Oklahoma's rural electric cooperatives points out the severity of the population shift in the State. It shows that our rural electric cooperatives have more than 50,000 idle services. This simply means there are 50,000 locations where there was once a house or service that does not exist today.

Using an average of four persons per family, more than 200,000 persons who once lived on our lines have moved away. That's not all.

Those 50,000 idle services represent an investment of more than $40 million, on which there can be no financial return. I might add here that in some areas of Oklahoma the farmers are so far apart each needs his own tomcat.

A report from the Oklahoma State Board of Education reveals that, from 1963 to 1968, 457 rural schools were closed. They were closed because they did not have sufficient average daily attendance to meet State accreditation requirements.

While many of these schools were small, they had modern, up-to-date facilities and excellent teachers, and produced some of the State's finest young people, such as 4-H Club and Future Farmers of America leaders. Today, these empty school facilities serve only as a stark reminder of the vast changes taking place all about us.

Where have these rural students gone? Mostly to the suburban areas of the major cities.

We surveyed the Oklahoma County school districts and found that since 1960 they have spent more than $60 million on new classrooms and have had a net enrollment gain of 36,000 students. I submit that much of this capital investment would have been unnecessary if we had encouraged industry to locate in rural areas 10 or 15 years ago.

We are all aware that when a rural family moves to the city both the man and his wife usually need to work to make ends meet. This leaves the children unattended during the day, adding materially to today's unrest among millions of the younger generation.

I'm sure national statistics would reveal that where the husband and wife both have to work to earn a living, as is so often the case in cities, the divorce rate increases considerably.

The migration to the cities is reflected in many of today's rural towns in Oklahoma. In many cases, one-half to three-fourths of the business buildings in a community are boarded up. The merchant didn't have anyone to do business with, so he, too, had to pack up and leave.

If we needed more evidence that migration can be a detriment to a State, we can look at the welfare payments made to recipients in Oklahoma's two metropolitan areas. The department of welfare reports that public assistance in the two areas skyrocketed from $10 million in 1950 to $27 million in 1968, an increase of $17 million or 170 percent.

Those who have stayed behind have suffered, too, because they have had to absorb the extra tax burden of maintaining town and county governments.

As our metropolitan areas increase in population we find the crime rate soaring, air and water pollution becoming a serious health threat, and capital required for schools, streets, sewerage treatment, police and fire protection and other services creating a tremendous financial burden on every city taxpayer.

As all of these services expand and one considers the increased costs of living, including housing, land, food, clothing, et cetera, I am certain a portion of the problems of inflation now plaguing our Nation can be attributed to the population shift.

The American farmer is the most productive in history. He feeds more persons before breakfast than the Russian farmer feeds in a day. And with farms getting larger, he'll be able to provide food and fiber for even more people.

But can he continue to do this indefinitely? Many experts can foresee the time when there will be a drastic shortage of people engaged in agriculture to provide the food and fiber required to feed, clothe, and house our rapidly expanding population.

Senator, when these people once move from the farm, they do not come back and start farming again. If we keep them out there with industry, they can be back in that industry.

Why do we believe industry for rural areas is an answer to many of these problems? Let's look at a survey made by the U.S. Chamber of Commerce. It shows that an industry employing 100 persons means:

338 more people,
117 more households,
55 more schoolchildren,
$749,000 more personal income annually,
$343,000 more bank deposits annually,
165 more passenger cars,
172 more workers, and
$457,00 more retail sales annually.

Surveys taken in Oklahoma indicate that eight of every 10 graduates of rural high schools leave their communities in search for employment elsewhere. The ratio among college graduates is even higher.

An analysis by Dr. John Goodwin of Oklahoma State University indicates that a community invests $50,000 in a student from the time he enters kindergarten until he finishes the 12th grade. When that student leaves, the investment is gone forever as far as the community is concerned.

Yes, I hope you believe as I do that beyond any shadow of a doubt more job opportunities in rural areas can assist materially in easing many of the social, economic, and political problems existing today.

Mr. Harry Kahan, chief of statistical control for the Office of Economic Opportunity here in Washington, told one of my staff members recently that Oklahoma is making some progress in attempting to solve the poverty problem.

Since 1960, he estimates the number of Oklahoma's needy has decreased from 30 percent of the State's population to about 20 percent. He estimates Oklahoma still has about 500,000 poor people, according to OEO poverty guidelines, and that 250,000, or 50 percent, live in rural areas.

Having lived in Oklahoma all of my life, it is easy for me to see a direct correlation between the decrease in poverty and the increase in the State's industrial development. But we haven't done nearly enough in this area.

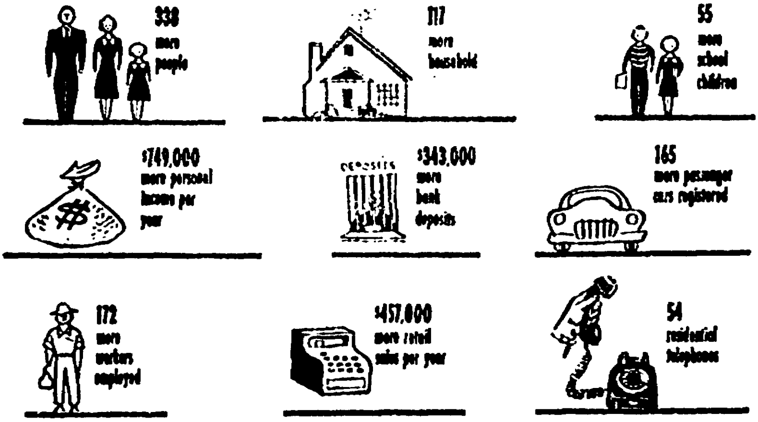
I am convinced that a concerted effort to bring industry to rural areas would do much to help alleviate many of the painful social diseases existing today.

I want to emphasize that jobs must be made available in the local areas by relating some incidents that happened in northeast Oklahoma recently.

Social workers in Delaware and Adair Counties located out-of-State jobs for several Cherokee Indians who could not find work in their local communities.

However, the Indians returned home as soon as they earned enough money for bus tickets. It's not difficult to understand this

WHAT 100 NEW INDUSTRIAL WORKERS MEAN TO YOUR COMMUNITY



EMPLOYMENT CHANGES

	Number of workers
Manufacturing	+100
Retail trade	+33
Construction	+25
Professional and related services	+14
Transportation, communications and other public utilities	+13
Business and repair services	+5
Wholesale trade	+5
Public administration	+5
Finance, insurance and real estate	+4
Entertainment and recreation services	+2
Forestry and fisheries	+1
Personal services	—2
Mining	—2
Agriculture	—31
Total, all industries	+172

INCREASE IN ANNUAL RETAIL SALES

Grocery stores	$86,830
Eating and drinking places	$36,560
Department, dry goods and variety stores	$59,410
Clothing and shoe stores	$31,990
Automobile dealers	$63,980
Gasoline service stations	$27,420
Lumber yards, building materials dealers	$18,280
Other stores	$132,530
Total increase in annual retail sales	$457,000

(OKLAHOMA DEPARTMENT OF COMMERCE AND INDUSTRY)

The new industries moving into Oklahoma have an impact far beyond the initial boost of construction activity and direct employment. The chart above illustrates that the "side effects" of new industry contribute to a wide-spread economic boost for the typical community. (Charts available from the Oklahoma Department of Commerce and Industry, Box 3327, Oklahoma City, Oklahoma.)

Senator HARRIS. I want to note that Senator Pearson, who is the principal author of this bill—I have been the principal cosponsor of it with him—is in the room, too, and has been very active in this hearing, as you know.

Czar, I appreciate your mentioning Adair County in talking about rural poverty. As you know, I served as a member of the Kerner Commission where we were trying to recommend something about urban problems, which have to be attacked head on, and as I said here yesterday—it is too late to think we can solve the problems of the cities simply by solving the problems of the country. But I was one of those on the Kerner Commission who got others to see that, for the long pull, you cannot solve the problems of the city unless you do solve the problems of the country and we eventually recommended a program like that embodied in this bill.

Earlier, I had run onto the problem that there were a great many people in the Federal Government at various levels and in various departments having to do with poverty and employment, housing, health, education, and so forth, who did not know there was any rural poverty. And, of course, what we did, as you recall, we got a lot of those fellows together with us in a bus and traveled around some counties in eastern Oklahoma, among which was Adair. Several things developed from that, one of which is a new demonstration project which OEO funded over in that area.

You mentioned, too, about the Indian relocation program, where Indians, starting back during the Eisenhower administration, had been encouraged to move off somewhere else. When I started trying to put together some proposal for a program to do something about that area of eastern Oklahoma, talking to economic experts, I ran onto this kind of recommendation—this is the gist of it—what we ought to do is give a bus ticket to everybody who would leave that area and subsidize those who would not, that there just was not anything that could be done. It was too late and there was not anything that could be done to reverse it.

I take it you do not believe that is right. I hope it is not right and I do not believe it is right.

Mr. LANGSTON. Senator, I certainly do not believe it is right. The example I gave you of Sequoyah, Caddo County, was very similar to this, as you know, and look what has happened there. These people in these areas I am talking about were those who came on the "trail of tears." Many of them were still sleeping in the "pool of tears" under the same conditions that existed when they completed that trail. And they do not want to leave. That is home to them. That is home. People do not want to move away from home.

Senator HARRIS. We have begun to learn it is not necessarily to their benefit to move into the cities. I can recall when people used to say let them move on into the cities where they will not have so many problems. You do not hear people saying that so much anymore.

Mr. LANGSTON. We intentionally left out the crisis in the cities and all this. Enough has been said about that. We are looking for some solutions now. This appears to have great merit.

Senator HARRIS. I want to say you and the Oklahoma Association of Electric Cooperatives I think have really done your part in trying to help solve some of these problems in the rural areas and I do appreciate your coming here to testify.

Thank you.

Mr. Ted Davis, Midwest Research Institute, Washington, D.C. He is appearing here today under false pretenses, because the truth is he is an Oklahoman. I did not arrange for his appearance as an Oklahoman, because he is really a consultant on community development strategy.

Mr. Davis, I appreciate your appearance here as an ex-Oklahoman, and former Assistant Secretary of Agriculture.

STATEMENT OF TED J. DAVIS, CONSULTANT ON COMMUNITY DEVELOPMENT STRATEGY, MIDWEST RESEARCH INSTITUTE, KANSAS CITY, MO.

Mr. DAVIS. Until last September.

I wonder if I could ask for permission to highlight my statement and place the remainder in the record?

Senator HARRIS. Without objection.[1]

Mr. DAVIS. Thank you.

The desirability for slowing rural/urban migration—indeed, the necessity for it—has been dramatically and eloquently stated by Senators Pearson and Harris contemporaneously with the introduction of the "Rural Job Development Act."

The demographers continue to project the trend of 80 million more people living in the metropolitan areas in the next 30 years. By the year 2000, given present trends, we can project 308 million people in the United States: 74 million in one metropolitan area along the Atlantic coast; 45 million in the California region; 74 million in the Great Lakes area; and 15 million in a Florida-centered zone.

Do any of us really want to see this happen? Technology and automation which are freeing man from hard labor have hit rural America hardest by eliminating the jobs necessary for the economic viability of rural and smalltown living. The last official report I signed as Assistant Secretary of Agriculture in January of this year showed that the number of farms fell below 3 million for the first time in the 107-year history of the U.S. Department of Agriculture. This is as compared with double that number, or approximately 6 million, in 1946.

You will, I'm sure, hear from those who will discuss the major causes of this continuing migration—the loss of job. This major cause is accurate; but, I would like to concentrate on a refinement of this broad causal factor and analyze for you a loss that is not so frequently discussed in the context of urban migration—a cause which has a compounding or multiplier effect on the deterioration of rural America.

This main point or subpoint to which I refer is the loss of the entrepreneur. Charles Kimball, president of Midwest Research Institute, discussed the important role of this individual, the entrepreneur, in an address to the National Manpower Conference in May 1968, which our chairman here today chaired also.

I have noticed in previous testimony that Senator Pearson talked about the loss of the unskilled and the superskilled. This is what we are talking about today. As I say, it has a compound or multiplier effect.

In his address Dr. Kimball cited several examples of exciting achievement in small communities by young men with drive, guts, ability and vision who bucked the trends and built their businesses in smalltown America. Some of those we have been hearing about this morning.

These men surmounted the harsh odds against success—the ones you've been hearing about such as transportation problems, untrained manpower, distance from markets and resources. They bucked the odds

[1] Mr. Davis' prepared statement appears at p. 145.

and won because of their own abilities and because the incentives for success were present.

Entrepreneurs are still being bred and reared all over America today. They are the reason why industrial expansion has continued at such a historical rate—why the standard of living of most Americans has reached undreamed of heights—why technology is probing the planets.

The really ironic fact is that rural America is where many of these business geniuses come from. But rural America does not offer the odds, the rewards that urban America holds forth. The result has been referred to as a "brain drain."

However, it is not exclusively brains that characterize the successful entrepreneurs. It is a combination of human energy, pragmatism, dedication, knowledge and closure ability, the ability to bring a group of apparently unrelated facts together to make a successful venture. This critical loss I have therefore given the name "talent tide."

Quoting Dr. Kimball in part from his reference speech, he states the premise as follows:

"We from rural America want to be certain that in our massive export of talent, which is still going on, particularly to the coastal areas, that we try at least not to export the entrepreneurs."

Dr. Poole mentioned the survey made of our engineering graduates in Oklahoma, which I think is very significant in showing the extent of this talent tide or talent movement from rural America.

Dr. Kimball also said, "Perhaps we ought to think about importing some professional entrepreneurs who have already demonstrated their abilities. Many of them might be persons who have left rural America after their education, but could be attracted back and provide new insights to the rest of us as well."

Harvey Brooks, dean of engineering at Harvard, summed up the importance of talent tide at the manpower conference in a very enlightening remark:

> The superior performance of the American economy is due largely to this greater capacity for innovation and for the utilization of new knowledge, in industry and in academic research. We must find the institutional innovations and the restructuring of incentives necessary to call forth this intellectural entepreneurship in new directions * * * so that new enterprises and new opportunities will pull science and technology into social utilization.

The bill before the committee today is one which, we think, will help reverse this talent tide from rural areas. The incentives for industrial development contained in the bill can begin to do for rural America what NASA and the Department of Defense have done in attracting talent to other concentrations of military resources, that we have spent some $25 million on the NASA program. This had drawn the entrepreneur and drawn the talent from rural America. I want to cite one example here, the National Defense Highway System. This is a truly great engineering achievement and a monument to the mobility of our commerce has caused the concentration of industry in the larger cities served by the system. This adverse effect does not cause us to denounce the system of interstate highways but only points up the need for incentives in another form to balance the location of job-creating industry as well.

Incentives in Federal programs and policies have been a tool used to great benefit in this country as Senator Harris in some of his remarks earlier had mentioned the historic use of incentives.

The goal of balancing our population—indeed of developing a national settlement policy—presented here should be the business of the committee and it should go forward in developing this tax incentive concept as a way toward this goal.

I do not wish to discount the tremendous achievements already accomplished by this concerned Congress and previous Congresses for the needs of rural America. Much has been done under past and present programs to enrich the benefits of rural America. Of particular importance are the programs of rural electricity, soil and water conservation, public facilities such as water and sewer and housing for rural areas, and the boost for planning under the Economic Development Act and the National Housing Act.

Now that these programs we are talking about are in existence or in the beginning stages of functioning, such as these electrical facilities, water public facilities and planning, the incentives through tax legislation can be much more effective—not a strained or artificial tool. Such legislation can begin to rectify the imbalance of economic development in America. I suggest that this Rural Job Development Act will complement these other programs. It could not do the job as well without these previous programs. I want to emphasize that continuation of these other programs are essential even if S. 15 is enacted, and particularly the programs for regional, State, and multicounty planning. Existing programs must be stepped up and strengthened because industry, if it comes to rural America, needs the benefit of good planning for the tax incentives to be effectively utilized.

Planning is essential if rural areas are to remain pleasant, if they are also to be prosperous places to live. MRI, perhaps because of its origins in the great heartland near the center of rural America, in Kansas City, has worked over the past two decades both for small communities, and for HUD, and other Federal agencies on issues of rural economic development. And we know that there is a great need, first of all, to cease or stop dealing with small communities in the aggregate, as though they were all the same, to recognize the different kinds of communities. These differences can be recognized and studied through planning. Much is to be learned by both Government and industry in planning the environment to enhance the quality of life in rural areas.

This bill is not a panacea. But couple it with renewed emphasis on planning and technological development and a new trend can and will emerge—a renaissance in our rural areas.

Perhaps this bill fits the oft-used phrase, "An idea whose time has come."

The powers over fiscal policy held within this committee can help restructure America. It can stem the talent tide, which has the multiplier effect which causes or helps cause, in part causes the overall migration. It should set out deliberately to do so.

Thank you, Mr. Chairman.

(The complete statement of Mr. Davis follows:)

STATEMENT OF TED J. DAVIS, CONSULTANT ON COMMUNITY DEVELOPMENT STRATEGY, MIDWEST RESEARCH INSTITUTE, KANSAS CITY, MO.

INTRODUCTION

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THE TALENT TIDE

You will, I'm sure hear from those who will discuss the major causes of this continuing migration the *loss of jobs*. This major cause is accurate; but, I would like to concentrate on a refinement of the broad causal factor and analyze for you a loss that is not so frequently discussed in the context of urban migration—a cause which has a compounding or multiplier effect on the deterioration of rural America.

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In his address Dr. Kimball cited several examples of exciting achievement in small communities by young men with drive, guts, ability and vision who bucked the trends and built their businesses in small town America.

These men surmounted the harsh odds against success—the ones you've been hearing about such as transportation problems, untrained manpower, distance from markets and resources. They bucked the odds and won because of their own abilities and because the incentives for success were present.

Entrepreneurs are still being red and reared all over America today. They are the reason why industrial expansion has continued at such a historical rate—why the standard of living of most Americans has reached undreamed of heights—why technology is probing the planets.

The really ironic fact is that rural America is where many of these business geniuses come from. But rural America does not offer the odds, the rewards that urban America holds forth. The result: has been referred to as a "Brain Drain."

However, it is not exclusively brains that characterize the successful entrepreneurs. It is a combination of human energy, pragmatism, dedication, knowledge and closure ability, the ability to bring a group of apparently unrelated facts together to make a successful venture. This critical loss, I have therefore given the name "Talent Tide."

Quoting Dr. Kimball in part from his referenced speech, he states the premise as follows:

"We from rural America want to be certain that in our massive export of talent, which is still going on, particularly to the coastal areas, that we try at least not to export the entrepreneurs. There is need not only to keep those we have, but to import some. You might look at this, if you will, as a sort of new colonization. We now import from all sections of the country skilled young persons known as football or basketball players—from wherever we can find them. And their contribution is supposed to provide a considerable measure of prestige and aggrandizement to the schools which attract them. Perhaps we ought to think about importing some professional entrepreneurs who have already demonstrated their abilities. Many of them might be persons who have left rural America after their education, but could be attracted back and provide new insights to the rest of us as well."

Harvey Brooks, dean of engineering at Harvard summed up the importance of talent tide at the manpower conference in a very enlightening remark:

"The superior performance of the American economy is due largely to this greater capacity for innovation and for the utilization of new knowledge, in industry and in academic research. We must find the institutional innovations and the restructuring of incentives necessary to call forth this intellectual entrepreneurship in new directions * * * so that new enterprises and new opportunities will pull science and technology into social utilization."

RESTRUCTURING INCENTIVES

The bill before the committee today is one which, we think, will help reverse this talent tide from rural areas. The incentives for industrial development contained in the bill can begin to do for rural America what NASA and the Department of Defense have done in attracting talent to other concentrations.

Too many times one federal program achieves the desired result without the appreciation of the side-effects of the achievement. Many programs accelerate the talent travel out of rural America. For example: The National Defense Highway system—a truly great engineering achievement and a monument to the mobility of our commerce has caused the concentration of industry in the larger cities served by the system. This adverse effect does not cause us to denounce the system of Interstate Highways but only points up the need for incentives in another form to balance the location of job-creating industry as well.

Incentives in Federal programs and policies have been a tool used to great benefit in this country. There should be no reluctance to use these tools now to foster a national policy of rural/urban population balance. Historical precedents include the Homestead Act, the Land Grant College Act and the Railroad Land Programs. These throughout our history guided and directed the economics of a great and flourishing nation.

The goal of balancing our population—indeed of developing a national settlement policy—presented here should be the business of this Committee and it should go forward in developing this tax incentive concept as a way toward this goal.

I do not wish to discount the tremendous achievements already accomplished by this concerned Congress and previous Congresses for the needs of rural America. Much has been done under past and present programs to enrich the benefits of rural America. Of particular importance are the programs of rural electricity, soil and water conservation, public facilities such as water and sewer and housing for rural areas, and the boost for planning under the Economic Development Act and the National Housing Act.

Now that the functioning, the incentives through tax legislation can be much more effective—not a strained or artificial tool. Such legislation can begin to rectify the imbalance of economic development in America. I suggest that this Rural Job Development Act will complement these other programs. However, I want to emphasize that continuation of these other programs are essential even if S. 15 is enacted, and particularly the programs for Regional, State and multicounty planning. Existing programs must be stepped up and strengthened because industry if it comes to rural America needs the benefit of good planning for the tax incentives to be effectively utilized. Planning is essential if rural areas are to remain pleasant, if they are also to be prosperous places to live. MRI, perhaps because of its origins in the great heartland near the center of rural America in Kansas City has worked over the past two decades both for small communities, and for HUD, and other federal agencies on issues of rural economic development. And we know that there is a great need, first of all, to cease or stop dealing with small communities in the aggregate, as though they were all the same, to recognize the different kinds of communities, and their characteristics, and there are many elements of singularity. Much is to be learned by both governments at all levels and by industry as well in planning our environment to enhance the quality of life of our citizens..

This bill is not a panacea. But couple it with renewed emphasis on planning and technological development and a new trend can and will emerge—a renaissance in our rural areas.

Perhaps this bill fits the oft-used phrase "an idea whose time has come."

The powers over fiscal policy held within this Committee can help restructure America. It can stem the Talent Tide—it should deliberately set out to do so.

Senator HARRIS. Thank you, Ted. I hope you are right that this is a bill whose idea has come.

I really do think there is more and more support for at least the thrust of this bill—when I first started talking about the idea of it 4 or 5 years ago, I ran onto quite a few people who saw it simply as a parochial interest of mine and one which simply was of benefit to Oklahoma and not really of any national significance. But when I was traveling around the country as a member of the Kerner Commission, we used to hear over and over from big city mayors, if you fellows would quit sending us all your people, you would make our jobs at least somewhat easier.

So now I begin to find a lot of people, rural and urban, talking about these problems.

In your own experience as Assistant Secretary of Agriculture I know that Orville Freeman spoke out on this subject a great deal, and in your new capacity, particularly as a consultant to Midwest Research Institute, with which I am quite familiar and for whom I have a tremendous regard, do you find any growing feeling that we ought to do something about this problem as national legislation?

Mr. DAVIS. I certainly do. Of course, what I think, and a Senator mentioned it earlier this morning, this is a national policy. I think we have to establish a national policy and many have called for it, including Mr. Freeman, and in our conferences, our executive conferences within the Department of Agriculture, we talked a great deal about a national policy.

I alluded here in my earlier remarks to some of the tremendous incentives created as a byproduct to other essential programs such as Interstate Highways, NASA, defense spending, and so on. It seems that these are absolutely the essential, but the byproduct in many, many instances has been stripping our rural areas or unaffected areas of not only numbers of people, but the talented people as well, our graduates of the universities and colleges. I do get this feeling that we do need a national policy on this goal.

We know that the Defense Department in some of its previous legislation has attempted to put some incentive to location of sub-contracts in certain areas, and so on, small business, but I think we have not come to the point where we recognize the importance of a national settlement policy. This is what I think is a big necessity, both in my work as Assistant Secretary of Agriculture and now in my new capacity with MRI.

Senator HARRIS. I feel the same way, that part of it has been unconscious policy. I think also we have had some conscious policy of trying to move people into the cities. I can recall a public official not too many years ago who said it would be a great thing if people would move on into these cities, their incomes will go up and they will be able to be employed. But think also, and this is tough to get at, there has been a lot of unconscious policy.

You mentioned the Highway Act which itself is designed in such a way as to increase this urbanization. It is not satisfactory to let these things accidentally happen. You have to go back now and begin to look at all of these policies, as well as provide new incentives which I think we are beginning to do here.

Mr. DAVIS. As I mentioned, these other programs, as essential as they are, and I think the Interstate Highway System is one of the most marvelous engineering feats this country has ever had, but it is an incentive. Let's build another incentive for those rural areas that do not benefit directly—all of them benefit, of course, indirectly. But most of these people and businesses want to be along that highway. I think it is a compensatory, an incentive to conform with the national policy of decentralization that we have to balance.

Senator HARRIS. I think it is quite right, what you point out, too, that this bill is not the total answer. There are a lot of other things that you are interested in and that you allude to here. That is why I think the major thing is that we decide whether we are going to do this, or whether we are going to continue to drift along on it. As I indicated earlier today, some countries are beginning to think about this business of decentralizing their population as sound national policy. And if we decided that we also wanted to do this in the United States, then this bill would not be all we would want to do. We would want to do some other things too as you have indicated.

Mr. DAVIS. We want to look at some of these other programs to see what side effects they have on the national policy. We want to establish those.

Senator HARRIS. I thank you for coming here. We appreciate your testimony.

To the degree they are here, I think we might proceed into the afternoon list.

I understand that Mr. C. H. Schooley, Washington Representative of the Independent Bankers Association of America, will not be present to testify. His testimony may be inserted in the record when it is received.

(The statement of the Independent Bankers Association of America, submitted by Mr. C. Herschel Schooley, Washington manager, appears at page 216.)

Senator HARRIS. Mr. George S. Bullen?

Mr. BULLEN. Yes, I am.

Senator HARRIS. We may proceed with you at this time.

Mr. Bullen is the legislative director of the National Federation of Independent Businesses.

STATEMENT OF GEORGE S. BULLEN, LEGISLATIVE DIRECTOR, NATIONAL FEDERATION OF INDEPENDENT BUSINESS, INC., WASHINGTON, D.C.

Mr. BULLEN. Mr. Chairman, in the interest of time, since I have a long statement, I will merely read the summary on the first page, unless you want me to read the whole statement.

Senator HARRIS. Without objection, the entire statement will appear in the record along with the attachments.

Mr. BULLEN. I am George S. Bullen, legislative director of the National Federation of Independent Business. I appreciate the opportunity to appear before your committee today.

As the socioeconomic problems of the inner city derive their nourishment, in part, from the continuing influx of unskilled labor which finds its way into the inner city ghettos, corresponding economic problems in the rural areas are intensified by the departure of local residents, failure of family farms, and closing of many businesses which find they can no longer continue to operate profitably in sparsely populated areas.

Existing Government programs have not been able to stem the current outmigration, nor have they filled the job creation need extant.

The private sector, with tax incentive help such as is proposed in S. 15 can do much to fill the gap. Stemming the outmigration will create job incentives, will strengthen existing businesses, and will return rural America to a degree of economic prosperity. Business will follow people and the demand. A corollary effect will be felt in the inner city. As the influx into the cities decreases, a proportionate lessening of city problems will follow.

In conclusion, Mr. Chairman, we in the association itself feel very strongly that the proposals embodied in S. 15 are vitally needed if something is to be accomplished in restoring some semblance of economic prosperity to rural America. Further, we feel that enactment of this legislation will serve as a strong dose of preventive medicine in curing the ills we face in the urban and central city areas. Tax incentives aimed at keeping people out of the overcrowded cities cannot but help reduce the incidence of abject poverty, joblessness, and despair so prevalent in the ghetto today. At the same time, it will accomplish its aim of keeping the smaller towns and rural communities of America alive.

S. 15 and its companion proposals can well be hailed as pieces of legislative foresight aimed toward preventing economic strife rather than attempting to correct the problem after the damage is done. Without this type of help we fear that the problems we face in these areas today will be inconsequential compared to the socioeconomic problems faced by future generations.

That concludes my statement, Mr. Chairman. I will answer any questions you may have.

Senator HARRIS. I appreciate very much your coming here and your excellent statement which I have had an opportunity to look over.

I notice that you have listed here in one of the attachments which will be made a part of the record, the result of a poll taken on whether or not people would support a tax credit with regard to the redevelopment of rural areas.

Mr. BULLEN. Yes, we have. We have polled several times on that, Mr. Chairman. Each time, our members have favored it. We have 267,000 in 50 States and they are fairly representative of all small businesses throughout the country.

Senator HARRIS. I think that, too, is especially helpful to us and meaningful to us in this committee as we consider this legislation. I certainly do appreciate your coming here to present it.

Mr. BULLEN. It was a pleasure, sir.

Senator HARRIS. Thank you.

(The prepared statement of Mr. Bullen follows:)

SUMMARY OF STATEMENT OF GEORGE S. BULLEN, LEGISLATIVE DIRECTOR, NATIONAL FEDERATION OF INDEPENDENT BUSINESS, WASHINGTON, D.C.

IN FAVOR OF REVITALIZING RURAL AMERICA

As the socio-economic problems of the inner city derive their nourishment, in part, from the continuing influx of unskilled labor which finds its way into the inner city ghettos, corresponding economic problems in the rural area are intensified by the departure of local residents, failure of family farms, and closing of they are, and I think the Interstate Highway System is one of the most marvelous engineering feats this country has ever had, but it is an incentive. Let's build another incentive for those rural areas that do not benefit directly—all of them benefit, of course, indirectly. But most of these people and businesses want to be along that highway. I think it is a compensatory, an incentive to conform with the national policy of decentralization that we have to balance.

Senator HARRIS. I think it is quite right, what you point out, too, that this bill is not the total answer. There are a lot of other things that you are interested in and that you allude to here. That is why I think the major thing is that we decide whether we are going to do this, or whether we are going to continue to drift along on it. As I indicated earlier today, some countries are beginning to think about this business of decentralizing their population as sound national policy. And if we decided that we also wanted to do this in the United States, then this bill would not be all we would want to do. We would want to do some other things too as you have indicated.

Mr. DAVIS. We want to look at some of these other programs to see what side effects they have on the national policy. We want to establish those.

Senator HARRIS. I thank you for coming here. We appreciate your testimony.

To the degree they are here, I think we might proceed into the afternoon list.

I understand that Mr. C. H. Schooley, Washington Representative of the Independent Bankers Association of America, will not be present to testify. His testimony may be inserted in the record when it is received.

(The statement of the Independent Bankers Association of America, submitted by Mr. C. Herschel Schooley, Washington manager, appears at page 216.)

Senator HARRIS. Mr. George S. Bullen?

Mr. BULLEN. Yes, I am.

Senator HARRIS. We may proceed with you at this time.

Mr. Bullen is the legislative director of the National Federation of Independent Businesses.

STATEMENT OF GEORGE S. BULLEN, LEGISLATIVE DIRECTOR, NATIONAL FEDERATION OF INDEPENDENT BUSINESS, INC., WASHINGTON, D.C.

Mr. BULLEN. Mr. Chairman, in the interest of time, since I have a long statement, I will merely read the summary on the first page, unless you want me to read the whole statement.

Senator HARRIS. Without objection, the entire statement will appear in the record along with the attachments.

Mr. BULLEN. I am George S. Bullen, legislative director of the National Federation of Independent Business. I appreciate the opportunity to appear before your committee today.

As the socioeconomic problems of the inner city derive their nourishment, in part, from the continuing influx of unskilled labor which finds its way into the inner city ghettos, corresponding economic problems in the rural areas are intensified by the departure of local residents, failure of family farms, and closing of many businesses which find they can no longer continue to operate profitably in sparsely populated areas.

Existing Government programs have not been able to stem the current outmigration, nor have they filled the job creation need extant.

The private sector, with tax incentive help such as is proposed in S. 15 can do much to fill the gap. Stemming the outmigration will create job incentives, will strengthen existing businesses, and will return rural America to a degree of economic prosperity. Business will follow people and the demand. A corollary effect will be felt in the inner city. As the influx into the cities decreases, a proportionate lessening of city problems will follow.

In conclusion, Mr. Chairman, we in the association itself feel very strongly that the proposals embodied in S. 15 are vitally needed if something is to be accomplished in restoring some semblance of economic prosperity to rural America. Further, we feel that enactment of this legislation will serve as a strong dose of preventive medicine in curing the ills we face in the urban and central city areas. Tax incentives aimed at keeping people out of the overcrowded cities cannot but help reduce the incidence of abject poverty, joblessness, and despair so prevalent in the ghetto today. At the same time, it will accomplish its aim of keeping the smaller towns and rural communities of America alive.

S. 15 and its companion proposals can well be hailed as pieces of legislative foresight aimed toward preventing economic strife rather than attempting to correct the problem after the damage is done. Without this type of help we fear that the problems we face in these areas today will be inconsequential compared to the socioeconomic problems faced by future generations.

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Mr. BULLEN. It was a pleasure, sir.

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The private sector, with tax incentive help such as is proposed in S. 15 can do much to fill the gap. Stemming the out migration will create job incentives, will strengthen existing businesses, and will return Rural America to a degree of economic prosperity. Business will follow the people and the demand. A corollary effect will be felt in the inner city. As the influx into the cities decreases, a proportionate lessening of city problems will follow.

Accordingly, the National Federation of Independent Business offers its full support to the principles and objectives of S. 15.

Statement of George S. Bullen

I am George S. Bullen, Legislative Director of the National Federation of Independent Business. I appreciate the opportunity to appear before your Committee today.

The Federation, founded twenty-six years ago, now represents more than 267,000 independents in all fields of enterprise. This means that, within the small business community of this country, almost one out of every nineteen existing small businesses is a member of the Federation. Our membership is representative of all facets of the business spectrum. A check of membership percentages in each business category will show that the composition of the National Federation of Independent Business falls within a very few percentage points of the overall makeup of the entire small business community. Therefore, we feel that we can reasonably say that the views expressed by our members do represent a valid cross section of the views of the whole small busines community.

Our legilative policies are determined by the direct vote of the membership, using the Mandate ballot.

The Problem

During the past decade we have seen a population growth of over 15 per cent in the metropolitan areas of the country. During this same period of time, our "non-metropolitan" rural areas, consisting of towns of less than 10,000 population and small villages and farms, experienced a population growth of only 3.3 per cent.[1]

This slow growth rate in rural areas is attributed to a rapid decline in farm population (about 4 million during the period 1960–1965), and a general out migration from the country to the cities.[2] As this out migration continues, we find that the unskilled and aged tend to migrate to the central cities, areas which are already facing almost insurmountable socio-economic problems. These ghetto problems have been vividly brought to the country's attention during the past few years.

Unless some successful efforts are made, and succeed, to stem this tide of out migration, we are going to see an even greater polarization of the economic life of the central or inner cities, and the suburbs, with the central cities' problems intensifying. We will also see a further decline in the small towns and rural areas to a point where they will be unable to offer employment opportunities to local residents. As this cycle continues, businesses will move out, taking with them the productive elements. We are left with the less productive elements of the populace, towns and villages with greatly reduced tax bases and finally, communities wholly incapable of supporting themselves or of even providing basic public services to whatever residents they may have left.

Coping With the Problem

Although the Federal Government has made great efforts during this decade to cope with this problem, its results in terms of job creation for rural areas are falling far short of the need. It has been estimated that there exists an *annual requirement for the creation of some 550,000 rural, non-farm jobs.*[3]

During the period 1961–1965, the Area Redevelopment Administration succeeded in creating some 65,000 new jobs in rural areas. We are told that the

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[1] Advisory Commission on Intergovernmental Relations 1968—Report entitled "Urban and Rural America: Policies for Future Growth."

[2,3] Advisory Commission on Intergovernmental Relations 1968—Report entitled "Urban and Rural America: Policies for Future Growth."

Economic Development Administration has been able to create some 75,000 new rural jobs since 1965. The Department of Agriculture through many different development programs administered from 1961 to 1967 was able to create some 210,000 new rural job opportunities. Between 1959 and 1967, the Small Business Administration, through its local development company loan program, has provided about 31,000 new jobs.

Recently I directed a letter to the Honorable J. Phil Campbell, Undersecretary of Agriculture, calling his attention to remarks made on the floor of the House by the Chairman of the House Small Business Committee, the Honorable Joe Evins of Tennessee, when he introduced H.R. 709, a bill similar to S. 15.

In their reply, the Department stated that the objectives of the legislation "have the full support of the Department of Agriculture."

The letter goes on to state that they now "estimate that non-farm employment opportunities have increased by around 200,000 anually in rural and semi-rural counties over the period 1962–1967". We have added this letter to our appendix, Mr. Chairman.

Even though all of these programs have been successful to some degree, the aggregate job creation comes nowhere near the estimated need of 500,000 per year.

PROMISES

Mr. Chairman, during both the Democratic and Republican National Conventions held last year, the National Federation of Independent Business presented as part of its testimony a plea for enactment of tax incentives for the redevelopment of rural areas. We said in part "* * * our country is now, and has for some time, been undergoing an 'Agricultural Revolution', which in many ways may be more crucial than the 'Industrial Revolution', of the 19th Century."

Fifty years ago three out of every ten of our people lived "on the farm". Today, fewer than one in ten does so.[4]

Twenty years ago, 36% of our native born population lived in rural areas. Ten years ago only 30% did so.[5]

During these periods there has been tremendous migration from rural to our denely populated areas.

The causes have been many and varied. For instance, there is productivity: while output per man hour was increasing, generally, from an index number of 67.9 in 1947 to 128.5 in 1966, farm output per man hour increased from 49.8 to 155.6.[6]

Under these circumstances, and in view of the general increase in wage levels experienced, it is only normal to assume that through this period it has been primarily the less-skilled who have made the trek from the farm. This has contributed to the current "problem of the cities."

There are those who contend that the solution to this "problem of the cities" lies in programs providing for job training. There are claims that thousands have been so trained and now have jobs. But, it has been pointed out that new thousands have moved into their places * * * so there has developed a standoff.

The Federation does not take issue with the concept of job training for the unskilled in the cities. It does question, however, the adequacy of this concept as a complete solution to the problem at hand. It holds that unless the flight from rural to urban America is halted, the "problem of the cities" may well prove insoluble.

Along these lines, by vote of 63% to 29% our members committed the Federation to support a bill introduced into the 90th Congress by Re. Joe L. Evins (Tenn.). Representatives Laurence J. Burton (Utah), Frank Horton (N.Y.), Donald J. Irwin (Conn.), and Wright Patman (Texas), have introduced either similar or identical bills. This measure would encourage commercial and industrial development in distressed rural areas by offering, in effect and among other helps, a double 7% Investment Credit to enterprises opening up new plants or branches in these areas, in cases wherein such openings provide individually 20 or more additional job openings per unit. (These bills are quite similar to the provisions embodied in S. 15).

Payrolls generated, and services required, by such enterprises might be expected to spread their benefits through all lines of trade in such areas. The experience of the Small Business Administration in its Section 502 (Local

[4] Table 892, Statistical Abstract of the United States, 1967.
[5] Table 14, Statistical Abstract of the United States, 1967.
[6] Table 332, Statistical Abstract of the United States, 1967.

Development Loan) Program—which remains a source of hope along the lines being discussed—furnishes adequate proof of this contention.

For instance, the following examples have been offered as indicative of what can be accomplished through use of the SBA Section 502 powers: [7]

"In rural sections of this country, we provided funds to assist in the construction of a roller bearing plant providing employment for 206 people,

"When a large steel company ceased its operations in a community of 11,000, we provided funds to assist three new industries to establish in that community, providing 85 job opportunities, and finally,

"In still another rural section of this nation, we aided in the construction of a hand-bag manufacturer, now employing 125 people in a town having a population of 700 persons. In fact, the same local development company in that town came to us for another loan to aid a manufacturer of men's and boy's socks employing in excess of 100 people."

Factory employees, for instance, purchase groceries, drugs, clothing, etc. Small business in the retail and service trades are encouraged to expand and modernize to meet mounting demands. And—importantly—in its 1965 survey the Federation found that small businesses which expand and modernize provide additional job openings at a rate of 2 for every 1 created by businesses undergo only normal growth.

In this connection, it must be emphasized that an average new plant employing 100 persons provides community assets which include:

100 more households with regular income.
$710,000 MORE per year in personal income.
$220,000 MORE per year in bank deposits.
$331,000 MORE per year in retail sales.
THREE MORE retail establishments.
65 MORE persons employed in non-manufacturing jobs.
97 MORE passenger cars registered.[8]

To be meaningful, however, the job openings would have to be open to those who, were they to migrate to the cities, would become a part of the hard-core unemployed—the unskilled workers of marginal productivity in industry, as these bills require.

According to our surveys, small businesses in these areas might be expected to train this type of worker for the more demanding callings. In their response to our 1966 survey, 68% of our members responded "yes" to the question "Could you take unskilled people into your business and be prepared to train them?"—and the affirmative response ran from 73%–74% among enterprises indicating primary involvement in manufacturing or wholesaling to 50% among enterprises indicating primary involvement in the professions.

For enterprises needing assistance, there could be made available the various existing private-federal sector programs such as the "On-The-Job" apparatus of the U. S. Department of Labor, in which thousands of small businesses have cooperated over the past several years, or special credits as proposed in Mr. Horton's bill.

It is not contended that these recommendations provide the sole, or even a certain solution to the problem of the cities. But it is contended that they should be given a trial. The concept is certainly within the scope of a growing philosophy of government—private sector cooperation and of a larger degree of local control over local affairs. It is generally in line, also, with conclusions reached by both Majority and Minority members of the Joint Economic Committee of the Congress.[9]

When the platforms of both parties had been drawn up, they included in part—

> *The Democratic Platform:* "The problem of rural poverty and the problem of migration of poor people from rural areas to urban ghettos are mainly non-farm problems. The creation of productive jobs in small cities and towns can be the best and least costly solution to these problems. To revitalize rural and small-town Ameria and to assure equal opportunity for all Americans wherever they live, we pledge to * * * Create new jobs by offering inducements to new enterprises—using tax and other incentives—to locate in small town and rural areas"

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[7] The Honorable Robert C. Moot, Administrator, Small Business Administration, May 20, 1968.

[8] Publication to "The People of Washington," the Trading Stamp Industry of America, 1966.

[9] Page 3, 1968 Joint Economic Report, 90th Congress, 2nd Session, Report No. 1016.

The Republican Platform: "Success with (the solution of) urban problems in fact *requires* acceleration of rural development in order to stem the flow of people from the countryside to the city * * * (We favor) a greater involvement of vast private enterprise resources in the improvement of urban life, induced by tax and other incentives * * * These principles as urgently apply to rural poverty and decay"

Further, President Nixon, during his campaign was not unaware of the problems facing rural America. On many occasions he made interesting statements involving the use of the tax incentive approach. Below are three quotes taken from the publication *NIXON ON THE ISSUES:*

"Tax incentives * * * should be provided to those businesses that locate branch offices or new plants in poverty areas, whether in the core cities or in rural America.

"Free enterprise goes where the profits are. Tax incentives can place these profits where the people are, and where the need is.

"Obviously the credits will reduce the revenues of the Treasury, at least in the short run. Thereafter, as the economic improvements become cumulative and new taxable income is generated, the net costs to the Treasury will decline and, in time, varnish.—"Nixon on the Issues," NBC Radio, May 2, 1968, Business Week, Sept. 27, 1968".

It would seem, Mr. Chairman, that we have sound committments from the Executive Branch to support the objective of your bill. We hope that these commitments will manifest themselves in the form of active support for S. 15.

INDUSTRY SOLUTION

The small business community of this Nation, now about 5 million strong, currently provides employment for more than 38 million people, or approximately 50% of the entire labor force of this country. As I said in the forepart of this statement, the National Federation of Independent Business represents some 267,000 businessmen, about 1/19 of the National total. A great majority of our members are located in rural areas and we have found that their comments and past experience provide an excellent barometer on business employment trends. We find that even among our members, employment is falling off. While no single reason is given in explanation, a variety of reasons are held responsible. Chief among these reasons are: increasing minimum wages, cost inflation, lack of interested young entry level workers and restrictive government tax policies.

In spite of the current lag in job creation, we fell very strongly that independent business can prove to be the chief catalyst in the effort to revitalize rural America and in the effort to reverse or reduce the migratory trend from rural to urban America. Given the proper opportunity climate, we feel that businesses will be more than happy to locate in rural areas, guaranteeing employment to the local residents.

The Federation has been polling its nationwide membership on issues very similar to S. 15 and we have found that our members are in strong support of the proposal. In November of 1968, we presented this issue to our members as a general question and found that 63% were in favor. Again in March of this year, we polled our members on H. R. 709 which is quite similar to S. 15 and found that 57% of our members supported it. Just this month we included S. 15 in our membership poll. Unfortunately, sufficient time has not lapsed for the returns to come in and be tabulated. As soon as these figures become available, we will be happy to furnish them to the Committee, if you desire.

So that you may see how we presented this issue to our members, we have included excerpts from our Mandate No. 333 showing the issue in brief, arguments "FOR" and "AGAINST" the proposal, and the nationwide vote of our members. Following this poll, the Federation issued a press release wherein we provided a state-by-state breakdown of the vote. We have included this state tabulation page here for your information, and have further included the full release as an appendix to this statement.

STATE BREAKDOWN FIGURES—ENACT LEGISLATION TO ALLOW A 7-PERCENT TAX CREDIT TO ENCOURAGE REDEVELOPMENT OF RURAL AREAS

State	Percent in favor	Percent against	Percent undecided	State	Percent in favor	Percent against	Percent undecided
Alabama	67	27	6	Nebraska	75	22	3
Alaska	70	27	3	Nevada	62	31	7
Arizona	57	37	6	New Hampshire	63	34	3
Arkansas	69	28	3	New Jersey	60	34	6
California	57	37	6	New Mexico	68	28	4
Colorado	66	29	5	New York	64	31	5
Connecticut	57	36	7	North Carolina	61	34	5
Delaware	57	40	3	North Dakota	76	18	6
Florida	61	33	6	Ohio	58	36	6
Georgia	72	25	3	Oklahoma	70	26	4
Hawaii	68	29	3	Oregon	54	38	8
Idaho	66	29	5	Pennsylvania	63	32	5
Illinois	60	34	6	Rhode Island	56	44	....
Indiana	60	34	6	South Carolina	64	31	5
Iowa	69	25	6	South Dakota	73	24	3
Kansas	68	27	5	Tennessee	66	28	6
Kentucky	55	39	6	Texas	63	32	5
Louisiana	68	25	7	Utah	65	26	8
Maine	62	30	8	Vermont	62	33	5
Maryland	63	31	6	Virginia	67	26	7
Massachusetts	59	33	8	Washington	61	33	6
Michigan	60	34	6	Washington, D.C.	55	36	9
Minnesota	72	22	6	West Virginia	60	26	14
Mississippi	70	24	6	Wisconsin	61	33	6
Missouri	67	27	6	Wyoming	69	27	4
Montana	60	34	6				

The Mandate

REG. U. S. PAT. OFF — Published by

NATIONAL FEDERATION OF INDEPENDENT BUSINESS

The Largest Individual Membership of Any Business Organization in the United States
A Non-Profit Corporation

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Covington, Kentucky 41011 — New York, N. Y. 10019

That Our Nation Remain the Land of Opportunity By Giving Small Business Fair Consideration

 Bulletin No. 333

Are you for or against Congress enacting legislation to allow businesses an additional 7% tax credit on the cost of machinery and equipment to encourage the redevelopment of rural areas?

This proposal would also include 5 year write-offs for the cost of plant and real estate, plus tax incentives for training workers

☐ FOR ☐ AGAINST ☐ NO VOTE

2. **Argument for the proposal:** Proponents of this type of legislation believe it will assist small towns and rural areas to develop their resources and their people and provide jobs for those who do not want to join the mass flight to urban areas. In this regard the proposal will help the overcrowded cities also. The aim of this proposal is to bring the benefits of our expanding economy to rural and small town America. Too little attention has been paid to this sector of our economy. This proposal provides an incentive to business to locate in rural America.

2. **Argument against the proposal:** Opponents of this type of legislation believe that it may do more harm than good, especially to the smaller, independent businesses already established in the various rural areas. To qualify, a business moving into one of these rural areas must guarantee to create a minimum of 20 new jobs; half must be for local residents. This incentive might be most helpful to larger, expansion-minded businesses. No special incentives should be made to aid rural areas. It is useless to try and change population trends by tax incentives.

Results of this poll were:

	FOR	AGAINST	NO VOTE
2. Enact legislation to allow a 7% tax credit to encourage redevelopment of rural areas	63%	31%	6%

CONCLUSION

Here in conclusion, Mr. Chairman, we in the Federation feel very strongly that the proposals embodied in S. 15 are vitally needed if something is to be accomplished in restoring some semblance of economic prosperity to rural America. Further, we feel that enactment of this legislation will serve as a strong dose of preventive medicine in curing the ills we face in the urban and central city areas. Tax incentives aimed at keeping people out of the overcrowded cities cannot but help reduce the incidence of abject poverty, joblessness and despair so prevalent in the ghetto today. At the same time, it will accomplish its aim of keeping the smaller towns and rural communities of American alive.

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NATIONAL FEDERATION OF INDEPENDENT BUSINESS, INC.

SAN MATEO, CALIF.

THE BRIEF FACTS

The scarcity of employment opportunities in rural and small town areas and the concentration of industry into crowded metropolitan centers are twin problems reflecting economic imbalance in the United States. One Congressional plan to stimulate location of new enterprises in "small-town America" would provide tax incentives for businesses which establish new facilities in underdeveloped areas, providing that at least 20 new jobs are created. This tax incentive approach is favored by 63 percent of the independent business owners polled by the National Federation of Independent Business, and opposed by 31 percent with 6 percent undecided.

A tax incentive program to induce economic expansion of rural and small-town America could prove a most effective solution to the twin problems of rural stagnation and urban over-concentration. More effective, perhaps, than massive government spending programs.

That's the prevailing opinion among the nation's independent business proprietors, revealed in a poll by the National Federation of Independent Business. Sixty-three percent of the businessmen endorse a Congressional proposal to give special tax treatment to firms which, when expanding, choose to put their new plants or offices in non-urban areas.

These businessmen see it as a no-expenditure approach to the problem of economic imbalance which is creating, on the one hand, "a rural wasteland" and on the other, "an urban slum."

Nationally, 31 percent of the proprietors oppose the plan and 6 percent are undecided.

In (Name of State), —— percent approve the idea, —— percent dissent, and —— percent have no firm opinion.

The proposal first made by Representative Joe L. Evins of Tennessee, Chairman of the House Small Business Committee, following committee hearings in 1967 has been reintroduced by him in the current session. Business owners then favored it by a 2-1 margin.

Its major provisions are a 7 percent tax credit for machinery and equipment costs (in addition to the present 7 percent investment tax credit now in effect) and quick amortization of real estate expenses for companies when they establish branch operations in "small-town America," provided that at least 20 new jobs are created. Tax allowances for training new workers from the immediate area are also included.

Representative Evins believes this would help de-centralize the U.S. economy, which has crowded 70 percent of the population into little more than 1 percent of the land area.

He—and the businessmen—are concerned with the continued exodus of young people from small towns to large cities. The Economic Development Administration has said the continued migration of job-seekers results from "the push of poor rural conditions rather than the pull of urban economic opportunities."

For every 177 rural youths reaching working age, the Department of Agriculture has said, there are only 100 new jobs. More than half a million non-farm jobs need to be created in rural areas each year to halt the farm-to-city migration, experts say.

The rural job development program pushed by Representative Evins received bi-partisan support late in the 90th Congress, and it fits in with President Nixon's view that tax incentives to private enterprise can be an effective means of achieving social and economic goals. The additional seven percent tax credit on equipment plus the "tax recovery" of real estate costs in five years would be strong incentives for any expanding company.

Few of the independent businessmen who support the plan would be likely to qualify for its tax benefits, which would go mostly to big business. However, those in "small-town America" would gain indirectly by the location of new enterprises in their communities.

In view of the depressed farm prices during a period of inflation, the National Federation of Independent Business believes the rural-aid bill should receive prompt attention from the 91st Congress.

DEPARTMENT OF AGRICULTURE,
OFFICE OF THE SECRETARY,
Washington, May 1, 1969.

Mr. GEORGE S. BULLEN,
Legislative Director,
National Federation of Independent Business,
Washington, D.C.

DEAR MR. BULLEN: Under Secretary Campbell has referred your letter of February 25 to me. My apologies for the delay in responding.

We very much appreciate your interest in Representative Evins' Rural Development Incentive Bill. As I am sure you know, the objectives of this bill have the full support of the Department of Agriculture. The arguments in favor of stimulating nonfarm employment opportunities outside metropolitan areas are, in our opinion, most compelling.

Though the high level of our national prosperity has recently contributed to a more rapid rate of growth in employment opportunities outside metropolitan areas, there is much yet to be done. Thus, while we estimate that nonfarm employment opportunities have increased by around 200,000 annually in rural and semi-rural counties over the period 1962–67, we find that this barely matches the annual decline in farm labor requirements alone. The number of potential labor force entrants exceeds the number of departures due to natural causes by another 230,000 annually. Unless newly created jobs can be made available nearer their present places of residence, a large share of these new entrants will have no alternative but to migrate to large population centers or to join the ranks of the under-employed.

We in the Department of Agricultuer are committeed to seeing that these young people are not constrained to the latter alternative. Job development will play a key role, therefore, in our future strategy for area and regional development.

Thank you again for your expression of interest.

Sincerely,

ALFRED L. EDWARDS,
Deputy Assistant Secretary.

Senator HARRIS. I do not believe Mr. Tony Dechant is in the audience.

Mr. John Shearer?

I think what we will have to do, then, is stand in recess until 2 p.m.

(Whereupon, at 11:30 a.m., the committee recessed, to reconvene at 2 p.m. of the same day.)

AFTERNOON SESSION

Senator HARRIS (presiding). The commitee will be in order.

Our first witness for the afternoon is Dr. John Shearer, professor of economics and director of the Manpower Research and Training Center, Oklahoma State University, Stillwater, Okla.

Dr. Shearer, I have previously said in these hearings that the Subcommittee on Government Research, which I chair, and Oklahoma State University and Ford Foundation had joined together in sponsoring the manpower conference in Stillwater last year. There has been other references to it by other witnesses just again this morning; there was reference to that conference and a quotation made at it. So I am grateful that you cared enough to be here in person and present testimony on the part of yourself and Dr. Poole, who have been deeply involved in this subject and, of course, were deeply involved in that conference.

I think the fact that as this record is studied by members of this committee and by the Senate and others, it will be recorded in the record that you were here in person, that you cared enough to be here in person, and that will add weight to your testimony.

So we are very pleased you are here and will be glad to hear from you at this time.

STATEMENT OF JOHN SHEARER, PROFESSOR OF ECONOMICS AND DIRECTOR OF MANPOWER RESEARCH AND TRAINING CENTER, OKLAHOMA STATE UNIVERSITY, STILLWATER, OKLA.

Mr. SHEARER. Thank you very much, Senator. We appreciate the invitation.

My name is John C. Shearer. I am professor of economics and director of the Manpower Research and Training Center, Oklahoma State University. I am testifying also on behalf of Dr. Richard W. Poole, professor of economics and dean of the College Business Administration, Oklahoma State University, who also was invited to serve as a witness. In order to conserve university travel funds I shall present a statement which we prepared jointly. We would like to point out that our testimony reflects considerable work related to this legislation over the past 2 years in conjunction with our colleagues in economics and agricultural economics: Professors Leftwich, Sandmeyer, Stevens, Tweeten, and Warner. Our testimony therefore is the result of many views of the problems and the solutions to which the bill addresses itself.

Over the past several years we have completed research in a number of areas closely related to the bill: For example, a major study of the very low labor force participation rates in the four-State Ozarks region, studies of growth by economic sectors in Oklahoma and elsewhere, comprehensive statewide studies of the supply and demand of technically trained people, studies on rural economic development, and studies on the rural and urban impact of the rural-to-urban population shift.

As you have just mentioned, we were cosponsor with yourself and the Ford Foundation in May of 1968 of the National Manpower Conference entitled "The Rural to Urban Population Shift: A National Problem." This conference was the first such recognition of the population shift as a truly national concern, in that the flood of rural refugees both results from and contributes to the lack of rural opportunities while at the same time contributing substantially to the aggravation of urban problems. Over 700 key people attended this conference and it has stimulated considerable concern and research on these problems. The papers presented at the conference appear, as you know, as a committee print of the Senate Committee on Government Operations.

The studies which we have conducted convince us of the great importance of public policies to promote rural job development as a direct antidote to the problems of rural underdevelopment and of urban overdevelopment. We are convinced that the use of tax incentives to modify serious geographic imbalances in economic opportunities will promote economies of scale throughout the country, in both underdeveloped and overdeveloped areas, by encouraging the development of the former. Such tax incentives will thus reduce the increasing diseconomies of scale. That is to say, the higher costs which now characterize those areas of greatest concentration of jobs and population.

Without encouragement of industrial growth in the uncongested areas we feel that the events of recent years clearly demonstrate that the already great social costs of overconcentration, such as the costs to the public of congestion and pollution, will increase still further. We hasten to acknowledge that no one has reliable estimates of the social costs of concentration. Nevertheless, we are convinced by developments throughout the country that these costs are already immense and that they will continue to increase rapidly unless such measures as those provided in this bill provide alternatives to increasing concentration. The fact that geographic concentration of industry is already great and continues to increase is strong evidence that many individual firms continue to enjoy certain private economies of scale associated with concentration in urban centers. Although, at least in the short run, individual firms may benefit from concentration, it is probable that the economic advantages for individual firms are far exceeded by the great social costs or diseconomies associated with heavy urban concentration. In other words, we feel that the public pays, in many economic and noneconomic ways, vastly more than private firms may save by continuing to congregate in already congested areas.

The following are some illustrations of major social costs resulting from the heavy concentration of jobs and population in urban areas:

1. TRANSPORTATION

Travel congestion on highways and in air facilities result in immense wastes of resources, not the least of which is the time of the millions of people who experience serious delays between home and work on every business day. Costly remedies are being implemented, often with massive public subsidies, to improve urban and intercity mass transit facilities: for example, the Bay Area Rapid Transit system, for which they floated bond issues totaling a billion dollars, and the high-speed railroad developments for the Northeast Corridor, with heavy public subsidies involved.

2. CRIME AND DELINQUENCY

The social costs of unsafe streets, unsafe homes, unsafe automobiles, unsafe schools, et cetera, are incalculable and are increasing. Public alarm is reflected in the increased resources being applied to police and fire protection, especially in urban areas.

3. POLLUTION OF THE ENVIRONMENT

Ecologists properly decry the rapidity with which man is rendering his air unfit to breathe and his water unfit to drink or to enjoy. These problems are intimately associated with urban concentration. Meaningful efforts to reverse the dangerous trends are usually very costly.

4. HEALTH

Although health services are concentrated where populations are dense, the health of ghetto residents suffers not only as a result of poverty but also from the lack of health services available to them in the ghettos. There is increasing concern that more public resources be used in congested urban areas to upgrade levels of health.

5. BLIGHT

Although the decay of inner-cities often assaults man's esthetic sensibilities, the associated rats and vermin assault his person and those of his children. The reversal of the serious erosion of the quality of urban life is a vastly complex and expensive public responsibility.

6. EDUCATION

There are few urban educational systems which have not suffered deterioration in quality due to the pressures of population, especially in ghetto areas. The costs to the Nation (and the costs to the individual students) of overburdened urban educational systems constitute an immense and undesirable legacy which we are imposing on the future.

Again, we cannot accurately estimate the costs, economic or social, associated with such diseconomies of scale, but each of us knows from personal experience that these costs to individuals and to society are already immense and that they are growing at alarming rates.

On the other hand, many rural areas have major problems too, but these generally result from an opposite circumstance. Rural communities seldom attain the level of economic activity which affords them the advantages resulting from economies of scale. Furthermore, many of the high costs in rural areas result not from congestion but from underutilization of existing facilities. We feel that in many of the areas enumerated above, rural areas can offer significant advantages, especially as they attain higher levels of economic activity which will allow them to enjoy increasing economies of scale. These economies can be attained both through the creation of new supporting facilities and through higher levels of utilization for already installed facilities. For example: To enumerate the six points above in a rural context.

1. TRANSPORTATION

Most highways outside metropolitan areas are singularly uncongested and can support considerably more traffic at no additional cost. This is particularly true of the interstate highway system which will soon connect virtually every area of the country. We also have a lot of air out there. Not only are the skies uncongested, but so are the airports. Many rural communities, even of quite small size, boast airports quite adequate for much higher levels of general aviation and feeder airline traffic.

2. CRIME AND DELINQUENCY

Crime rates relative to population are invariably less in rural areas than in urban areas. We expect that this will continue to be true.

3. POLLUTION OF THE ENVIRONMENT

Suffice it to say that there is still a lot of fine fishing and good breathing available in our rural areas.

4. HEALTH

Although rural environments are generally more conducive to the maintenance of health than are congested cities many rural areas are too thinly populated to support adequate health services. This is another example of where a greater density of jobs and of people would allow considerable economies of scale.

5. BLIGHT

Although many rural areas and towns have appreciable amounts of of substandard housing and unsightly structures, their settings in uncongested space offer alternatives of natural beauty which are usually inaccessible to urban dwellers.

6. EDUCATION

Here again, economies of scale with consequent improvements in quality are quite possible in public education in many rural areas. That this is true was demonstrated by the historic movement to consolidated schools.

Thus, although rural areas are often seriously disadvantaged by the lack of economies of scale, the encouragement of new jobs for rural areas will substantially increase the economies of scale available in them. This will substantially reduce public and private costs in rural areas while at the same time reducing the pressures and costs of increasing urban concentration. Therefore, we strongly support this legislation which will encourage the development of alternative job opportunities outside the already overconcentrated metropolitan centers. It is clear that the problems of the lack of rural job opportunities and the problems of heavy migration of the poor to urban slums are intimately associated. Therefore, we feel that such a pubiic policy would benefit all parts of the Nation, rural and urban, while enhancing the economic advantages which have contributed so much to this country's growth. Perhaps the best demonstration of the national nature of the need for rural job development is in the great urban unrest and rioting, invariably associated with the poor and often with those who recently migrated from poor rural areas where reasonable economic opportunities have been scarce.

We are uncomfortable about the limitation of eligibility to communities of less than 50,000. It might be advantageous to set the upper limit at 100,000. However, due to a lack of specific evidence about economies of scale we are not prepared to make a specific recommendation but suggest additional deliberation on this point by the committee, its staff, and advisers.

The eligibility criteria would cover almost all non-SMSA counties in Oklahoma, and indeed in many other States. For example, using 1960 census data, two of the wealthiest rural counties, Kay and Washington, would qualify. On the other hand, some of the poorest rural counties, such as Sequoyah, Le Flore, Osage, and Canadian, would not be eligible because they fall within SMSA's. The very broad eligibility means that new economic activity would probably not be attracted to the poorer areas. The 15 percent of poverty families criterion might be increased in order to focus the incentives on poorer counties. As now stated, the act might induce industry to enter a poor county right next to an ineligible county with a city of over 50,000 population which might be a far more viable growth center.

Senator HARRIS. As you know, I feel that you have made some worthwhile criticisms and suggestions in those statements you have just made about the criteria. I discussed those ideas with Senator Pearson late last year, following my conversations with you and with Dr. Poole. I appreciate very much the studies that you have made of this bill and its application to specific situations in Oklahoma. Senator Pearson felt that he wanted to go ahead and introduce the bill in this form, but he said himself yesterday, as we began these hearings, that he felt the criteria would have to be looked at again very carefully and I think he meant along the lines which you had previously suggested.

I do, too. I think the criteria have to be worked with. He made clear yesterday, as I have also, that we are not bound to the specifies of these criteria or to everything in this bill. It is the general thrust of the bill, the ideas of the bill, that we are very strongly for and we are quite willing to try to work out any of these legitimate criticisms of it.

I think the one that you have just made is one which concerns us probably most of all.

Mr. SHEARER. Good. If we can be of further help, we will be very pleased. As you know, Dick Poole, Art Warner and others have these county building block data assembled which can test some of these things as to how they might apply to our particular State. Unfortunately, this short of thing is not available in other States. We have it computerized. We can get outputs very quickly. We will be glad to be of whatever service we can.

Rather than specify "Indian reservations," it might be preferable to certify areas with high concentrations of disadvantaged minority groups. For example, although Oklahoma has the second largest Indian population, it has no reservations. Of course, there are areas in the country, not so much Oklahoma, where there are high concentrations of Mexican-Americans and what have you who might be deserving of the consideration that is focused on Indian reservations as such. We would advocate keeping the idea but not limiting it to that.

We suggest that the minimum of 10 new jobs might be too small and that 25 might be a better figure. A higher limit would tend to attract larger enterprises, most of which would not constitute threats to small local firms in the service industries. There might be a lot of opposition if indeed, the bill does attract little, service-oriented firms. Here the small towns might object strongly. A higher number-of-jobs figure might remove a lot of opposition and generally, more significant firms go into rural areas.

We suggest that the percentages of tax credits should vary with the extent of poverty and/or unemployment in particular areas. The bill as now stated has variability depending on low density of population only. We are not sure that is as meaningful as some credit or poverty criteria. We like the variable aspect a lot, but we would like to see it applied differently.

A similar variable relationship might also supply to the accelerated depreciation provision.

In conclusion, and this is our most important suggestion, we should like to point out that three of the four tax incentives relate to physical capital and only one relates to employment. On balance, the impact of these incentives may well be to offer considerably greater incentives to highly automated industries with heavy capital investment but with few new jobs to offer. To the extent that this may occur, the bill's primary objective of rural job creation is compromised. There may be secondary benefits. A highly automated industry might create jobs outside that firm, it is true. But it might be well to consider reduction of the capital incentives, relative to the payroll incentives. The payroll incentives in the bill are limited to training periods. For many industries very short training periods are needed for most of the occupations, thus resulting in very little payroll incentive. We suggest further consideration of additional incentives related to new jobs created by the firm coming in. For example, a tax credit of 15 percent of payroll for the first year of operation, 10 percent for the second year and 5 percent for the third year.

Thank you for this opportunity to appear before you and to present these observations. We sincerely appreciate your interest in this most vital issue for the whole Nation.

Senator HARRIS. Well, thank you, John. I really appreciate the suggestions that you have made. I know that the committee will, also, as will the principal sponsor, Senator Pearson. I have already indicated his feeling on one aspect of the suggestions which you have made. I think the others are equally entitled to very careful consideration. I think they raise some meritorious questions which this committee is going to have to deal with as it considers this bill. So I believe that your testimony will be awfully helpful to us and I think it is some of the most constructive testimony that we have had.

Mr. SHEARER. Thank you.

Senator HARRIS. Thank you, sir.

Is Mr. Conway here?

Mr. H. M. Conway, president of Conway Research, Inc., of Atlanta, Ga. He is our concluding witness.

I may say that without objection, others will be allowed to file statements within the time the record will be left open, through June 13.

Mr. Conway, we are very pleased you are here and we are happy to hear from you at this time.

STATEMENT OF H. M. CONWAY, PRESIDENT, CONWAY RESEARCH, INC., ATLANTA, GA.

Mr. CONWAY. Mr. Chairman. I am delighted to be here. I am sorry that I was not able to come in this morning. By coincidence, there was a meeting this morning of the task group which Vice President Agnew has formed to study certain elements of the national development strategy. As I sat through that meeting, I could not help but observe the direct relationship between the enunciation of an overall national development strategy and what I consider a very vital component; that is, an approach toward rural development.

I did not come by with a detailed analysis of this piece of legislation. I merely wanted to go on record as supporting it as an important move in the right direction. I have a very brief comment I would like to make about it.

Senator HARRIS. Good.

Mr. CONWAY. The farmworker who migrates to the big city is a pawn in two great national problems. In the rural community, his departure illustrates the downward trend in farm employment and the inability of many small towns to generate enough new jobs in industry and services to hold their population.

In the big city, the displaced farmworker is part of another and more widely publicized problem—the enormous pressures being placed on metropolitan areas by the heavy influx of low-income groups needing housing, welfare coverage, and, again, jobs. To a degree, both problems exist throughout the country.

Many new programs have been put forward to cope with the problem of the central cities. Even so, when we view the estimate that the Nation's population will increase by 100 million by the year 2000, it is apparent that if present trends are permitted to continue, the pressure on central cities will be intolerable. This is a classic case of having to run very fast in order to stand still.

It has been evident for some time that the Nation must adopt an overall development strategy. Only by looking at the rural problem and the urban problem as part of a larger picture can a logical approach be evolved.

Such an overview suggests that a key element of our national strategy must be the achievement of a more logical distribution of our future growth. While cities will continue to grow, specific attention must be given to reducing the pressure on our cities by building new growth centers and strengthening existing centers in the rural hinterland. Such a strategy would be good for the rural areas, and good for the Nation, and of course, good for the cities, too.

In order to achieve a better distribution of people in the future, it is necessary to encourage a better distribution of jobs. If a growth center is to be healthy, it must stand on its own economic base.

Therefore, the best way to promote the national strategy is to provide incentives whereby decentralized development will be carried forward by private enterprise. As compared with any developments undertaken by public agencies, such private programs will produce better results more quickly, and more efficiently.

The Rural Job Development Act (S. 15) is an important step in the right direction.

Thank you.

Senator HARRIS. Well, thank you very much. I appreciate your taking the time to come here. I am glad that a person like you is involved with the group chaired by Vice President Agnew. I think we need those kinds of ideas injected in all levels of government, and we are glad to have you here in regard to S. 15.

Mr. CONWAY. Thank you, sir.

Senator HARRIS. Thank you.

That concludes the public hearings on S. 15. The committee will stand in recess subject to the call of the Chair.

(Whereupon, at 1:30 p.m., the hearings were concluded and the committee recessed, subject to the call of the Chair.)

(By direction of the chairman the following communications are made a part of the printed record:)

STATEMENT OF HON. WALLACE F. BENNETT, A U.S. SENATOR FROM THE STATE OF UTAH

RURAL JOB DEVELOPMENT ACT

Mr. Chairman: I want to express my appreciation for this opportunity to present my views to the Finance Committee on S. 15, the Rural Job Development Act of 1969, a bill which I am pleased to co-sponsor.

The need for job development in our rural areas presses increasingly upon us. As pointed out in a recent University of Utah Study (Interpersonal Relationships: Factors in Rural Rehabilitation, University of Utah Rehabilitation Research Institute), while the rate of unemployment nationally is about four per cent, this rate shoots up to about eighteen per cent in rural areas and runs as high as thirty-seven per cent among farm workers.

But the problems of the rural areas are increasingly becoming the problems of our urban areas and people, in search of jobs, pour into our already overcrowded and overburdened cities.

This rural drain has led to 70 per cent of our people living on only 1 per cent of our land while 30 per cent live on all the rest.

To those of us from Utah, this statistic becomes meaningful when we think in terms of our own sparsely populated area. If the entire population of the United States lived in the same density as do the residents of Harlem (according to the 1960 Census, 139,694 to the square mile), we could place every American in any one of nineteen Utah Counties. For example, we could put more than 200 million Americans into medium-sized Beaver County, Utah which now has a population of around 4 thousand, and still have a thousand square miles to spare. This is the nearly incomprehensible density of people which is being fed by rural migrants.

One unfortunate result of such concentration is that the cost of government increases even faster than does the population. For example, according to former Secretary of Agriculture Freeman, the capital outlay required of the city of New York to provide facilities for each commuter is $21,000; in Washington, D.C., that outlay rises to $23,000 per commuter car. Contrast this with the total street department budget for the entire year in Fargo, a North Dakota city of 50,000, which this year will spend less than $10 per citizen on all its transportation facilities.

But even greater than the spiraling economic cost of the rural to urban drain is its spiraling human cost. It is tragic to see the frustration and misery of so many rural people who are thrust by lack of economic opportunities at home into the hostile environment of the teeming urban area. Surely this frustration and misery is a great factor in the tragic events erupting in our cities.

Since the major reason for this rural drain to the cities is the lack of employment opportunties in rural areas, this Act would offer genuine incentives to potential industries to locate their plants in rural areas and help check this growing problem. Provisions of the Rural Job Development Act include federal tax incentives such as: (1) special tax credits related to the cost of buildings and equipment; (2) special accelerated depreciation schedules; and (3) extra deductions for wages paid to low-income persons. The Act would require that participating business show that its operation will create new jobs and hire a certain percentage of its work force from the locality and from low-income categories.

Mr. Chairman, there is no inexorable law which dictates that the cities must ever grow and the rural areas diminish. There are other alternatives besides the populating of our small towns by only older people, boarded up shops and grass growing in the sidewalks. The Rural Job Development Act helps provide such alternatives.

Statement of Hon. Howard W. Cannon, a U.S. Senator From the State of Nevada

Mr. Chairman, as a co-sponsor of S. 15, the Rural Job Development Act of 1969, I am pleased to state my enthusiastic support of this bill as a means of revitalizing the economically underdeveloped areas of rural America. I am especially interested in this bill as a means of infusing new economic life into the rural Eastern counties of Nevada, which have lagged behind the impressive economic growth enjoyed by the rest of the state.

The long-standing economic stagnation of Nevada's Eastern counties is not peculiar to Nevada, however. There is ample, moving, and even heartbreaking evidence of this unfortunate situation in "The People Left Behind," the 1967 report by the President's National Advisory Commission on Rural Poverty. So widespread is rural poverty, the report points out, that it has reached the proportions of national disgrace. Even with the swell of rural migration to our cities—migration that has only intensified our urban crisis by adding unskilled, dependent people to slums and intensified our rural crisis, as Senator Pearson has pointed out, by draining rural America of its brightest young people who are drawn to urban opportunities—there were in 1967 some 14 million impoverished people left behind in rural America. And this tragic situation is bound to worsen: the Report points out that in the brief period of 15 years, from 1950 to 1965, improved mechanization and farming methods increased farm production in the U.S. by 45% but also reduced farm employment by 45%—and another 45% decline in farm labor is predicted during the next 15 years, unless remedial and preventive measures are taken. It is pertinent to note that as of 1964 the number of commercial farms in Nevada had declined to 1,608 and that, of these, 460 had an annual income from the sale of farm products of less than $5,000.

Clearly, farm subsidies and other approaches have not provided a totally satisfactory response to the rural challenge, a problem that urgently needs an economic stimulant like the industry tax incentives provided by S. 15.

In rural Nevada, there are untapped resources for industries interested in exploring the possibilities provided by mining, ranching, and recreation. The Nevadans who live in this area, isolated by geographical accident and changing industrial requirements from the economic vitality of the rest of my state, would benefit enormously from the job opportunities this bill is designed to provide.

While S. 15 is not a panacea, I believe it is a most promising and constructive step toward revitalizing rural America. I welcome the opportunity to cosponsor and support this bill, and I urge its favorable consideration by the Committee.

Statement of Hon. Bob Dole, a U.S. Senator From the State of Kansas

America has been striving for many years to bring more and better industries into her many rural areas. With the tremendous problems caused by the population explosion in our cities, the need is even greater. The adoption of the Rural Job Development Act of 1969 will develop new promise of bringing industry and livelihood into the small rural communities. The proposed legislation will work to relieve the tremendous pressures of industry to concentrate in the large metropolitan areas which have attracted both the skilled and unskilled labor away from the rural areas.

The Rural Job Development Act of 1969 will provide tax incentives in order to entice industry into the rural America. Special tax credits will be provided in relation to the cost of building and equipment, with accelerated depreciation schedules. These provisions are granted in order to offset the high costs of transporting the raw materials for production, and the finished goods to market.

These incentives combine effectively to help bring industry into the small communities, which often times do not have the trained manpower necessary for production. In case of a lack of skilled workers, industry can benefit from the act by training the local unskilled worker and then receive a fifty percent tax deduction on wages of the trainee. Many untrained workers have agricultural skills which can easily be rechannelled to meet the needs of the employer.

The tax incentives represent an insignificant loss of tax revenue compared to the economic and social benefits which would be received from those who are retrained and thus become productive and contributing taxpayers. In addition, it is far less expensive to educate, transport, and protect members of a rural community.

America needs to more effectively utilize the resources and manpower of its rural areas. I wholeheartedly urge the adoption of this measure in order to support the rural communities in their drive to attract industry and indirectly to relieve the pressures on the cities.

STATEMENT OF HON. CLIFFORD P. HANSEN, A U.S. SENATOR FROM THE STATE OF WYOMING

Mr. Chairman, as one of the co-sponsors of the Rural Job Development bill, S. 15, I would like to emphasize the urgent need for such legislation—not necessarily for the benefit of Wyoming, but for the nation as a whole.

A follow-up report of the Kerner Commission study of civil disorders says we are not doing enough to solve the problems of our over-crowded cities, and that we may expect more strife and trouble.

While this bill was not intended as an immediate cure for the problems of our over-crowded cities, it would, I believe, offer some long-range solutions to the problems of the metropolitan areas and would, at the same time, help revitalize the small towns of America and halt or reverse the trend of migration to the cities.

Main Street of America has suffered in many small towns, as farming and ranching operations grew larger and the family farmer with a quarter- or half-section found it more and more difficult to earn a living, especially under a farm program that has failed to keep farm income in step with the rest of the economy.

Many thousands of these small farmers and their children have given up in their attempts to squeeze a living from the land, as costs of living and producing skyrocketed but farm commodity prices didn't. Most of these good people would have preferred to remain on the farm, but moved to the city hoping to find employment and to be able to make ends meet. Rising city welfare rolls provide solemn testimony to their disillusionment.

There was seldom an opportunity for their sons and daughters to remain on the land or to acquire land of their own or engage in other pursuits near home.

A chain reaction has followed in many small towns in areas long dependent upon an agricultural economy. Some of the smaller towns succumbed entirely, while others have hung on; but closed and boarded-up stores and buildings in many of them are mute evidence of the exodus to the cities.

Rapid mechanization and modernization through technology have eliminated the need for many farm workers who, although often ill-equipped for the city or industrial job market, had no place else to go.

Job training and placement programs often have only aggravated the situation in large manufacturing centers, where the word went back that jobs were available—and more jobless poured in. Unemployment rates in many of these centers have been high and idleness has generated unrest, violence and lawlessness. Our rural communities have been relatively free of these problems, but have enough of their own in trying to provide for their own needs in the face of lowering tax bases and rising demands for better schools, roads, sanitation facilities and for matching funds for rapidly-proliferating Federal programs.

Mr. Chairman, many of these rural migrants have been sorely disappointed with the quality of urban environment, especially the environment in which they were economically trapped. And this had led to added burdens for the cities—more taxes for more schools, hospitals, housing and the inevitable welfare payments.

Mr. Chairman, many of these rural migrants have been sorely disappointed on the farm or in small farms, where the so-called cultural opportunities may not be so great but the quality of the environment—air and open space—is certainly superior to that in the city.

Enactment of the rural development legislation, S. 15, could benefit the cities, as well as the rural areas, by encouraging more people to remain on the farms and in the small towns. Employment close to home would certainly be an incentive, as has already been proven in a number of regional redevelopment programs.

And the tax incentives to industry to locate in such areas and to train and employ local people seem far more desirable than the urban renewal problems that inevitably result from more crowding in our cities.

Even tax-wise, the loss in revenue through such tax write-offs would probably prove to be a plus when compared with the endless and increasing welfare, unemployment and other tax costs the cities must incur as more displaced rural citizens crowd in.

I understand that several questions have been raised as to the administration and financing of such a program, including a possible conflict between two Federal agencies in granting tax incentives and in the method of financing such a program.

The bill as drafted provides for tax incentives which I would favor; but I would agree that tax incentives are not the only way. A formula of loan guarantees or some other approach might also do the job.

More important is to get the program underway, by whatever workable formula the Committee may agree on. This bill embodies what I believe is a direct and logical approach to one of our most serious domestic problems.

Statement of Hon. Roman L. Hruska, a U.S. Senator From the State of Nebraska

Mr. Chairman, agriculture is the nation's biggest single industry, employing more people than the auto industry, the steel industry, the transportation industry and the utility industry combined. Yet, because of greatly improved technology, our farm population has declined from 30.2 million in 1940 and 23 million in 1950, to an estimated 11.6 million in 1966. Over the past 15 years alone, farm output has increased per man hour by an average of 5.8 percent a year, while non-farm industry output has grown at only about half that rate. Our farmers provide a greater contribution to the economy than every before, even though they are fewer in number.

In my own State of Nebraska, the number of farms has dropped in the last 11 years from 100,000 to 76,000 and is expected to continue to decline. Agricultural employment has been reduced by more than 43,000 people.

The technological revolution on the farms has had a telling effect on Nebraska and other rural areas.

It is estimated that during the 15-year period of 1960 to 1975, out-migration from Nebraska will cost in total expected lifetime income an average of $350 million annually—a sum of five and one-quarter billion dollars.

As the farm population dropped, the need for services performed by the businessmen and tradesmen of our small towns and cities also declined. The onrush of farm technology obliterated the jobs of many small farms and farm helpers, and the jobs of many small town enterprises, sending masses of people to the urban centers in search of employment to provide for themselves and their families.

All too often, the jobs sought have escaped the hunter, or when found, proven to be less than expected and less than needed.

Moreover, this out-migration of rural Americans has created additional problems in our cities and compounded those already existing. History has clearly shown that migration to the cities is not the solution for many of our rural dwellers. Yet, economic necessity forces them to move.

The population of rural America is less than 30 percent of the total population of our nation; yet, half the nation's poor, half those receiving old-age and child-care assistance, and almost half of the nation's people living in substandard housing are in rural America. Nearly 14 million rural inhabitants, one out of every four, are poor.

This situation can not be permitted to continue. Action must be taken and it must be taken now.

There is also another side to this matter. A national survey conducted during November, 1968, by International Research Associates, disclosed that 70 percent of the persons who live in small towns and 75 percent of those who live in rural areas are satisfied and prefer to live there, but only 27 percent of the present large-city residents are happy with their choice.

When the persons interviewed were asked to state a preference between living in a big city or in small towns and rural areas, 81 percent indicated a preference to live in the latter; and it should be pointed out that two-thirds of the persons questioned were either residents of our large central cities or suburban areas of these cities. The percentage was even greater when they were asked to state a preference for a location in which to raise children; 91 percent favored small towns and rural areas.

The survey showed that there is grave dissatisfaction among the inhabitants of our larger cities. Only 15 percent of the American population prefer to live there.

Despite the fact that only 26 percent of our young people under age 25 would prefer to live in a large city, 55 percent of them feel that they must go to the big cities if they are to get ahead. They realize, and rightly so, that not enough economic opportunities exist today in our rural areas.

Only industry can provide the economic opportunities. Industry provides the training and jobs. The presence of workers creates the need for goods and services. The Republican Party recognized this relationship in its 1968 platform when it stressed the need to revitalize rural America by providing economic incentive for industrial development.

If we are to solve this problem we must explore every avenue, we must develop positive programs, and we must renew our dedication to provide a decent and safe life for all Americans, both rural and urban.

For these reasons, I have joined in co-sponsoring the Rural Job Development Act of 1969. It is my sincere hope that these hearings will result in the adoption of a meaningful program to encourage additional industry to locate in rural America.

STATEMENT OF HON. JOSEPH M. MONTOYA, A U.S. SENATOR FROM THE STATE OF NEW MEXICO

Mr. Chairman: We are all intensely aware of the increasing deterioration of the quality of life in our urban areas. The cities which were built in response to man's desire to improve and to benefit from his environment are now perilously close to destroying the very advantages for which they were created. The growing congestion evident in our nation's cities is a direct result of overcrowding due to migration from rural areas. One of the major economic phenomena of our time has been this migration which over the past two decades has taken on alarming proportions.

While migration has affected the seriousness of our urban problems, it must also be considered as a major factor contributing to rural unemployment and rural poverty. Increasing numbers are drawn to the cities in search of jobs, because, as stated by the National Advisory Commission on Rural Poverty in its report The People Left Behind: ". . . job opportunities in rural areas are scarce, and in many places they are getting scarcer year by year. For rural people living within commuting distance of nonfarm jobs, it is sometimes possible to combine farming with a variety of jobs off the farm, but in isolated areas the need for such opportunities is far greater than the supply. At that, even with every adult member of the family working, many families don't make enough for a decent living."

The plight of the rural poor has until now been obscured by the immense problem of urban poverty. Many in our nation have been ignorant of the conditions which exist for 14 million Americans living on farms, on Indian reservations, in rural villages, and in small towns. Hunger and malnutrition have already been found to be widespread. Disease, premature death and infant mortality are startlingly high. Three million rural adults are classified as illiterate, having neither educational facilities nor opportunities for educational improvement. A great many of the rural poor live in atrocious housing. The Commission on Rural Poverty noted in its report that one in every thirteen houses in rural America has been officially declared unfit to live in. Central to all these difficulties is the high rate of rural unemployment and underemployment. When the national rate of unemployment in 1967 was 4%, the rate in rural areas averaged 18%. Among farmworkers a recent study revealed that underemployment was running as high as 37%. While technological progress has stimulated the economy with new jobs in a variety of exciting fields, it has sharply reduced manpower needs in agriculture, forestry, fisheries and mining.

Each year millions of Americans from the farms and small towns pack up their belongings to seek a better life in the city. What they often encounter, however, are a depersonalized life, substandard housing, polluted air, uncontrolled crime and rundown schools. They have merely exchanged life in a rural slum for life in an urban slum. Their hopes are shattered and their frustration mounts, frequently exploding in the violent outburst with which we are all too familiar. The attraction of the city, its stimulation, the variety of its life, have been greatly reduced by overcrowding. Public services deteriorate and become prohibitive in cost. Disease and crime thrive in the crowded conditions of our urban ghettos. The urban way of life has reached a point at which it no longer offers fulfillment to the migrants, and in terms of the cost to rural areas in human resources, the benefits of migration no longer offset the harm which it causes.

We all recognize the need to improve our urban areas, and we are ready to allocate the resources necessary for massive rehabilitation in order to improve public services, and to provide new housing, job training, medical care, and better public schools. We must ask, however, whether our concerted efforts have been too narrow in scope. There is no question that funds must be spent on our urban areas, but to make effective use of our money, we must also ask ourselves whether urban blight can be erased without a proportionate relaxation of the demand on the cities for public facilities and services.

In addition to leveling an attack at the basic causes of urban deterioration, the balanced approach dictates that we undertake to redistribute our population, so as to improve the ratio of the opportunity for the good life to the numbers living in each community. Rural America offers an alternative for improving the lives of those 14 million Americans, who as yet have not been able to share in our economic abundance.

Any attempt to divert people from the cities must make use of the same element which initially attracts workers. There must be made available a great number of meaningful, well-paid jobs in rural areas. A system of tax incentives would encourage industrial development in rural communities, and would induce many establishments to relocate in less crowded areas. With today's modern means of communication, a business can well afford to establish its headquarters in any area, and need not be restricted to a particular financial center. Given current transportation networks, companies can serve widely scattered markets with relative convenience.

A balanced economy demands equal attention to the development of rural communities. The National Advisory Commission on Civil Disorders has advocated the use of tax incentives to entice business and industry into rural areas to stem the tide of migration. Industrial development can give the small town a new life, and can reverse the years of neglect to which it has, in many cases, been subject. Residents can be taught skills leading to local employment, and city dwellers, attracted by the community life, would be induced to move into the locality.

The Rural Job Development Act, of which I am a co-sponsor, would provide income tax incentives and other benefits for employers operating industrial or commercial enterprises in rural areas. The legislation would not only create a financial advantage for such employers, but would also greatly benefit the residents of rural areas. In order to receive tax credits, an enterprise would have to create at least ten new jobs. One half of the original working force would have to be residents of the designated area, or live within easy commuting distance of the place of work. Thirty three percent of the jobs would have to be given to heads of families who earned less than $3000 for the previous year, and to individuals who earned less than $1000 in the same period. The Act would allow employers who meet the certification requirements a tax credit equal to 25% of the wages paid to employees.

New industry in rural areas cannot entirely solve employment problems unless local people are trained to handle the new jobs which will be created. A study undertaken by Loyola University for the Department of Labor concluded that often new industry brings a new work force along with it, because the local residents do not have the necessary job skills to take advantage of and benefit from the growth of new business.

In order to prevent this situation, the Rural Job Development Act would authorize the Secretaries of Labor and Health, Education and Welfare to provide training programs and training allowances for low-income individuals in rural job development areas, who are unemployed, and who are to be employed by a person operating a business certified under this Act.

The importance of a marketable skill in today's sophisticated and complex economy cannot be overemphasized. The individual who possesses no such training will find employment neither on the farm, nor in the small town or big city. Technology creates jobs, but only for those who are prepared to meet the challenge. Bringing industry and job training to rural America will serve two related ends vital to the continued prosperity of this nation. First, a great many more Americans will be allowed to share in our abundance, and to provide decent lives for themselves and their families. Secondly, by reversing the trend toward a dangerous concentration of the population in large urban areas, we can relieve the pressure upon America's cities, which is becoming the source of most of the daily headlines. I strongly urge the adoption of this most important and beneficial proposal.

Statement of Hon. Karl E. Mundt, a U.S. Senator From the State of South Dakota

Mr. Chairman, as one of the co-sponsors of S. 15, introduced by Senator James B. Pearson of Kansas, it is a pleasure to offer this statement for the record and cite some observations on the very, very serious problem of economically depressed rural America which, I believe, is due largely to the rural-urban imbalance which is finally coming to the attention of our government officials—and rightly so. I might also add there is certainly a similar concern in the metropolitan areas of our great country where over-crowding is perpetuating the ghetto complexes that are so unnecessary in a country with such unlimited resources which, welded together, can and should provide a decent life for everyone who lives here regardless of national origin, sex, educational level, social level or color of the skin.

S. 15, whose purpose is to encourage businesses to locate in economically depressed rural areas of the nation by offering such incentives as (1) tax credits to the cost of buildings and equipment; (2) special accelerated depreciation schedules; and (3) extra inducement for wages paid to low-income persons, is a worthwhile objective that will contribute to the economic development, health and welfare of the rural communities. Your committee, Mr. Chairman, has received many statistics which will, I am sure, support the contention that such legislation is needed. From my own research efforts prior to my introduction of Senate Joint Resolution 60, which would create a National Commission on Balanced Economic Development, and which, I might add, passed the Senate unanimously last year and I certainly have hopes it will do so again this session—I gathered similar information. Unequivocally, I can state that such statistics proved to me that a national commission was desirable and necessary if we are to have a balanced economy in all areas or regions of this great United States.

I know such information is available to you. Therefore, today I would like to direct my remarks toward the problem of a lack of adequate tax base which is plaguing township, county, municipal, and even state governments in the rural areas, and which in turn is affecting seriously the social and welfare aspect of life in the rural communities.

There is actually little doubt that every state that is considered to be of the "rural" culture is facing hard times ahead because of the increased costs of government services to the people in such areas as welfare needs and health care and services. Yet the increased tax revenues are just not available to furnish these necessities unless these governmental units look to the federal establishment for a handout. The proud people of our rural areas of America are still cast from the rugged individualists that established the homesteads on the last frontier in the late 1880's and early 1900's. Those hearty fellows, as well as their offspring now who live on the same farms, ranches, and small towns, shifted for themselves and provided for their neighbors in times of hardship. They still want to carry their own weight and responsibility as good citizens when it comes to paying the costs of their local government operations. Unfortunately, many local governments have found increased tax revenue is impossible to raise and must temporarily look to higher government sources of assistance.

The proposed legislation you have before you would certainly help to alleviate a part of this financial squeeze on our rural local governments are finding themselves in, and yet give these fine people the feeling that they are not "feeding at the public trough". The tax incentives provided for will be of a temporary measure and once industries have become well-established in rural areas that are economically deficient the momentum of production will offer that necessary tax revenue to provide for the health and welfare of the people in the community.

Also, making it attractive to industries to build new plants and expand operations into the rural areas of the country will, I firmly believe, entice skilled and unskilled laborers that are now housed in the overcrowded cities—in countless cases without jobs, or adequate health care and housing—to move "back to the farm" so to speak where they can earn a day's pay and put a nickel away for a rainy day.

More important than the outflow from the cities which I can see as a real and desirable possibility, is the retention of the youth in our rural areas. A majority of our youth of today who graduate from high-schools and colleges in the rural areas are forced to relocate in the metropolitan areas where they hope their skills can be utilized and that they can receive a wage commensurate with their educational qualifications. We cannot blame them for wanting to practice their profession and seek economic security! We must by all means retard this migration from the rural areas and take the initial steps to give these future leaders something to look forward to if they remain in the rural areas. In other words, we must provide the ingredients that will offer the means and devices by which a young man can confidently select his goal, put his roots down, raise his family, and contribute to the on-going community that provides a free and secure life without the threat of economic deficiency or artificial disruption. One of the very important initial steps could well be S. 15 which will encourage industrial development of our rural communities.

All of us want a stable environment in which to live and raise our families; such an environment can only come about through a stable but ever developing and expanding economy with security of person, personal freedom, and liberty of choice. Senate Bill 15 which will provide tax and other incentives to business enterprises for locating in rural areas of the Nation can systematically contribute to the overall goal of the Good Life of all our citizens—whether in the cities, suburbs, or the rural areas of America. Let us take the bold chance of offering both our rural citizens and the city dwellers an alternative to the present economic imbalances and frustrations tht exist in each environment—the rural and urban.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., June 4, 1969.

Hon. RUSSELL B. LONG,
Chairman, Finance Committee,
U.S. Senate,
Washington, D.C.

DEAR MR. CHAIRMAN: I take this means of endorsing S. 15, a bill to provide tax incentives to encourage industrial development in small towns and rural areas. This bill is similar to H.R. 799 which I introduced on January 3, 1969 and in several prior Congresses and embodies a concept which will give private enterprise the major role and responsibility in upgrading and improving small town industry.

It is my firm conviction that S. 15 is very much in the public interest in that although its main thrust is to aid and assist rural areas, it will at the same time also prove of value to big cities by reducing population pressures with its concomitant problems prevailing in large metropolitan areas.

The principle of tax incentives to assist our rural areas is sound, and I commend you and your Committee for your work in this connection. It is my understanding that the record of the hearings on the Senate bill is still open and I, therefore, request that this letter be so included.

With kindest regards and best wishes, I am

Very sincerely yours,

JOE L. EVINS, *Member of Congress.*

STATEMENT OF HON. CHESTER MIZE, A U.S. REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS

Mr. Chairman and members of the committee: I am pleased to have this opportunity to comment on the objectives of the Rural Job Development Act of 1969. I was the first sponsor of this legislation in the House in the 90th Congress, and was honored to introduce the improved bill now under consideration.

I was shocked, as were most Members of Congress, when I read the Report of the National Advisory Commission on Rural Poverty, issued in September 1967. This report, entitled The People Left Behind, documents pervasive poverty and inadequate opportunity throughout much of rural America.

The Commission found that "close to 14 million rural Americans are poor, and a high proportion of them are destitute." Exhaustive study of every region, every ethnic and racial groups in America provided the following conclusion:

Some thirty percent of our total population live in rural areas, but fo[illegible] percent of the Nation's poor live there. Within this total there are nearly 3 million families, plus a million unattached persons.

Contrary to popular impression, all the rural poor do not live on farms, nor are all of them Negroes. Most live in small towns and villages. Only one in four of these rural families lives on a farm. And, of the 14 million rural poor, 11 million are white.

In defining poverty, the Commission stated: When a family's income is less than $3,000, that family is usually defined as poor. In the poverty areas of rural America, however, an income of $3,000 per family is the exception, not the rule. Of the poor families in these areas, more than 70% struggle along on less than $2,000 a year, and one family in every four exists, somehow, on less than $1,000 per year.

URBAN AMERICA SUFFERS FROM RURAL POVERTY

Mr. Chairman, everyone knows that the "fallout" of rural poverty has adversely affected urban America. Millions of untrained, poorly educated citizens have migrated to the cities in the past decade in search of job opportunity and dignity. These millions, of course, have not been fully absorbed into the economic mainstream of the city. Their hopes, to a considerable extent, have been dashed by the realities of high rent, scarce employment, and inadequate training programs for unskilled laborers. Conditions, for many, are no better in the city than they were in the countryside; for many, conditions are far worse.

Technology marches on, and fewer and fewer workers are needed each year in agriculture. The devastating process is virtually unchecked.

Mr. Chairman, I do not know what proportion of the annual welfare payment this Nation endures can be traced to conditions of rural depression. I suspect that much of the urban welfare budget goes to displaced rural persons, and I am confident that most rural welfare payments go to citizens who are located in counties with diminishing annual job opportunity.

The situation is intolerable. Welfare, as all Americans must know by now, is not the answer. Most Americans now agree that local communities and most States cannot bear the burden of "bootstrap" development alone.

As Members of Congress, it is our responsibility to develop new answers to these problems which have been plaguing our country for two generations. The old answers have been tried, retried, and retreaded and tried again. They have failed the expectations of a Nation of compassionate and proud people. But most serious of all, the old programs have tragically failed the people they were designed to assist: the poor—particularly the rural Poor.

Having failed to find opportunity in the countryside, the rural poor have flocked to the city. Having found the city no more capable of providing opportunity, many poor have turned to crime, to drugs, and to despair.

RURAL JOB DEVELOPMENT ACT A NEW ANSWER

Mr. Chairman, the Rural Job Development Act, as proposed by Senator Pearson and Senator Harris, is a new answer which provides an appropriate response to the urgency of the conditions I have outlined. This Act deserves the most serious consideration by the Congress, the Administration, and by all Americans who search for a path to Nationwide prosperity and human opportunity.

The Rural Job Opportunity Act will work. I have spent my life as a businessman. and have served on the Small Business Subcommittee of the House Committee on Banking and Currency. I am confident the tax incentives which we propose will prompt businessmen to locate new commercial and industrial enterprises in rural areas with substantial poverty and declining job opportunity. Tax incentives will encourage businessmen and industrialists to train the unskilled, then provide trainees with substantial, long term employment.

The Rural Job Development Act incorporates provisions which protect urban communities from shutdowns by industry seeking the tax advantages of the rural areas. In order to receive benefits provided by the Act, the businessman or industrialist must show that he is expanding his operation, not merely shifting its geographic location. Further, he must show that he has good-faith intentions of providing employment opportunity in the community on a long-term basis.

Mr. Chairman, rural areas in America must play "catch-up" ball. Rural areas must once again be competitive for locating industry. Recent gains in the South and Midwest have been substantial, but wholly inadequate to meet the National need. After the Rural Job Development Act has been operative in regions of substantial underemployment for several years, those regions will become independently attractive to business.

When the majority of our communities are independently capable of promoting sufficient business and job opportunity, then we will have accomplished the goals of the Rural Job Development Act; as stated in the bill's declaration of purpose: ". . . To increase the effective use of the human and natural resources of rural America; to slow the migration from rural areas due to lack of economic opportunity; and to reduce population pressures in urban centers resulting from such forced migration."

Mr. Chairman, I hope your committee will have an opportunity to fully study the Rural Job Development Act during this legislative session. I must advance my personal opinion that the use of tax incentives to promote economic development of rural areas is sound—both from a budgetary and from a human standpoint.

Thank you, Mr. Chairman.

STATE OF CONNECTICUT,
EXECUTIVE CHAMBERS,
Hartford, Conn., June 2, 1969.

Hon. RUSSELL B. LONG,
Chairman, Committee on Finance, U.S. Senate,
New Senate Office Building, Washington, D.C.

DEAR SENATOR LONG: Through the National Governors' Conference, I have had an opportunity to examine S–15, "Proposed Rural Job Development Act of 1068," which is currently the subject of public hearings by your Committee.

I believe the objectives of the bill are commendable and I note that there are provisions requiring that information relative to actions authorized to be carried out be shared with the States. In Connecticut, there is a strong planning effort at State, regional and local levels. I am sure that action pursued under this bill, if enacted, would accord with such planning.

Under the circumstances, I believe that States like Connecticut, with comprehensive planning programs can be valuable resources and could provide useful information to federal agencies involved to assist in arriving at sound decisions.

Sincerely,

JOHN DEMPSEY,
Governor.

STATE OF WASHINGTON,
OFFICE OF THE GOVERNOR,
Olympia, Wash., June 19, 1969.

Hon. RUSSELL B. LONG,
Chairman, Committee on Finance, U.S. Senate,
Senate Office Building,
Washington, D.C.

DEAR SENATOR LONG: In accordance with your invitation of May 13, 1969, I am pleased to submit for consideration of the Commitee on Finance a statement concerning Senate Bill 15—the proposed Rural Job Development Act of 1969.

I am vitally concerned that the economic development of the state's rural areas be encouraged and that the forced migration of rural residents be limited to the extent possible. I am therefore in general support of this Act as a positive step toward this end.

However, it is my feeling that certain modifications should be made in the language of the Act, particularly to give the states a more active role in rural development problems. These suggested modifications are included in my enclosed statement.

Thank you for the opportunity to comment on this proposed legislation.

Sincerely,

DANIEL J. EVANS,
Governor.

STATEMENT PREPARED BY THE STATE PLANNING DIVISION, PAUL T. BENSON, JR., SUPERVISOR

RURAL JOB DEVELOPMENT ACT OF 1969

To provide incentives for the establishment of new or expanded job-producing industrial and commercial establishments in rural areas.

Declaration of purpose

The purpose of this Act is to increase the effective use of the human and natural resources of rural America; to slow the migration from rural areas due to lack of economic opportunity; to reduce population pressures in urban centers resulting from such forced migration.

Rural job development area designation criteria

(1) A County: No part in SMSA; no city over 50,000; and 15% family income under $3,000.

(2) A County: No part in SMSA; and five (5) year employment decline at annual rate of more than 5 percent.

(3) Indian Reservations or native communities (Requires consultation with DOI).

(4) A County: No part in SMSA; no city over 50,000; substantial out migration due to closure of DOD installations (other than military personnel and dependents).

Designations of the job development areas shall be made on the basis of the "most recent satisfactory data" available to USDA.

Eligibility for assistance certification

The secretary (USDA) shall issue a certificate of eligibility for benefits to any person (corporation, etc.) engaged in an industrial or commercial activity (new in whole or part) located in a rural job development area.

Provided: (1) Such facilities have been approved by local zoning, economic and physical planning; (2) Such facilities be placed in service in the first taxable year of the certificate period

(3) Placing such facility in service results in regular full time employment of at least ten (10) additional employees, at least 50% of whom must reside in the area or other designated areas within commuting distance; and

(4) The facility may not generally be a relocation from one area to another (some exceptions).

The secretary may waive all or part of the residence employment requirements if the facility requires skills not available in that area and other benefits to the area are such to warrant waiver.

Certification will be revoked for failure to meet or continue to meet required standards—with some exceptions for situations beyond the control of the enterprize.

Tax incentives

Credit for investment in certain depreciable property in rural job development areas ranges from 7–10 percent for real property and from 14 to 17 percent for personal property. Real and personal property qualified for inclusion are defined. The percentage range is dependent on the density of the area—the lower the density the higher the allowable percent.

Credit is based on each tax year. It can in no event exceed total tax liability. Carryover provisions are established for excess credits. Credit is established on the basis of qualified expenditures made during the tax year. Provisions are established for recovery of credit should certain types of voluntary property disposition or other disqualifications occur. Sales can be made to successor firms without penalty.

In addition to investment credits, an amount equal to 50 percent of the compensation paid or incurred in money during each taxable year shall be allowed as a deduction for each qualified employee who is receiving training to acquire the skills necessary to perform his own or another position or job in the facility (consultation required with DOL as to the necessity of such training).

Miscellaneous provisions

Various types of economic and business data may be collected, analyzed and published.

A national advisory council (25 members) is to be appointed representative of various sectors including state and local government.

Analysis

The proposed Act is further evidence of increasing concern over the question of rural-urban balance. The Act essentially provides for tax incentives to qualified economic activities locating or expanding in designated rural development areas. The primary purpose is to create jobs in rural areas for the residents of those areas. Other benefits would include an expanded local tax base, enhanced economic conditions, including creation of other support-type jobs and activities, and population stabilization or growth for the local areas. A further benefit would be an expected decrease in forced migration of rural residents to urban and metropolitan centers.

The magnitude of expected benefits to the State of Washington are difficult to measure. According to the criteria set forth in the Act twenty nine (29) of the States' counties would be eligible for designation. Thus, the geographic impact in this state would be potentially broad. In relative terms the impact of a modestly sized economic facility on a sparsely populated, economically depressed rural area would be fairly significant. However, just how many such facilities would be induced to locate in rural areas through use of the incentives contained in this Act is problematical.

It seems quite likely that not all rural areas would benefit equally. Further, the incentives, based on capital expenditures, will with little doubt appeal more to capital intensive as opposed to labor intensive industries. This factor will tend to minimize the creation of new jobs in rural areas—the stated primary purpose of the Act. Certain industries and concerns will locate in rural areas of their own accord—for these ventures the incentives will provide a wind fall. These factors would indicate a need for selectivity in both area designation and the certification process in order to maximize the opportunities contained in this Act. A key factor in utilizing the Act effectively for the enhancement of economic opportunities in rural area centers is the process for designation of rural job development areas. The criteria as established in the Act are inadequate measures of need. The thrust of the Act, as stated, is to limit forced migration from rural areas. Yet migration data is not a factor in the designation criteria. The large counties found in this and other western states pose further difficulties. For example, King, Pierce and Snohomish counties are excluded by the criteria by nature of their inclusion in an SMSA. Large portions of these "urban" counties are quite rural in nature with generally poor economic conditions. Yakima County runs the risk of being excluded in the near future due to the size of its central city, yet much of the county could obviously benefit justifiably from this program.

Further difficulties center on another addition provided by this program to duplication of effort at the Federal level. The Economic Development Administration, the Department of Housing and Urban Development, and others are currently involved in economic community development activities, both urban and rural. In the area of job training more duplication will occur. The provisions of the Act in this regard closely resemble currently established "On the Job Training" (OJT) programs of the U.S. Department of Labor. Despite the requirements that USDA consult with DOL on training matters, there is every likelihood that yet another program with its own (and probably unique guidelines, administrative structure, etc. will be established to further confuse the issue.

In all fairness it should be said that while the proposed Act contains a number of potential problems and inequities, it does offer the opportunity for a number of real benefits. Foremost among these is the fresh approach it offers to problem solutions. As opposed to the typical Federal grant-in-aid program, the provisions of the Act should not require an extensive administrative bureaucracy. Aside from the designation and certification requirements which must be handled by USDA, the main burden of proof is on the person or firm participating in the program. Follow-up and checking is generally to be through the well established and effective channels of the Internal Revenue Service. Further, the Federal Government will have no investments to protect as with HUD, EDA, SBA and others. The tax credits will either be extended or withdrawn. In the event of fraud or non-compliance with standards, previously extended credits can be recovered, again through the very effective channels of the Internal Revenue Service.

CRITERIA FOR DESIGNATION AS DEVELOPMENT AREA

[A county which has no part in an SMSA, no city over 50,000 and 15 percent of family income under $3,000]

Area	Total families (1960)	Number and percent under $3,000 (1960)	Meet criteria
Region I	10,131	1,962 (19.3)	(1)
Clallam	7,693	1,453 (18.8)	Yes.
Jefferson	2,438	509 (20.8)	Yes.
Region II	18,215	3,451 (18.9)	(1)
Grays Harbor	14,186	2,438 (17.1)	Yes.
Pacific	4,029	1,023 (25.3)	Yes.
Region III	36,749	7,426 (20.2)	(1)
Whatcom	17,805	3,629 (20.3)	Yes.
Skagit	13,315	2,468 (18.5)	Yes.
San Juan	812	276 (33.9)	Yes.
Island	4,817	1,053 (21.8)	Yes.
Region IV	385,034	48,153 (12.5)	(1)
Snohomish	44,140	6,873 (15.5)	No.
King	238,300	24,697 (10.3)	No.
Pierce	78,814	13,159 (16.6)	No.
Kitsap	21,780	3,424 (15.7)	Yes.
Region V	30,091	6,122 (20.3)	(1)
Mason	4,373	759 (17.3)	Yes.
Thurston	14,651	2,672 (18.2)	Yes.
Lewis	11,067	2,691 (24.3)	Yes.
Region VI	45,360	7,181 (15.8)	(1)
Wahkiakum	900	258 (28.6)	Yes.
Cowlitz	15,118	2,493 (16.4)	Yes.
Clark	24,451	3,624 (14.8)	No.
Skamania	1,361	204 (14.9)	No.
Klickitat	3,530	602 (17.0)	Yes.
Region VII	21,396	4,088 (19.1)	(1)
Okanogan	6,635	1,656 (24.9)	Yes.
Chelan	10,946	1,901 (17.3)	Yes.
Douglas	3,815	531 (13.9)	No.
Region VIII	41,253	9,999 (24.2)	(1)
Kittitas	5,244	1,180 (22.5)	Yes.
Yakima	36,009	8,819 (24.4)	Yes.
Region IX	15,748	2,615 (16.6)	(1)
Lincoln	2,914	432 (14.8)	No.
Grant	11,386	1,796 (15.7)	Yes.
Adams	2,448	387 (15.8)	Yes.
Region X	21,336	2,688 (12.5)	(1)
Benton	15,661	1,737 (11.0)	No.
Franklin	5,675	951 (16.7)	Yes.
Region XI	7,371	2,121 (28.7)	(1)
Ferry	950	214 (22.5)	Yes.
Stevens	4,611	1,423 (30.8)	Yes.
Pend Oreille	1,810	484 (26.7)	Yes.
Region XII: Spokane	70,136	10,985 (15.6)	No.
Region XIII	22,865	3,915 (17.1)	(1)
Walla Walla	10,190	1,653 (16.2)	Yes.
Columbia	1,189	251 (21.1)	Yes.
Garfield	796	114 (14.3)	No.
Asotin	3,393	749 (22.0)	Yes.
Whitman	7,297	1,148 (15.7)	Yes.

[1] Not available.

SUMMARY

29 counties meet criteria for designation
10 counties do not meet criteria for designation
These are:

Snohomish[1]	Douglas[3]
King[2]	Lincoln[3]
Pierce[1]	Benton[3]
Clark[2]	Spokane[1]
Skamania[3]	Garfield[3]

STATEMENT OF SAMUEL C. JACKSON, ASSISTANT SECRETARY FOR METROPOLITAN DEVELOPMENT, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. Chairman and members of the committee, it is indeed a pleasure to appear before you to discuss the programs of the Department of Housing and Urban Development and their relationship to rural and small town development.

These hearings are concerned specifically with legislation to help create new jobs and industries in rura areas—a difficult and important task, and one deserving of national attention. Legislation directed to this problem should be considered in the context of other Federal programs having as their objective the creation of a community environment which will prove attractive to outside investment, or make possible development of the existing economic base. Thus I think it appropriate for me to concentrate on the application of HUD's programs to the goal of maintaining the vitality of our smaller communities.

In looking at the problem of accommodating a population which will double within the next half century, we in HUD see a major continuing role for the small community. Nor are we viewing the problem from a standpoint of large city versus small city, or urban areas as opposed to rural.

To the contrary, we are considering it within the framework of what we can do to preserve and improve both—so that people will have meaningful opportunities to choose either.

I believe that our smaller communities are desirable places to live and work and must be preserved and encouraged to grow and develop.

To this end, we at HUD will continue to ensure that our programs are as available to small communities as they are to large ones.

We will see that those small communities having bright opportunities for future growth are not boxed out.

We will see that other small communities willing to help themselves will be invited in.

But to prepare themselves for the future, there must be in our small communities a degree of community consensus, the desire to undertake hard tasks, and the commitment of local resources. There is little government can do for a community without the will and dedication to help itself. With such a commitment, HUD and other Federal departments and agencies can provide assistance in the construction of decent housing for all, and development of a plentiful supply of water, pleasant parks and recreation areas and facilities, viable business and commercial areas, safe and sanitary sewerage systems and other municipal services.

Investments to meet these basic community needs by citizens, by local government, by outside employers—are expensive and the limited funds available for them must not be wasted. Thus our assistance efforts began with sound planning through our comprehensive planning assistance program. From its very inception in 1954, a major thrust of this program has been to provide planning assistance to smaller communities generally through state planning agencies, and 48 percent of our grants have been for planning in areas with populations under 50,000.

In the 1968 Housing and Urban Development Act, the Congress wisely broadened this program to permit grants to states for comprehensive planning by nonmetropolitan, multi-county planning agencies. This new category of assistance was sorely needed to help preserve and enhance our very great human and eco-

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[1] Counties having over 15% families with incomes under $3,000 but located within the boundaries of an SMSA.

[2] Counties having less than 15% families with incomes under $3,000 and are within an SMSA.

[3] Counties having less than 15% families with incomes under $3,000.

NOTE.—Yakima County currently meets requirements, but has an incorporated municipality within 3,000 of the 50,000 population limit.

nomic investment in small towns and rural areas, for in too many instances smaller population areas had stagnated and declined when foresight and planning could have identified ways of creating viable communities.

Next, to build on the planning so vital to begin—and continue—a community's development, HUD has a number of programs which translate planning to action—especially for small communities.

Three HUD programs administered by the Office of Metropolitan Development are almost totally or predominantly oriented toward the needs of small cities. These programs provide financial assistance for the design, engineering and construction of public works projects—the community's vital infrastructure.

First, the Public Facilities Loan Program provides long-term, low-interest loans for the construction of a wide range of essential public works such as water and sewer systems, municipal buildings, hospitals and streets. These loans are almost totally restricted to communities under 50,000 in population, with 98 percent of the projects and 80 percent of the loans going to communities of this size.

Second, our Public Works Planning Program makes interest-free advances for the engineering and design of an equally wide range of essential public works. Some 85 percent of the projects and 67 percent of the advances have been made to communities of under 50,000, and we give priority to communities under 10,000 where over 50 percent of all advances have been made.

The third program—HUD's Water and Sewer Facilities Grant Program—provides 50 percent grants for the construction of basic facilities needed for the supply, treatment and distribution of water and the collection and disposal of waste. More than 80 percent of the projects under this program have been in communities under 50,000 in population, and over 40 percent in communities under 10,000.

In addition to these programs which have a major impact on small towns, the nation's smaller communities also participate in our Open Space Land, Neighborhood Facilities and Urban Beautification Programs.

A statement showing the distribution of approved projects for key HUD programs, by population of localities aided, number of projects, and dollar amounts, is attached to this statement.

The problems of slums, blight, and obsolete land uses affect small towns as much as they do the major metropolitan centers, and the smaller towns of America have turned with great interest toward the use of the Urban Renewal Program to deal with these problems. But there is a difference in approach between the bigger cities and the smaller ones. Because the preservation of its economic base can be a life or death question to a smaller city, a greater percentage of the small city urban renewal effort has been directed toward the improvement of downtown business districts or the making of land available for industrial development. Of the approximately 2,000 projects under the Urban Renewal Program, 50 percent are in cities with populations under 50,000 and of these, 700 have populations under 25,000. While Urban Renewal projects for small cities naturally tend to be smaller than those of the large metropolitan centers, we feel that the proportionate effort is greater.

The vital concern of small cities for their economic base has not blinded them to the housing needs of their residents. An increasing percentage of small cities has been participating in the Low-Rent Public Housing Program to provide decent housing for low-income citizens. Of the total of approximately one million low-rent public housing units under reservation or in a more advanced stage of development, over one-third are located in cities and towns with populations under 50,000.

Another HUD effort which is meeting the ever-increasing need of smaller communities to effectively manage themselves is being carried out through our Urban Information and Technical Assistance activities. Our grants for this purpose are designed to help states initiate or implement their own programs to provide information and technical assistance and advice in the solution of problems confronting small communities.

The New Communities Act of 1968, just getting under way, is yet another weapon in our arsenal.

The development of these new communities, primarily outside the congested urban centers, will help reduce the population flow into existing metropolitan areas and would help break a cycle which now erodes the purchasing power of the sending area and adversely affects its professional and business community. When a small town begins to lose its population, the tax base is lowered, chances for community improvement diminish and there are fewer jobs. This leads to more out-migration and a repeat of the cycle. Let me emphasize that the new community program is available for areas adjacent to existing rural communities and that the purpose of the overall plan would be to provide future vitality for both the old and the new.

Non-metropolitan new communities can help to stabilize the economy in a rural district. Within them, there would be more services and amenities provided. The natural recreational resources would be more accessible. Moreover, new communities in non-metropolitan settings could take advantage of potential economic growth opened by new highways and other facilities that support industrial development.

The fact is then, Mr. Chairman, that HUD has indeed "written in" the small community. And to further underscore our concern with the basic problems of communities of all sizes, we have created an Office of Small Town Services to sharpen our focus on less populous communities and to improve the delivery of program information and technical assistance to small town officials.

This section of my Office of Metropolitan Development is also responsible for recognizing and analyzing needs of smaller cities, and coordinating Federal, state, local and private efforts to meet those needs.

In conclusion, Mr. Chairman, small towns and cities serve the economy and culture of the nation as much as do large cities. Their functions are equally urban, not only in the sense of supplying essential public services, but in the broader and more important realm of providing social support and opportunity for a full and productive life for their citizens.

We seek to assist the small city to serve as the downtown of the surrounding rural countryside, to be the market place, the distribution center, the cultural center, and the provider of services and employment opportunities to its environs. Thus, when a small town undertakes an improvement or an expansion program, its actions will benefit more than the area of that town and more than just that community's population.

There are opportunities as well as problems, but we are energetically facing both—desirous of helping to create a tomorrow of healthy, vigorous and forward looking communities and citizens.

DISTRIBUTION OF APPROVED PROJECTS BY POPULATION SIZE OF PROJECT LOCATION

[Dollar amounts in thousands]

WATER AND SEWER GRANT PROGRAM—CUMULATIVE THROUGH JUNE 30, 1968

Population	Number of projects	Grant amount	Estimated total cost
Under 5,500	215	$57,759	$172,671
5,500 to 9,999	120	48,308	137,860
10,000 to 24,999	191	79,677	246,491
25,000 to 49,999	115	69,032	214,547
Subtotal [1]	641	254,776	771,569
50,000 and above	141	109,927	317,196
Total	782	364,703	1,088,765

ADVANCES FOR PUBLIC WORKS PLANNING—CUMULATIVE THROUGH JUNE 30, 1968

Population	Number of projects	Grant amount	Estimated total cost
Under 5,000	2,561	31,726	1,659,407
5,000 to 9,999	734	17,549	1,239,634
10,000 to 24,999	905	27,282	1,694,980
25,000 to 49,999	463	18,065	1,442,961
Subtotal [2]	4,663	94,622	6,036,982
50,000 and above	797	45,676	3,999,525
Total	5,460	140,298	10,035,507

PUBLIC FACILITY LOANS PROGRAM—CUMULATIVE THROUGH JUNE 30, 1968

Population	Number of projects	Grant amount	Estimated total cost
Under 5,000	1,032	262,471	347,929
5,000 to 9,999	77	62,162	90,282
10,000 to 24,999	38	29,589	55,131
25,000 to 49,999	23	25,963	44,270
Subtotal [3]	1,170	380,185	537,612
50,000 and above	27	92,421	111,861
Total	1,197	472,606	649,473

[1] 82 percent of the projects and 70 percent of the grants were approved for communities with populations under 50,000.
[2] 85 percent of the projects and 67 percent of the advances were approved for communities with populations under 50,000.
[3] 98 percent of the projects and 80 percent of the loans were approved for communities with populations under 50,000.

COMPREHENSIVE PLANNING GRANTS—CUMULATIVE THROUGH JUNE 30, 1968

	Number of areas assisted	Grant amount
Planning areas under 50,000:		
Small areas	5,728	$63,842
Localities in redevelopment areas [1]	1,219	23,657
Advisory services to small communities	54	1,789
Subtotal [2]	(3)	89,288
Planning areas over 50,000	450	98,037
Total	(3)	187,325

[1] Includes a few communities over 50,000 population.
[2] 48 percent of the grants approved were for planning in areas with populations under 50,000.
[3] Not additive—duplicate counting.

OPEN SPACE LAND PROGRAMS—CUMULATIVE THROUGH JUNE 30, 1968

Population [1]	Number of projects	Grant amount
Acquisition and development of undeveloped land (702):		
Under 5,000	144	$6,738
5,000 to 9,999	143	8,688
10,000 to 24,999	192	11,457
25,000 to 49,999	164	12,121
Subtotal	643	39,004
50,000 and above	750	132,947
Total	1,393	171,951
46 percent of the projects and 23 percent of the grants were approved for communities with populations under 50,000.		
Urban parks (developed land—705):		
Under 5,000	2	165
5,000 to 9,999	5	238
10,000 to 24,999	7	344
25,000 to 49,999	13	1,219
Subtotal	27	1,966
50,000 and over	85	21,840
Total	112	23,806
24 percent of the projects and 8 percent of the grants were for communities with populations under 50,000.		
Urban beautification (706):		
Under 5,000	14	152
5,000 to 9,999	19	342
10,000 to 24,999	48	1,308
25,000 to 49,999	34	1,339
Subtotal	115	3,141
50,000 and over	135	23,834
Total	250	26,975
46 percent of the projects and 12 percent of the grants were for communities with populations under 50,000.		

URBAN RENEWAL PROGRAMS—CUMULATIVE THROUGH DEC. 31, 1968

Urban renewal projects:		
Under 5,000	134	$145,242
5,000 to 9,999	203	222,816
10,000 to 24,999	371	683,789
25,000 to 49,999	307	714,014
Subtotal	1,015	1,765,861
50,000 and over	1,023	5,272,798
Total	2,038	7,038,659
50 percent of the projects and 25 percent of the grants were for communities with populations under 50,000.		

[1] Size of applicant location.

COMPREHENSIVE PLANNING GRANTS—CUMULATIVE THROUGH JUNE 30, 1968

[1] Population	Number of projects	Grant amount
Neighborhood development programs:		
Under 5,000		
5,000 to 9,999	1	$592
10,000 to 24,999	2	2,515
25,000 to 49,999	2	4,043
Subtotal	5	7,150
50,000 and over	3	75,587
Total	8	82,737
63 percent of the projects and 9 percent of the grants were for communities with populations under 50,000.		
Code enforcement projects:		
Under 5,000	2	581
5,000 to 9,999	1	438
10,000 to 24,999	13	11,853
25,000 to 49,999	20	14,631
Subtotal	36	27,503
50,000 and over	71	122,950
Total	107	150,453
34 percent of the projects and 18 percent of the grants were for communities with populations under 50,000.		
Demolition projects:		
Under 5,000	1	137
5,000 to 9,999	2	46
10,000 to 24,999	6	113
25,000 to 49,999	9	330
Subtotal	18	626
50,000 and over	60	12,479
Total	78	13,105
23 percent of the projects and 5 percent of the grants were for communities with populations under 50,000.		
Community renewal programs:		
Under 5,000	2	21
5,000 to 9,999	6	56
10,000 to 24,999	21	748
25,000 to 49,999	40	2,023
Subtotal	69	2,848
50,000 and over	135	39,305
Total	204	42,153
34 percent of the projects and 7 percent of the grants were for communities with populations under 50,000.		

NEIGHBORHOOD FACILITIES—CUMULATIVE THROUGH DEC. 31, 1968

Under 5,000	55	$7,681
5,000 to 9,999	27	5,186
10,000 to 24,999	37	7,070
25,000 to 49,999	19	2,505
Subtotal	138	22,442
50,000 and over	105	45,867
Total	243	68,309
57 percent of the projects and 33 percent of the grants were for communities with populations under 50,000.		

MODEL CITIES PLANNING GRANTS—CUMULATIVE THROUGH DEC. 31, 1968

Under 5,000	2	$153
5,000 to 9,999	1	92
10,000 to 24,999	7	607
25,000 to 49,999	7	730
Subtotal	17	1,582
50,000 and above	58	10,110
Total	75	11,692
23 percent of the projects and 14 percent of the grants were approved for communities with populations under 50,000.		

[1] Size of applicant location.

LOW-RENT PUBLIC HOUSING—CUMULATIVE THROUGH DEC. 31, 1968

Population	Number of housing units
Under 5,000	97,452
5,000 to 9,999	59,046
10,000 to 24,999	98,331
25,000 to 49,999	92,921
Subtotal [1]	347,750
50,000 and over	719,102
Total	1,066,852

[1] 33 percent of the low-rent housing units were approved for communities with populations under 50,000.

HOUSING FOR THE ELDERLY LOANS PROGRAM—CUMULATIVE THROUGH DEC. 31, 1968

Population	Number of projects	Loan amount
Under 5,000	36	$27,619
5,000 to 9,999	19	15,797
10,000 to 24,999	32	45,873
25,000 to 49,999	45	69,859
Subtotal [1]	132	159,148
50,000 and over	181	369,925
Total	313	529,073

[1] 42 percent of the projects and 30 percent of the loans were for communities with populations under 50,000.

(The following communication was submitted to the committee by Hon. Fred R. Harris, a U.S. Senator from the State of Oklahoma:)

THE UNIVERSITY OF CHICAGO,
DEPARTMENT OF SOCIOLOGY,
Chicago, Ill., May 27, 1969.

Hon. FRED HARRIS,
U.S. Senate,
Washington, D.C.

DEAR SENATOR HARRIS: I was very pleased to learn that hearings are underway concerning the Rural Job Development Act. As an urban sociologist, I consider this to be one of the most important pieces of social and economic legislature for the country.

Unless this country is able to reverse the flow of rural areas into the ten major metropolitan centers, it will not be able to come to grips with the present problems of the inner city.

If there is any way I can help in this legislation, including appearing before your Committee, I would be very pleased to do so.

Sincerely yours,

MORRIS JANOWITZ, *Chairman and Professor.*

(The following communication was submitted to the committee by Hon. Joseph M. Montoya, a U.S. Senator from the State of New Mexico:)

FARMINGTON, N. MEX., *September 6, 1967.*

Senator JOSEPH MONTOYA,
U.S. Senate,
Washington, D.C.

DEAR SENATOR MONTOYA: I would like to take this opportunity to go on record as offering my wholehearted support for Senate Bill 2134, the Rural Job Development Act. I believe I can speak in support of this bill with some authority as my training and experience has been involved with the economic problems and the economic development of New Mexico.

My first professional experience in these areas was as the Graduate Assistant of the Chairman of the Department of Economics of the University of New Mexico while working on my Master's in economics. My thesis subject was "Dependency and the Economy of Northern New Mexico" which was completed in 1955 and which attempted to identify the elements in the economy in this part of the United States that created poverty and the dependency of these people. From 1952 until 1958, I was employed by the New Mexico Department of Public Welfare in their Division of Research and Statistics as a Research Analyst, studying our economy from the "need" standpoint. From then until 1964, I worked with the Economic Development Commission and the Industrial Division of the Department of Development, looking at the other side of the coin at what we had to attract new industry. Since that time, I have been Executive Director of the Farmington Industrial Development Service, which has been concerned with economic development projects in the Farmington and the Four Corners area.

The original thesis research and research work with the D.P.W. pointed out that the problems of New Mexico did not differ a great deal from those of other parts of rural America where the pace of twentieth century life was quickly stepping ahead of the traditional, more established, rural culture. During this period, I also learned that the only real hope for salvation was not the perpetual payment of relief checks, which tended only to keep people in a dependent state, but the creation of opportunities for people to again become prideful citizens earning their own way.

To accomplish this, industry had to be attracted to rural areas. My experience with the State Industrial Development Agency and with my own program in Farmington is replete with examples of the difficulty of attracting industry to rural areas. The job is certainly a lot easier when dealing with cities. Yet the need is far greater in the rural areas where there lives the "forgotten poor".

Paradoxically, rural America povides the resources, both human and natural, that turn the wheels of industry in our cities and great metropolises. Although natural resources continue to flow from the countryside and newly developing areas like the Four Corners, the supply of manpower is decreasing because people are moving to urban areas to find better jobs. It would be far better if the movement were reversed and industry were moving to the outlying areas to take advantage of the labor resources that are there, thus bringing the benefits of new employment and payrolls to all parts of the nation rather than increasing the concentration in our super-cities, which only adds to the problems of overcrowding.

Those of us working in behalf of new industry in smaller towns in the United States are at a definite disadvantage with the bigger cities. In order to maintain our towns and improve our standard of living, we need help in attracting new industry. We need the kind of help the Rural Job Development Act can provide to add to our own bootstrap efforts.

When the Area Redevolpment Administration came into existence, rural redevelopment areas had an important new tool with which to encourage investment and new payrolls. Since then however, most of us eligible under the "5b" provisions have been removed from A.R.A. considerations. Senate Bill 2134 can go a long way in making up the gap created by withdrawing A.R.A. support.

Senator, we have an urgent and desperate need for the kind of help S. 2134 can provide and we ask for the favorable consideration and passage of the Rural Job Development Act.

Sincerely yours,

RICHARD A. BITTMAN,
Executive Director,
Farmington Industrial Development Service.

(The following statement was submitted to the committee by Hon. James B. Pearson, a U.S. Senator from the State of Kansas:)

STATEMENT OF DR. MARTIN SCHNITZER, PROFESSOR OF FINANCE, VIRGINIA POLYTECHNIC INSTITUTE

The nature and extent of rural poverty has been well documented. It is obvious that millions of people are not sharing in the abundance created by our economic system. Although the characteristics of the poor vary from region to region, and there are some regions where the proportion of the population is considerably higher than average, no region of the United States is without its rural poor.

Even if today's urban problems could be ignored, concern for rural poverty in America would still be justified. Much of rural America is not capable of providing the educational and manpower services needed. As a result, rural people often lack the skills necessary for employment at a wage sufficient for a decent standard of living. In the absence of changes in current approaches, the need for jobs in rural America will become even greater and the inability of rural people to move into nonfarm employment will become even more serious.

There was a time when the term "ghost town" was reserved largely for gold mining and silver mining villages and more recently for coal mining villages. During the past decade, the term has acquired relevance in agricultural communities. This is particularly true of these rural communities which have served as supply centers for items purchased by farmers or which have depended heavily upon farm product processing. Modern transportation and communication systems, which have developed in conjunction with large scale changes in the structure of modern agriculture, have made it possible, and in fact profitable, to bypass rural towns and villages. As a consequence, the current United States scene is characterized by many such rural communities. The problem of poverty, therefore, is to a considerable degree, a problem of sick communities. People in these communities find a decreasing demand for their services. Many of them face a bleak prospect that their services have been made largely obsolete by the rapid march of technological and economic progress.

The creation of employment opportunities in rural areas should be a prime desideratum of economic policy in the United States. There is a need to develop enough new jobs to reduce the level of rural unemployment and to make a dent in rural poverty. But how can jobs be created and how can private capital be stimulated to flow into rural areas? The tax incentives may be one solution, for given large enough incentives, most locations can be made attractive to industry. However, it is also necessary to provide various facilities and services in rural areas. Educational facilities have to be improved and more emphasis has to be placed on vocational training. A major facet of the problem in rural areas stems from the fact that education and training of the people in these areas is out of step with economic opportunities. Unless rural youths are trained for the type of jobs which exist today and which will emerge tomorrow, they are destined to join the ranks of the unemployed.

There is evidence to suggest that the tax incentives provided in the Rural Job Development Act would have some effect on plant location. For example, the Office of Defense Mobilization provided special depreciation provisions to firms locating in labor-surplus areas during the Korean War emergency. These provisions became effective in November, 1953, and certificates were issued to the Office of Defense Mobilization to 74 firms during a period from 1953 to 1959. These certificates represented an investment of $320 million, but accounted for only one-tenth of one percent of the total cost of all facilities that were certified for accelerated depreciation during the Korean and post-Korean war periods. The Office of Defense Mobilization estimated that more than 17,000 jobs were created in labor-surplus areas under the 74 certificates.

Available evidence concerning similar approaches used by other countries, indicated that accelerated depreciation and tax credits do have some effect on industrial location. Free depreciation was permitted firms locating in British development areas, and a number of American and British firms took advantage of this incentive to build plants in designated areas in Wales, Northern England, Scotland, and Northern Ireland. However, there were also a number of other incentives which were available under provisions of the Local Employment Act of 1962 that must be taken into consideration.

The total tax incentives, when added together, provide a rather attractive inducement to firms to locate in rural areas. The incentive which is most relevant to the creation of rural employment is the tax deduction of 50 percent of wages paid to workers while in training. In fact, it would be better to redesign the total group of incentives to favor labor-intensive rather than capital-intensive industries. As it now stands, the importance of the total package of incentives would vary between industries, with capital-intensive industries regarding it as being more important than labor-intensive industries. It is also necessary to point out that other factors, such as proximity to markets on the availability of raw materials, may outweigh the attractiveness of the tax incentives. However, where favorable location factors are present, the tax incentives may be the catalyst which attracts industry.

The Rural Job Development Act merits serious consideration. Its proponents have offered one possible remedy to alleviate rural poverty. Obviously the prime desideratum for rural areas is the creation of employment opportunities. To do this, industry is needed, and one way to attract industry is to utilize some sort of tax incentive.

FARMLAND INDUSTRIES, INC.,
Kansas City, Mo., June 11, 1969.

Hon. RUSSELL B. LONG,
Chairman, Senate Finance Committee,
New Senate Office Building, Washington, D.C.

MY DEAR SENATOR LONG: I respectfully request that this letter be made a part of the record of the hearings on S. 15—the Rural Job Development bill introduced by Senator Pearson.

We wish to go on record in support of S. 15, the Rural Job Development bill introduced by Senator Pearson of Kansas and others.

This proposed legislation would have a double-barrelled effect.

In the first place, it could help slow down the trend toward overcrowding of people and the concentration of industry in the major metropolitan areas. This trend is not in the best interest of this country.

Secondly, the effect would be beneficial to the smaller towns and rural areas that over the years have formed the backbone of this country, and can make an important contribution in the future.

The fact that the bill encourages private enterprise and is not a direct government action program appeals to us. It is in keeping with a long history of public encouragement to the private sector to bring about desirable social and economic programs.

Sincerely yours,

ERNEST T. LINDSEY.

[From the William & Mary Law Review, vol. 10, Spring 1969, No. 3]

SYMPOSIUM: THE URBAN CRISIS

TAX INCENTIVES AS A SOLUTION TO URBAN PROBLEMS

(By Lawrence M. Stone*)

An historian could compile a good list of the troubles of our current American society by studying the numerous proposals for tax incentives. Tax incentives have been proposed to encourage small political contributions to improve the ethics of our political system; to assist in financing higher education costs by allowing deductions for various expenditures by parents and students; to provide an inducement for the enactment of new or higher state income taxes; to aid in the medical problems of the aged; to increase our exports or U.S. travel and thus to assist our balance of payments; and to encourage industry to curtail air and water pollution. Even the numerous "negative income tax" systems which are suggested as substitutions for current welfare systems can be included in the category of "tax incentive" if we define that phrase broadly enough to include *non-revenue* uses of the tax system. Therefore, it is not surprising that many have suggested the use of tax incentives in solving the problems of our cities. In the latter category are tax incentives to encourage the hiring and training of the unemployed; to encourage the rebuilding and rehabilitation of slums; and to encourage the location of businesses in ghetto areas.

Since support for such proposals comes from a surprisingly wide variety of political groups in our society, they must be taken quite seriously. President Nixon made such tax incentives one of the major proposals during the campaign. The late Senator Robert F. Kennedy urged such proposals.[1] President Johnson's Commission on Civil Disorders recommended the possible use of such

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*A.B., LL.B., Harvard University, 1953; 1956. Professor of Law, University of California at Berkeley; Tax Legislative Counsel, United States Treasury Dept.; member, Advisory Panel on Private Enterprise, National Advisory Committee on Civil Disorders.

[1] *See Hearings on S. 2100, Before the Senate Committee on Finance,* 90th Cong., 1st Sess. (1967).

incentives. Both President Johnson, in 1966, and the prestigious Committee for Economic Development, in December of 1968, have proposed the use of tax incentives to encourage political contributions by small givers.

ORIGINS OF SUPPORT FOR TAX INCENTIVES

The origins of this rather widespread interest in use of tax incentives are interesting. For some groups, it simply stems from an aversion to increasing government expenditures compined with a realistic recognition that private action alone cannot solve many of our critical problems. Thus, many businessmen opposed to the idea of government subsidies will argue "let us use our money." For others, it is an impatience with government's inability to solve some of these problems directly. In some cases there is a political judgment that direct expenditures are not likely to be forthcoming; that indirect funds through tax incentives may be attainable; and that we must make do with second best. In a few, it is nothing more than an effort to capitalize on a situation by obtaining more for themselves. In this category are a number of proposals to give tax credits for existing expenditures, such as general employee training costs, which could only be remotely related to the precise problem, employment of the hard-core unemployed.

Undoubtedly a major impetus to the tax incentive has been the generally high marginal tax rates that have prevailed in this country since the Second World War. Why not harness all the energies that go into avoiding these high rates to socially desirable goals?

Perhaps the most signicant encouragement can be traced to the introduction by the Kennedy Administration, in 1962, of enormous tax incentives for investment in industrial machinery and equipment. These were the investment tax credit and the depreciation guidelines. Ironically, since then the Treasury Department has been an ardent and intelligent but almost solitary force against the incessant cries for more tax incentives. The employment of the tax system by the Kennedy-Johnson Administrations to achieve other economic goals through the Interest Equalization Act and, in some respects, the foreign "tax haven" provisions of the Revenue Act of 1962 undoubtedly compounded the problem for the Treasury. The former was designed to stem the flow of United States funds into investments abroad and the latter was, in part at least, intended to do the same. The Foreign Investors Tax Act of 1966 was advertised as a tax encouragement to investment by foreigners in the United States and thus was also pointed to as a use of the tax system to improve our balance of payments situation. In the case of the 1962 "tax haven" provisions and the 1966 Foreign Investors Tax Act, it may be argued that they were merely intended to correct existing loopholes or inequities, but the public may not be that discriminating in its reading of the publicity.

The continued existence of many significant tax incentives in our tax laws and their relative immunity from attack are also major encouragements to proponents of new benefits. Not the least of these are the various benefits enjoyed by the oil and mineral industries, the exemption of interest paid on municipal and state bonds, special debt reserves enjoyed by financial institutions, the capital gains provisions and other benefits to property owners, and the numerous tax benefits conferred on many exempt organizations and their donors. So long as neither the Treasury nor the Congress seriously attack these, proponents of new incentives can argue persuasively that the tax system lost its virginity long ago, remains unrepentent and, therefore, "why not us sinners also?" This cry is especially cogent when the cause is obviously much more deserving than, say, oil percentage depletion.

ABSENCE OF BASIC PRINCIPLES PRECLUDING NON-REVENUE USES OF TAX SYSTEM

The Treasury has little to argue about on some of the existing uses of the tax system. In fact, were the matter the sole responsibility of the Treasury—Democratic or Republican—many of these existing non-revenue uses would be eliminated. However, it strongly denies that the investment tax credit is a precedent for other tax incentives. The Treasury argues that the investment tax credit is a general encouragement to all taxpayers like a general tax increase or decrease. However, that is subject to question. For example, the credit only applies to those who make long-term equipment investments. Thus, it is no help to a service industry with little investment in long-lived equipment. Nor is the credit helpful to retail merchants whose principal investments are inventory and credit advances.

Furthermore, the credit applies only to those who have taxable income. It is of no help or incentive to a loss railroad or a small, struggling entrepreneur with large deductions and little or no tax liability. Thus, those who may need the help most may not get any. This is a weakness of many tax incentives that the Treasury often points to in other circumstances.

The investment credit helps a taxpayer who would invest without a credit as well as one who invests only because of the credit. In the latter case, it is inefficient. Again, this is one of the most serious criticisms of tax incentives generally.

Finally, it continues to apply even though our economy may be caught in an inflationary tide of serious dimensions which might call for less investment. Thus, like other tax incentives the investment credit may continue on the books long after the need for it has disappeared.

The foregoing leads one to suspect strongly that there is no open and shut case based upon "principles of taxation" for or against the use of the tax system to achieve non-revenue goals or in particular for the use of tax incentives to encourage certain economic behavior. If such principles exist, they have been honored so much in the breach as to render them unreliable for the present at least.

How then are we to judge the value of different tax inventives and whether they are useful, in general, and capable of solving the problems of our cities, in particular? We cannot argue that they will violate general tax principles and thus distort the tax system. And it is clear from the foregoing that it is difficult to argue that tax incentives are inevitably subject to certain defects, even though this may be true, because our tax system is so interlaced with such non-revenue uses already. Any forthright appraisal of the political situation makes it unrealistic to argue that we shall soon, if ever, eliminate these existing deviations from our income tax laws. Absent such a realistic promise of comprehensive reform in the reasonable future, which promise might justify holding the line against all new non-revenue uses of the income tax, we must look carefully at each proposal and accept or reject it on its merits. Unfortunately this is a difficult task and may, paradoxically, be the starting point for a true ground swell for reform in the Congress. The forthcoming significant debates on tax incentives may very well make cynicism about the possibilities for reform and inaccurate prediction of the future. There is already encouraging evidence of this from the fact that the chairmen of both tax committees of the Congress have now publicly joined the opponents of further use of tax incentives. Also, the Chairman of a House Committee, the Committee on Ways and Means, with the support of the ranking Republican and possibly the President, has called hearings to consider in 1969 comprehensive reforms of the tax system.

STANDARDS FOR EVALUATION TAX INCENTIVES

In spite of the absence of clear principles that would preclude tax incentives, most tax incentives suffer by comparison with other approaches and will fail to receive approval if carefully analyzed. Certain standards can be posed to select those situations in which proposed tax incentives should be enacted. These should include the following questions: (1) Will the tax incentive be effective to accomplish the desired goal? (2) Are other potentially more efficient efforts not likely to be enacted? And if enacted, not likely to succeed for various reasons (such as the alleged reluctance of business to apply for direct subsidies)? (3) Are the goals sought, in terms of their priority, important enough to compound the already existing evils of the tax system? (4) And finally, perhaps most important, are the goals sought of such clear national priority as to justify increasing the difficulties of budgeting under a system of direct expenditures and hidden indirect expenditures? Since the use of tax incentives of our urban problems would, in my opinion, clearly satisfy the third test, the issue seems to narrow to the first two and the fourth criteria—"will they work?", "are they the best *available* alternative?", and "will they seriously compound our serious national difficulties in establishing priorities?"

EXAMINATION OF ALTERNATIVE TAX INCENTIVES FOR URBAN PROBLEMS

In analyzing any proposal under these or similar tests, it is useful to note that there are several categories of "tax incentives" and these may have different effects. We might affect the supplier or the user. The approach can be surgically precise or at the other extreme, designed to improve the supplier or user's overall economic picture. The incentive can be a tax *penalty* to be imposed if the undesired behavior is not avoided. The approach might be through a vital middleman—the bank or insurance company.

Suppose, for example, one wished to improve the housing available to ghetto dwellers. If the tax system were to be used to encourage the user, one might give the renter or single home owner a tax incentive. The renter might have a deduction for part of his rent and the home owner a tax deduction for part of his investment, especially in improvements. Or the tax incentive might be given to the supplier, the landlord, to encourage him to build or improve rental facilities in the ghetto. Or it might be given to a developer who buys, improves and resells properties in ghetto areas. Or special tax deductible reserves for lending to or insuring of ghetto housing could be made available.

Furthermore, in each case the incentive could be given by various levels of government with possibly different effects. Thus, the tax incentive might be a local property tax cut rather than a deduction against federal income or a tax credit against federal tax liability. Since many property owners pay property taxes but do not pay income taxes, this reaches a different group than does an income tax incentive.

Finally, if a "negative tax" system were adopted as an improved and expanded welfare or guaranteed income system, the income of some ghetto dwellers might be increased (through a tax "refund" for unused personal exemptions and other unused deductions). This increased income might enable them to pay more rent and thus to buy better housing in the market. Or somewhat less directly, one might give a tax incentive to employers to hire ghetto dwellers, thereby increasing their economic power and once again allowing them to lease or purchase better housing in the market.

The alternatives in terms of tax actions are further complicated by the fact that existing tax systems may already incorporate certain features which operate against our desired goals. A possible course of "tax incentive action" is, therefore, to remove certain existing tax features which militate in favor of investment in non-ghetto real estate and hereby hope to improve the relative desirability of investment in ghetto housing, or, perhaps more directly, to remove certain existing tax features which may encourage the deterioration of marginal neighborhoods into slums. For example, many believe that the combination of high depreciation deductions on low equity debt-financed property and capital gains taxation on sales encourage the slum owner to hold with a view to a sale in relatively few years and therefore to make little if any repairs or improvements.[2] These same tax factors—unrealistically high tax depreciation deductions combined with ultimate capital gains tax on sale—the familiar "real estate tax shelter"—also encourage investment in new office buildings and high-rise apartments in competition with low income housing needs. The costs of these real estate tax shelters may well be as high as one billion dollars per year in revenues lost. The impact of the property tax on improvements may also discourage improvement and some have suggested that a shift in emphasis, from improvements to land values, is needed.[3]

Another course is the tax penalty as an inducement to change. For example, an increase in property taxes if property is allowed to deteriorate below code standards. This would easily be justified on the grounds that such deterioration affects the whole neighborhood and may cost the community much in the long run. Perhaps certain formal methods of depreciation could be denied unless necessary improvements were made. A related possibility is to allow accelerated depreciation only for investments in new or rehabilitated ghetto housing and remove it for new middle-class apartments and Park Avenue office buildings.[4] This would shift the revenue loss now involved in the latter types of investment into the ghetto problem.

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[2] *See, e.g.*, Slitor, "The Federal Income Tax in Relation to Housing." (Research Report No. 5 prepared for the National Commission of Urban Problems, 1968); ROTHENBURG, ECONOMIC EVALUATION OF URBAN RENEWAL 48-49 (The Brookings Institution, 1967).

[3] *See* Netzer, "Impact of the Property Tax: Its Economic Implications for Urban Problems." (Research Report No. 1 prepared for the National Commission on Urban Problems, 1968).

[4] *Cf.* Remarks by Assistant Secretary of the Treasury, Stanley S. Surrey, Before the Fifth Annual Development Forum, Urban America, Inc. (October 28, 1968).

TAX INCENTIVES MERELY REFLECT VARIOUS DIRECT APPROACHES

The many alternative uses of the tax system to tackle a problem such as slum housing are not always analyzed by those who put forth proposals for a "tax incentive," yet they obviously should be considered and compared. Furthermore, to list them, as done briefly above, gives some insight into the fact that tax incentives are no more than a reflection of the myriad forms of direct spending and enforcement approaches that might be used to attack these same problems. Some of these direct approaches might work and some might not; of those that work some might work better and give better results per dollar, or less adverse side effects per dollar. So too, the alternative tax proposals will produce different results. Too often, unfortunately, the tax incentive proposal is defective not because it is a use of the tax system that violates fundamental principles but because it is simply an ill-considered proposal, a substitute for careful thinking.

The problems of our cities are not susceptible to quick or easy or inexpensive solutions. A key to their solution is a resolve on the part of our citizenry to solve them. And this resolve must include a willingness to face the enormous costs and efforts involved and to gear priorities to meet these costs and efforts. The "era of the tax incentive" which we are now entering may simply be another postponement of the day when we face our problems squarely. For a long time we have ignored these problems and hoped they would work themselves out with time. This is a course most now reject for obvious reasons. Yet we may well postpone the hard decisions and revert to wishing our problems away if we call on the miracles of ill-planned tax incentives to cure them. Few who mouth the slogan "let's use tax incentives" have the faintest idea of the "how and what" of which they speak. This is not a criticism merely of those who support tax incentives. Much the same applies to proponents of direct programs. The difficulty is that we are dealing here with problems that are new to our society and to which we bring little knowledge and experience.

A rare exception would be the plan of the late Senator Robert Kennedy to encourage housing for urban poverty areas embodied in S. 2100, sponsored by him in 1967. This plan sought to encourage dramatic improvements in poverty area housing through a series of devices—federal income tax benefits, local property tax limits, favorable financing, control over rents and quality and construction costs, incentives to use ghetto management and ultimately to sell to tenant cooperatives. However, even in this well-conceived plan, the tax incentive aspects (an incredible array of magnificent benefits) were the least carefully thought through, unduly complicated, difficult to cost out, and of varying effect on different taxpayers. They, in effect, represented an attempt to spend, through tax rebates, large amounts of federal money which probably could be spent more efficiently through direct plans, and, indeed, even through simpler tax incentives. It is plausible that the more complicated methods were adopted because Senator Kennedy did not think the funds would be forthcoming if sought openly.

However, in budgeting an overall attack on our great urban problems—race, poverty, urban blight, air pollution, and substandard education—this smoked-screened *potpourri* of large indirect expenditures through tax incentives was a questionable approach. In the long run, we clearly will not solve our problems if we entangle our national budget, a system of setting national priorities, in this almost impenetrable jungle of indirect benefits.

TAX INCENTIVES AND BUDGETING FOR NATIONAL PRIORITIES

It is ironic that just as economic and management science is being introduced into our national budgeting process—through the Planning-Programming-Budgeting System—support develops for a move in a contrary direction. PPBS would lead us in the direction of more closely gearing our national expenditures to our top priorities. Spending vast amounts indirectly through the tax system in a hidden or difficult-to-measure manner leads us in the contrary direction.

What should be done to bring us to a more rational approach to the use of tax incentives? The critical issue may revolve around accounting for tax benefits as expenditures for purposes of our budget. Put simply, our national budget should estimate annually the revenues lost through existing tax benefits. These should be reflected in the budget as receipts and corresponding expenditures. For example, if we spend dollars directly for the blind and handicapped and also give tax incentives to the blind, we should show in the budget a total expenditure figure consisting of both. Then we should analyze the total expenditures—direct and tax—as we do any other. Thus, we should be concerned with *which* of the blind benefit from the indirect expenditures. We would, of course, find that those with no income receive no benefit, and those with high incomes benefit the most, since this benefit is the double personal $600 deduction. On the other hand, the extra $100 minimum standard deduction given to the blind helps only those in low income brackets. An examination of the total distribution of direct and indirect tax benefits might show an undesirable pattern and lead to changes, or it might be shown that the distribution was a proper one. In any event we would know and not operate in ignorance as we now so often do.

New proposals should be treated like proposed direct expenditures, and analyzed similarly. For example, suppose we wanted to enable renters to buy better housing through a tax deduction for rents? What will it cost in the aggregate? Who will get the benefits? Is this in line with our first priority? Renters who have no incomes or low incomes will get little or no benefit. Renters with high incomes and high rent will benefit the most from the deduction. So we might have to combine the program with a direct expenditure program designed to aid the poorest. We might have to put a ceiling on the tax deduction or make it a gradually diminishing benefit to keep the program from wasting money on Park Avenue millionaires. Or we might use a different tax incentive—for example, a "negative income tax" that will result in direct cash refunds to the poorest or a tax incentive aimed at the landlord. If we choose the latter route, how do we control against windfalls to landlords? For example, the landlord may not reduce rents or improve quality, or a high bracket landlord may benefit from the incentive more than a low bracket landlord (such as a tax exempt church project to provide housing for the poor). Rent controls? Quality controls for given rentals? If these are the answers then where are the advantages over direct expenditures for federal housing, or cash rent subsidies to tenants or cash income supplements (such as the negative income tax)? Probably there are none; indeed the absence of extreme market dislocations may more easily be avoided through the latter alternatives than with tax incentives. In each case we are trying to develop a means to cause the private market to do what it is *not natural for it to do*. In one case we tinker with the supply side; in the other with the demand side. Since it is the demand side which is really out of order (*i.e.*, because the poor do not have enough money to call forth ample rental quarters) it is a priori less disruptive to provide subsidies to the demand side until some long-run solution to poverty is achieved while leaving the supply side operating normally.

ADMINISTRATION

The virtue of simplicity of administration is often claimed for tax incentives. The red tape of direct government contracts is supposedly avoided. Delay is alleged to be cut down. Supervision is through simple auditing of tax returns by the Internal Revenue Service. It is said that the creation of new agencies is avoided.

The above brief analysis of tax proposals for providing better housing shows that considerable complexity is not necessarily avoided. The claimed simplicity of tax incentives is attainable only if we are willing to tolerate possible extreme waste, inefficiency, and windfalls to unintended beneficiaries. If we were willing *directly* to spend our money in this fashion, we could speed up that process also and make it "automatic" to avoid much red tape. Any "automatic" tax incentive can be converted into an automatic disbursement by the Treasury. But how much support could we generate for such direct expenditures? As we already know, many hastily contrived and uncontrolled "no-strings" direct programs have resulted in just such windfalls and waste. A loose and wasteful indirect program of tax incentives deserves no more support than its counterpart in direct expenditures.

A carefully designed tax incentive would undoubtedly require efforts and skills not now demanded of revenue agents. For example, in recommending tax incentives to encourage employment of the hardcore, the Task Force on Private Enterprise of the President's Commission on Civil Disorders conditioned these on the use of careful controls. These included the identification of the hard-core, a prohibition against "run-away" plants, and control of abuse that might result from frequent turnover. A new agency would be avoided in name only. Furthermore, the inefficiencies might be great. The Internal Revenue Service's primary mission is revenue raising. Accordingly, it might very well slight this effort until a major scandal arises. The poor experience with I.R.S. supervision of exempt organizations confirms this possibility. Also, trained personnel in other government agencies may very well be duplicated by the Internal Revenue Service to accomplish its new role. Finally, the already present problems of an overabundance of agencies concerned with one job will be increased. For example, a housing program for the poor will continue to involve personnel in the Housing and Urban Development Department and other agencies since government aid in financing, insuring, etc., will still be required in a well-designed program.

CONCLUSION

Unless our current tax system is radically reformed so as to be limited largely to equitable revenue raising purposes, it is difficult to argue on principle against using tax incentives in the effort to save our cities. However, the jobs that need doing may very well be better accomplished through other means. Even if a tax incentive is well designed, it is usually possible to achieve the same results through direct means. In other words, while tax incentives have no inherent quality that precludes their use, they also do not have any inherent advantages over direct programs. Since the tax system is already overburdened by complexities (many arising from the non-revenue uses of it) and since national budgeting is extremely difficult when indirect spending occurs through the tax system, the scales should normally tip heavily in favor of the direct method and away from the tax incentive. Furthermore, the adverse effects on the taxpayer morale from the existence of individuals with high incomes and low or no tax liability is another factor that militates strongly against further proliferation of tax incentives. On balance, the more sensible national policy would seem to be in the direction of improving present programs and expanding those that work. For example, in the housing area the Congress has yet adequately to finance the rent subsidy program, and we have not yet begun to feel the impact of other promising programs of the Housing Act of 1968. At the same time it might be well to remove some of the ill-advised tax incentives already enjoyed by the real estate industry which have not done the job of providing low income housing and which, in fact, may run contrary to this goal. These courses of action would seem to be more fruitful than the launching of a whole series of new tax incentive programs.

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SUMMARY

The nation's urban problems cannot be divorced from the problems of rural stagnation because the extensive migration to the cities has been largely the result of inadequate rural job opportunities. Rural revitalization will facilitate urban revitalization by slowing the influx of migrants.

Rural areas are suitable locations for an increasing array of business activities. Today fewer industries are tied to raw materials sources and the modern transportation system likewise allows greater freedom in location relative to markets. Industry is increasingly "foot-loose" with respect to location and this creates an opportunity for improving the spatial distribution of productive facilities. To achieve an improvement it is necessary to influence the location of only a fraction of the new firms coming into existence each year.

The general approach of the Rural Job Development Act is consistent with economic efficiency. Continued migration out of rural areas and the concentration of both population and industry in urban areas will have adverse economic "side effects." The location of foot-loose industries in rural areas will retard outmigration and the accompanying side effects and, further, permit the more effective utilization of rural resources. The underutilization of rural resources, and consequent economic waste, is more serious than indicated by unemployment statistics. Underemployment and withdrawal from the labor force is such that, within wide limits, the effective rural labor supply expands to the jobs available.

The fuller utilization of the resources of rural areas across the nation is a reasonable goal of public policy. The moderate short-run tax incentives of the Rural Job Development Act can modify industrial location patterns and migration trends in a manner that will contribute to more balanced and efficient economic development.

The Rural Job Development Act of 1969*

THE BROADER CONTEXT OF RURAL JOB DEVELOPMENT

It is becoming increasingly evident that this nation's contemporary urban problems cannot be entirely divorced from the problems of the rural areas throughout the nation. The extensive migrations of the past years have created difficult problems for the rural communities that have stagnated and have lost population as well as for the urban areas that have continued to receive the flow of migrants. It seems clear that these population shifts have been a contributing factor to many of today's problems and that it will be impossible to solve the interrelated problems of urban decay and rural stagnation without initiating new economic policies that allow for somewhat greater geographic stability of the population between rural and urban areas. If the migration can be slowed, then the task of revitalizing the urban areas will become more manageable. A reduction in the migration rate, however, will require the market economy to provide increased oportunities in the rural areas. This must involve an expansion and a diversification of private business in the rural economy. Greater geographic stability of the population will require and can only follow a fuller utilization of the resources (particularly human resources) in rural areas throughout the nation.

It would be a mistake to believe that rural out-migrations are primarily the result of the migrants' preference for a living in an urban area. The migrants are usually "pushed" out of the rural areas by the lack of economic alternatives closer to home rather than attracted by the slums of the urban area. Rural unemployment and underemployment is the major cause of a major fraction of our massive population shifts to the urban centers.

The situation is doubly unfortunate because the migrants frequently are not equipped to live in the new environment and would have preferred a job—even a lower paying job—at home than to move to the city. For many a job at their original home carries non-monetary benefits of great value. For the rural migrant a move to the city usually involves a complete change in life-style and it is not always a welcomed change. This preference is seen in the fact that many people linger in depressed rural communities and accept employment at lower wage rates than exist in other regions.

Increased job opportunities in rural areas would improve the quality of life in these areas directly. This in itself is a desirable socio-economic goal of public policy. The priority of this goal is heightened by the fact that increased rural job opportunities would, by reducing the migration to the cities, facilitate an improvement in the quality of urban life.

A reasonable argument can be made that it would be a desirable objective of public policy to decrease the pressures of forced migration that have been so evident in this country. The ideal, which could never be fully attained in a dynamic market economy, would be the existence of sufficient economic vigor and opportunity in all national regions so that individuals could choose between home employment or a job elsewhere on the basis of location and life-style preferences rather than simple economic necessity. This ideal is especially appealing where industrial location costs are not an important factor.

INDUSTRIAL LOCATION TODAY

The task of economic revitalization which the Rural Job Development Act attempts to accomplish is by no means an impossible task. Rural areas are quite suitable locations for an increasing array of business activities. Today fewer industries are tied to raw materials sources and the transportation system likewise allows more freedom in location relative to markets. Because of this, industry is increasingly "foot-loose" with respect to location. This increased freedom creates an opportunity for improving the spatial distribution of production facilities. Also, due to the foot-loose nature of industries today, much improvement in the spatial pattern of production may be accomplished with only moderate assistance to firms locating in rural areas. It is necessary, after all, to influence the location of only a fraction of the new firms and branch plants coming into existence each year [1] in order to utilize more effectively the human and natural resources

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[1] The Rural Job Development Act has provisions to guard against the pirating of established firms.

of the outlying districts. While the potential benefits of rural development are appreciated by many, I believe the tendency is to overestimate the costs and difficulties involved in accomplishing the objective. The costs tend to be overestimated, among other reasons,[2] because the foot-loose nature of many industries in the modern economy is not fully appreciated. Since locational requirements today are not so critical, the location decisions of many firms can be influenced with relatively moderate inducements.

RURAL JOB DEVELOPMENT AND ECONOMIC EFFICIENCY

While many concede that influencing the location of private business activity would have desirable social results, there is perhaps a tendency to believe that it would also lead to economic inefficiency and consequently lower the level of per capita income. This view is misleading, however, because it does not take into account the particular circumstances of our economy. When the pertinent features of the economy are incorporated into the analysis, the general approach of the Rural Job Development Act is *consistent with economic efficiency*. The features of the economy that must be incorporated into the analysis deal with the divergence of the existing conditions of the economy from the requisites of the economists' orthodox standard of efficiency, the competitive model. It is, of course, not unusual for actual situations to diverge in detail from the idealized models of economic theory and in this case the divergence is substantial. The more important divergencies bteween the economy's actual situation and the theory of the purely competitive economy include the externalities of migration, the relative immobility of a significant portion of the rural labor supply, and the existence of long-term rural unemployment and underemployment. These will be discussed in order.

(1) *The externalities of migration.*—The problem is that labor migration creates costs that are not fully paid by the migrants and their actions impose unwanted costs and inconvenience for others—both in the area from which they come and in the cities to which they go. Many of these "side effects" (or external diseconomies) have been associated with the continued growth in city size. This is seen in the various costs associated with congestion, pollution, noise, etc. The diseconomies of city size and density encompass such diverse elements as the need for more complex transportation systems, the pyramiding of police requirements, the increasing cost of providing outdoor recreation, waste removal and other public services. Each of these involves both current operating costs and capital outlays. Increased congestion and rising land rents have also been important aspects of urban blight. The problems created by labor migrations must be dealt with and this diverts resources from more productive alternative uses. These diseconomies add to the immediate problems which urban governments have found so expensive and frustrating to deal with. They have, quite obviously, created costs for individuals as well as urban governments.

Urban governments have, as yet, done relatively little to combat certain of the problems associated with pollution and noise. Although overwhelming governmental expenses have not yet been made in connection with some of these problems, future costs will rise sharply. People must, however, continue to endure these inconveniences and they do involve private psychic and health costs[3]—just as traffic imposes a private cost on individuals.

The externalities problem is further complicated by the fact that industry attracts people and people attract industry. Just as rural migrants do not pay all of the costs they create in the cities receiving them, private firms locating in cities often create costs of a similar nature (congestion, pollution and noise) which they likewise do not pay and which detract from the environment and from other people's real and psychic incomes.

The rural communities which have lost population have been adversely affected, as have been the urban areas which have gained population. Population loss has contributed to economic stagnation and stagnation has contributed to population loss. The loss of population has tended to depress markets as customers have left, depress real estate values as housing and business establishments have become redundant, limited city revenues as taxpayers have left and taxable values declined, discouraged private business investment, and made even more difficult the provision of adequate public services.

[2] Other reasons for the tendency to overestimate costs will be given later in the paper.
[3] These factors have created some expenses. There is, after all, the cost of keeping these inconveniences to a level where existence is possible. There must be garbage collections, sanitation, health measures, etc.

When all the private and social costs and benefits associated with the externalities noted above are considered, it is evident that continued increases in the concentration of population and industry will not be economically more efficient than greater decentralization.[4] This is true even though at the present time there are short-run pressures toward continued migration and greater concentration. As the competitive model assumes away all externalities, the conclusions of that model must be modified when external diseconomies exist. The existing short-run market signals are somewhat misleading guides to efficient resource allocation because of divergencies between private and social costs, which means that continued migration and increased concentration will not be optimum for the economy. Influencing the location of foot-loose industry to provide for greater stability of the population is quite compatible with economic efficiency. Indeed, it can *improve* the allocation of resources.

(2) *The relative immobility of a significant portion of the rural labor supply.*—While many workers have left the rural areas across the nation, many others have remained despite the poor or non-existent job opportunities there. They have remained at home for a variety of reasons, generally personal. Often they strongly prefer the rural or small town life-style to that of the urban centers. The physical environment itself, family, friends, recreational opportunities, and the like evidently all weigh heavily in their system of values. Given their values, their decisions to remain at home are perfectly rational, although as a consequence of their immobility they may be underemployed. These decisions, however, have meant that much of the nation's rural labor supply is effectively immobile. As the competitive model assumes mobility of resources (including both labor and capital), the conclusions of the model must be modified because of this immobility.

The rural to urban migration has been substantial and it has directly contributed to the nation's urban problems. The level of migration, nonetheless, has been lower than would have been indicated by the extent of job scarcity in rural areas. Many individuals have elected to remain immobile and this fact has imposed limits on the effectiveness and speed of labor migration in bringing about adjustments in the economy. Attracting foot-loose industry to immobile rural workers will compensate for the imperfection in the labor market and make possible a net expansion in the economy.

(3) *The existence of long-term rural unemployment and underemployment.*—This point is, of course, closely related to the preceding one. Long-term unemployment and underemployment is found in a large number of rural areas across the nation. The mere existence of this condition indicates that the actual operation of the economy is diverging from the behavior described by the competitive model, which recognizes only short-term frictional unemployment. This underutilization of the labor force means that the conclusions of the competitive model must be modified, because it is a full employment model and many of its implications depend directly upon that condition being fulfilled in the economy.

The underutilization of the rural labor force is a more substantial problem than official figures would indicate because it extends beyond those easily recognizable (but perhaps not actually counted) as unemployed. Unemployment is a problem, but in addition there also is underemployment and withdrawal from the labor force. The latter category includes those many individuals, particularly women, in a typical rural area who do not actively seek work for the simple reason that job opportunities are virtually non-existent.

The *potentially available* supply of labor in rural areas is often substantially higher than crude unemployment-employment statistics would indicate. The importance of this latent labor supply is that firms locating in most of these areas would find ample labor to employ. Individuals not currently seeking employment—because none is to be found—would become available and take employment. Within rather wide limits the effective labor supply in these areas adjusts to the number of jobs available. An increase in local job opportunities will expand employment by enlarging the effective labor force. If private firms can be induced to locate in labor surplus rural areas through the use of moderate short term tax incentives, a net increase in national output can be secured. Influencing the location of foot-loose industry will be quite compatible with increasing economic efficiency.

A possibility exists that, if given a *sufficiently* long period of time, the economy could achieve full employment through continued migration. The time element,

[4] The geographical dispersions of industry and population would also have national defense advantages in the nuclear age.

however, is very important in this matter and given the current rate of adjustment, the time lag would be quite substantial (several decades). This extended period of resource underutilization means economic waste and is socially undesirable and unnecessary. It is economically sounder to assist the market in overcoming particularly difficult adjustments than it is to rely entirely on time to solve the problem. This is, after all, exactly the reasoning lying behind the use of monetary and fiscal policies to combat unemployment in recessions. The position is entirely orthodox in economics.

The tendency to overestimate the costs of tax incentives for rural job development was noted earlier. The expansion of employment is relevant to this point. The expansion of employment, including the extension of the effective labor supply, has a direct bearing on the costs of a tax incentive program. While the tax incentives would have a short-run cost to the government, these costs (in the form of revenue loss) would be partially, if not entirely, offset by the personal income tax revenues collected from the newly employed workers, including those newly entering the effective labor supply. The actual costs of the program, even in the short run, would be substantially less than indicated by the revenues foregone in the tax advantages extended to participating business firms.

THE APPROPRIATENESS OF MODERATE SHORT-RUN ASSISTANCE

The comparatively short-run duration and moderate level of the assistance provided qualifying firms by the Rural Job Development Act is economically rational and has much to recommend it. There are two related points here. First, moderate assistance through tax incentives will help a firm overcome the temporary problems it may face when locating in a rural area. For example, one of the principle difficulties facing some firms would be the scarcity of trained personnel. The assistance provided by S. 15 will make it feasible for these firms to provide, in essence, the "education" or training necessary to increase the productivity of the labor force. Employee training is a short-run problem of moderate proportions. The assistance provided by S. 15 would enable firms to overcome such temporary imperfections in the market.

Secondly, the comparatively moderate level and limited duration of the assistance would help assure that only the types of firms (or categories of industry) which can be fully competitive when the assistance expires will be attracted to the rural-small-town areas. That is, of course, the only type that should be attracted.

SOME RELEVANT EXPERIENCE AND THEORY

The economics of job development has been explored in depth in recent years in connection with local and state industrialization efforts and much of that literature is applicable to the use of federal tax incentives for rural job development. While these various programs will not be reviewed here, two points from the state and local development area that are particularly relevant for the objectives and approach taken in S. 15 will be noted. First, many small towns and rural communities have, in fact, *succeeded* in expanding job opportunities and have done so via moderate short-run assistance to new firms. Their experience demonstrates that the cycle of stagnation can be broken in many rural areas and that it can often be done with moderate resources. The barriers to rural development are not uniformly high and this should be recognized. Secondly, while certain theoretical points are still debated, economic knowledge has been advanced significantly by the analysis of these programs and it is now clear that the economic rationality of such revitalization efforts is much greater than was perceived earlier. Although the context of state and local development programs differs somewhat from that of S. 15, the practical experience and the recent theoretical literature indicate the feasibility and economic soundness of breaking the cycle of rural-stagnation. Economic predestination is a questionable doctrine.

CONCLUSIONS

The fuller utilization of the human and natural resources of rural areas across the nation is a reasonable goal of public policy. When the particular circumstances of the contemporary economy and the foot-loose nature of modern industry are taken into account, it is evident that rural job development is quite consistent with economic efficiency. The moderate short-run tax incentives of the Rural Job Development Act can modify industrial location patterns and migration trends in a manner that will contribute to the more balanced and efficient development of the economy.

STATEMENT OF EDWARD W. O'ROURKE, EXECUTIVE DIRECTOR, NATIONAL CATHOLIC RURAL LIFE CONFERENCE

Mr. Chairman and members of the Committee, my name is Edward W. O'Rourke. I am the Executive Director of the National Catholic Rural Life Conference which also constitutes the Division of Rural Life of the U.S. Catholic Conference. Our organization has offices in Des Moines, Iowa and Washington, D.C.

We welcome an opportunity to express our views regarding the "Rural Job Development Act of 1969." This testimony will consist of two sections, firstly, a statement regarding the need for rural job development and, secondly, an evaluation of the proposed tax incentives as means to accomplish such job development.

I. NEED FOR RURAL JOB DEVELOPMENT

This is an issue in which our organization has expressed repeatedly a deep concern and about which it has been very active. During the past 10 years we have issued several policy statements spelling out the need for more job opportunities in rural America. We have also helped organize and support several hundred county and multi-county development committees which have created such job opportunities.

As farms grow larger, the numbers of persons directly engaged in agriculture decrease. Unless new job opportunities are developed in rural areas, population and the quality of life in these areas will continue to deteriorate. Of course, we recognize the need for improving farm income and know that such a step would strengthen the economic standing of all in rural communities. At the same time, we consider the development of non-farm jobs essential to the economic and social welfare of rural areas.

Conversely, massive migration from rural to urban areas has caused congestion and air pollution in many urban areas. This makes most urban environments much less suitable than the countryside and the small town as a place in which to live and rear a family. Yet, no matter how attractive the countryside may be, migration from the country to the city will continue unless employment opportunities are significantly increased in rural areas. It is, therefore, plainly in the national interest to develop jobs in rural areas where the space, light and air to support more people exist.

Indeed, it is unlikely that any lasting solution to the immense problems of urban areas can be had until massive migration of poorly educated and unskilled people from rural areas is greatly reduced. Often urban renewal efforts are neutralized by increased influxes of rural people into the area.

II. AN EVALUATION OF THE PROPOSED TAX INCENTIVES AS MEANS TO ACCOMPLISH JOB DEVELOPMENT IN RURAL AREAS

We have mixed reactions to the proposals of S. 15. Tax incentives for industry tend to add to inflation which hurts all of us. We are disturbed at our Government's efforts to curb inflation by increasing the taxes and interest rates paid by consumers. We feel that this has a minimal impact on inflation and creates many serious economic problems for lower and middle income people. The farmer particularly is victimized by this approach to inflation control. His taxable property is out of proportion to his income and he has need for large amounts of credit.

On the other hand, tax credits for industry encourage plant expansion which accelerates inflation.

We note, of course, that the tax incentives proposed in S. 15 are selective. In order to qualify for such tax credits, the enterprise in question must locate in "rural job development areas." We suggest, however, that tax credits of this sort be accompanied with sharp reduction of tax incentives which have persistently attracted industry to concentrate in urban areas. Thus, the inflationary consequences of S. 15 would be more than offset and the desired effect of attracting new industrial development in rural areas would be expanded.

We are also concerned over a tendency in many rural communities to afford local tax advantages to prospective industries. This policy artificially intensifies competition among communities for industries, and, in the long run, tends to attract the least desirable and least stable industries. If S. 15 were enacted, the inclination on the part of local governments to offer such tax incentives might be reduced.

We in the National Catholic Rural Life Conference have collaborated for many years with rural leaders, helping them create Rural Areas Development and other committees which make rural job development more feasible. We are of the opinion that tax incentives alone would not accomplish this goal. An industry, regardless of tax incentives, will not move to a community unless the leaders there are working together to make it a pleasant place in which to live and work. Hence, we urge that, if S. 15 is enacted, efforts of both governmental and private agencies toward this sort of community organization and development be simultaneously increased.

With the reservations indicated above, we support S. 15, the "Rural Job Development Act of 1969."

Respectfully submitted,

EDWARD W. O'ROURKE.

STATEMENT OF THE FEDERAL LEGISLATIVE COMMITTEE, KANSAS BANKERS ASSOCIATION—SUBMITTED BY R. G. LANGENWALTER, CHAIRMAN, FEDERAL LEGISLATIVE COMMITTEE

Kansas would benefit materially by the adoption of a rural job development act as proposed by S. 15. Kansas is a state made up of many fine small rural communities; however, in some cases their future is in doubt, through no fault of their own other than there exists a strong trend toward urbanization because of industrial and commercial opportunities being centralized in urban area. In many, many cases these small communities have outstanding educational systems, community facilities, and a potentially large and effective labor force both on a part time and on a full time basis. Often these people are well trained in technical skills as required in today's modern and mechanized agricultural units and would be easily, rapidly and inexpensively retrained for industrial jobs.

While Kansas has but few major urban problems at this time, the long range health of our state will be enhanced if the small communities surrounding our urban areas are developed industrially. We feel strongly that many crises in cities can be traced directly to overcrowding of people and heavy concentration of industry. We have seen prime examples in the state of Kansas where outstanding and highly profitable manufacturing and industrial concerns have been developed in rural communities. Often they have changed a small deteriorating totally agricultural rural community into a viable industrial center, thereby creating new wealth, new jobs and new vitality to an area greatly in need of such a stimultant. An excellent case in point worthy of examination would be Hesston Manufacturing Company of Hesston, Kansas. There are countless others.

To accomplish the task at hand, we can propose that no program would be as immediate and have the national impact as the tax incentive program as outlined in S. 15. While any tax incentive program such as this potentially would produce less immediate tax revenue, it would appear that the reduced tax income would be temporary. If increased productivity in many small communities can be accomplished and simultaneously reduce even to a small degree some of the immense urban problems, the savings in human resources and dollars would be immense and immediate.

R. G. LANGENWALTER,
Chairman, Federal Legislative Committee.

CHAMBER OF COMMERCE OF THE UNITED STATES,
Washington, D.C., May 22, 1969.

Hon. RUSSELL B. LONG,
Chairman, Committee on Finance,
U.S. Senate,
New Senate Office Building,
Washington, D.C.

DEAR SENATOR LONG: We have noted with interest the attention of the Senate Finance Committee to proposals for encouraging job development in rural areas.

So much attention is being given to the urban crisis and programs to resolve some of the major problems in metropolitan areas, that we tend to overlook the extent to which urban problems have their roots in rural America.

The tremendous advancements in science and technology have contributed to our overall economic progress. They have also contributed to the resource adjustment problems facing rural communities and small towns throughout the nation. The capacity to produce has increased so rapidly in agriculture that excess production of farm commodities and a decline in employment opportunities for rural people have resulted. Thus, large numbers of these people, many of whom are unskilled, uneducated and poverty stricken, have moved from depressed rural areas in search of better opportunities in the cities, thereby adding to the urban problems.

The Chamber of Commerce of the United States generally supports various incentives to enhance rural development. The Chamber has not taken a specific position on certain incentive proposals, such as tax credits and special deductions as contemplated by S. 15. It is expected that the provisions of S. 15 will be considered by the Chamber later this year.

The Chamber advocates efforts to assist in the development of rural communities through a variety of means, including job training, vocational education and additional approaches to aid in the development of business and industry.

Attached is a copy of the National Chamber's policy declarations for agriculture, along with a statement amplifying these policies with respect to economic and social aids to rural people and communities.

We hope these guidelines can be useful to your Committee in considering ways to help strengthen the economy of rural communities.

Sincerely,

DON A. GOODALL,
General Manager, Legislative Action.

Attachments.

POLICY DECLARATIONS FOR AGRICULTURE AS APPROVED BY THE BOARD OF DIRECTORS FEBRUARY 21, 1969

Agriculture is an industry which includes farming and the affiliated service, supply, processing and marketing activities. A workable national agricultural policy must reflect consideration for the economic and social problems of this entire complex. Such a policy also should recognize that there are two very different kinds of farm operations: (1) viable commercial production units possessing sufficient size, resources and management skills to compete in modern agriculture; and (2) other, marginal production units so limited in their capacity to compete that their operators must seek income from non-farm sources.

Both farm and non-farm families in many rural areas have faced the need for substantial adjustments stemming from the rapid flow of new technology and new capital into agriculture. Capacity to produce has risen faster than demand, resulting in surpluses and depressed prices. Those farmers unable to cope with new demands for capital and management skill have experienced severe reductions in income. Though both the number of farms and far workers has declined steadily, a substantial further reduction is in prospect.

Existing farm programs are not responsive to present needs of rural areas. Reliance on price supports and payments tied to productivity has increased the rate of capital substitution for labor; has deprived farmers with little to sell of meaningful assistance; and has tended to price some farm products out of world markets. Failure to recognize that the basic problem of agriculture, both now and for the foreseeable future, is excess capacity, has prompted the choice of costly programs which have failed to produce any lasting adjustment.

New approaches are needed to bring enduring solutions to conditions which plague the entire agricultural complex. They should embrace the following principles:

1. The long-term objective should be to bring agriculture into healthy self-sustaining balance in a market-oriented economy. This means taking optimum advantage of the market's ability to allocate resources and to distribute income in the interest of making the best use of labor, capital, land and management.

2. Programs to promote necessary cropland adjustment should be voluntary, efficient, and offer the assurance of transferring marginal farms from production of surplus crops to such uses as conservation, recreation and other uses in the best public interest. This suggests land retirement contracts of sufficient duration to overcome the excess production which now exists and directed at the margin of the industry with respect to productivity and efficiency.

3. Transitional assistance programs should be established to enable producers and related business activity to make orderly and gradual adjustments. Changes in commercial agriculture will continue to impose resource

adjustment problems throughout rural areas. Efforts should be increased to assist farmers and others in rural areas subject to the impact of structural adjustment. These efforts should include education and job-retraining programs for the employable, income supplements for the unemployable; and improvement of local job opportunities by encouraging the location and relocation of appropriate industries in rural communities. Such programs should meet individual needs and self-determined social and economic goals without disrupting the heritage and personal values of the people involved. They should be administered at the lowest level of government at which adequate direction and response can be assured.

4. Conservation of land and water resources should be vigorously promoted as national policy. The expenditure of public funds to bring additional land into crop production should be handled so that the overproduction of crops would be minimized.

5. Commodity programs to augment producer incomes should be limited to a system of standby assistance to provide emergency price stability without resulting in uneconomic levels of production or carry-over stocks.

6. Agricultural service industries are essential to the welfare of the whole agricultural complex. Programs designed to benefit farmers or consumers must also be considered in terms of their impact on these allied services in the agribusiness industry.

7. Adequate supplies of farm commodities are in the national interest. In most cases these supplies can be in private hands in the market stream. Government efforts to assure the existence of adequate supplies, where necessary, must be carefully devised to avoid interference with the normal movement of farm products through the market system.

8. Both basic and applied research are essential to the creation and maintenance of a strong competitive agricultural economy and a progressive food and fiber industry. Public and private agencies should work together in coordinating and expanding their respective research programs.

9. Strong emphasis should be placed on expanding export markets.

10. The right of agricultural producers to join together voluntarily in associations to market their products under existing statutory exemptions from the antitrust laws is recognized; however, further exemptions under these laws are not warranted. Legislative or administrative authority which would require a buyer to negotiate with an association of producers or prohibit producers and their customers from dealing with one another individually or on a direct basis should be opposed. Voluntary, free and open negotiations involving terms of trade between producers and purchasers of food and fiber products should be encouraged. Prices resulting from such negotiations should reflect free and competitive market incentives to assure maximum efficiency in production and marketing activities as well as adequate supplies of food and fiber.

11. Agricultural marketing orders should not be utilized on a national basis. In the instance of existing marketing orders, processors or handlers should have equitable representation in any vote in the formation, adoption or administration of these orders.

Interpretation of Policy Declarations for Agriculture

LONG-TERM LAND-USE ADJUSTMENT PROGRAMS

The Chamber supports a federally financed cropland retirement program based on voluntary participation of farm operators. (Perhaps 70–80 million acres retired in five years).

The program should be limited to whole farms, i.e., it should require the retirement of all the cropland in the farming unit, but offer no payments for that part of the farm land which has already been diverted to more permanent, or more extensive uses, such as woodlots, recreation, etc.

Contracts for *renting or leasing* should be offered on a competitive bid basis for a period of 5–10 years. It should be designed to retire the least productive cropland at minimum cost and serve as an inducement for marginal farm operators to pursue more rewarding occupations.

The program should be limited to farms which are currently producing crops. (This would prevent paying for retiring farm land, which in effect, has already been retired from crop production without the expenditure of public funds).

The amount of cropland and number of farming units that may be "retired" within any one county in any one year should be limited to prevent wholesale evacuation and economic disaster in areas of marginal cropland productivity and limit alternative employment opportunities.

ECONOMIC AND SOCIAL AIDS TO RURAL PEOPLE AND COMMUNITIES

The Chamber supports a program designed to provide direct onetime payments to help relocate farm operators or farm workers whose farm employment opportunities have been terminated.

The payment should be made only when:

No opportunities for local employment are available;

Opportunities for employment elsewhere are known;

Adequate training is provided to assure employment upon relocation.

The Chamber further recommends that:

Vocational-technical education be improved and tailored to the needs and opportunities of rural youth and adults in areas of excessive unemployment or underemployment;

Opportunities be provided for consolidated regional training and development programs in depressed economic regions;

Appropriate incentives for sound business investments in rural areas suffering from excessive resource adjustment be made available;

Such incentives could be applied to the development of both manufacturing and service industries;

A bipartisan commission or appropriate research project should be authorized to investigate and analyze the basic factors affecting the geographic location of population and industry so as to provide needed information for wise policy decisions on rural development.

The planning assistance program of the Economic Development Administration, HUD and the USDA for rural economic development districts should be consolidated. The new program should be predicated on local voluntary leadership and support of state governments.

MIDWESTERN OKLAHOMA INDUSTRIAL FOUNDATION,
Burns Flat, Okla., May 21, 1969.

Senator RUSSELL B. LONG,
Chairman, Senate Finance Committee,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: It is a privilege to have the opportunity to submit the following testimony to your committee in support of S. 15, The Rural Job Development Act, which is co-sponsored by my good friend Senator Fred R. Harris.

For the past few years rural areas have witnessed a very serious loss of population due to the lack of job opportunities generated by industry and the economic necessity of increasing the size of the farming unit. This problem has not only resulted in a serious economic loss to the rural communities but also to urban areas resulting in many added costs and social problems. In Cordell High School, Cordell, Oklahoma, over eighty percent of our high school graduates for the past ten years have left this rural area. It takes no genius to see the waste of the economic potential resulting from "out migration" of these young people. The social problems caused by this relocation are economically intangible, but they become a hard economic fact when viewed in its full scope.

Approximately fifty million people are dependent, to some degree, on agriculture or to a related industry. The present nor the future picture is very bright for the agriculturally oriented areas if diversity, through industry, of our economic base is not obtained. The only method that I can foresee is to encourage industry to locate or originate in the rural communities in order to offer an alternative to this "out migration" of our sons and daughters upon their graduation from high school. We must at the same time offer equal economic advantages to their parents as compared to urban centers. This, in my opinion, can be done by offering industry certain incentives to expand or locate in these economically recessed rural areas. The Bill, S. 15, The Rural Job Development Act, co-sponsored by Senator Fred R. Harris, in my estimation, offers a solution to many of our problems. The special tax incentives provided in this legislation are very important in attracting industry that will tend to stabilize our rural areas and small town populations. As so clearly stated by Senator Harris, "We do not feel that this legislates 'run away' industry but would offer a sound and economic basis for entrepreneurship and a solid case for existing industries needing expansion facilities in the rural communities." We know the economic decline can be traced almost exclusively to lack of private jobs in privately owned industries. It is a fact that the Gallup poll shows that fifty percent of our Americans would prefer to live in small towns or on a farm, yet only one third do, and that number is dwindling rapidly.

In our four county area, Washita, Beckham, Custer, and Kiowa, we have seen a decline of over fifty percent of our population in the last thirty years and actually this figure is a bit misleading as we have been blessed with the Clinton Sherman Air Force Base and its 8200 men and dependents. This base is to be closed on July 1, 1970, and our population figures will drop another fifteen percent for a grand total of sixty-five percent in the last thirty years. We realize that industrial development has been slow because of the high risk involved, but with this legislation we feel that rural areas can be on a near equal basis with our urban neighbors. We in mid-western Oklahoma have used every means and every opportunity to encourage industrialization. We are approaching industrilization on an area concept basis realizing full well that if one rural community cannot fill the requirements of a certain industry, maybe we can offer ten such opportunities and one will fit. We have voted and presently have under construction vocational-technical training facilities that will offer the means of training the skills needed by industry. We have, in our local community, put together a program that should interest industry, but we realize that we lack the all *important ingredient* of adequate and realistic financing and that of a tangible tax incentive which would paint a profit picture that industry could not reject. This again applies to local entrepreneurship and plant expansion of existing industry.

I have spent most of my time on the economic aspects of rural development and very little on the social aspects of stemming the flow of our children and their families to already over expanded metropolitan areas. We are being shown day by day the full consequence of this oversight in planning the America of tomorrow. As a banker, and a person greatly interested in the future of our American rural areas, I can foresee with legislation such as S. 15, The Rural Job Development Act, a projected solution to many of our problems in urban areas and the resolving of problems in rural areas that have been neglected for so long. With this legislation and other legislation that is pending, the scales of our country's economic activity will soon balance to the benefit of both urban and rural residents. This legislation, in my opinion, is greatly needed and will add new vigor and vitality to our American way of life.

Thank you, Mr. Chairman, for allowing me to express my opinion on this important legislation.

Yours very truly,

FRANK G. KLIEWER, Jr.,
Chairman.

[TELEGRAM]

STATE DEPARTMENT OF PLANNING AND
ECONOMIC DEVELOPMENT,
Helena, Mont., May 22, 1969.

HON. RUSSELL B. LONG,
Chairman, Senate Committee on Finance,
U.S. Senate,
Washington, D.C.:

We have been notified of hearings being held on S. 15, and wish to inform the committee of our interest in the Rural Job Development Act of 1969. We are acutely aware of the economic deterioration taking place in some of our rural communities, and the resulting outmigration that is proving detrimental to both the rural and urban areas. Industrial development in the rural community is needed to slow this migration pattern, but private investment must be encouraged through such means as tax incentives. We urge your favorable consideration and support of S. 15.

LAURIE A. MCCARTHY, *Acting Director.*

Statement of David C. Fullarton, Executive Manager, National Telephone Cooperative Association

My name is David C. Fullarton. I am Executive Manager of the National Telephone Cooperative Association. NTCA is the national service organization for the nation's 231 telephone cooperatives. These telephone cooperatives provide service to more than 600,000 rural establishments in 31 states.

The member systems of NTCA obtain their long-term capital financing through the REA direct loan program and thus have an immediate and vital interest in appropriations for this program. It was through REA that more than 50% of the present subscribers of telephone cooperatives first obtained telephone service.

The REA telephone program has been one of the most successful loan programs undertaken by the Congress. Telephone cooperatives and other REA borrowers have made remarkable progress over the past 19 years in bringing telephone service to the rural areas of the nation.

In 1949, only about 30% of U.S. farms were receiving telephone service of any kind. Today, 82% of the U.S. farms have telephone service, although much of it is eight-party service. With REA loans, telephone cooperatives, and other REA telephone borrowers have built and improved 523,000 miles of telephone lines to serve about 2.2 million subscribers in rural areas.

The REA telephone program has helped farm families to improve their standard of living. It has benefited the nation's consumers by increasing the efficiency of food and fiber production and it has helped to create a multi-billion dollar market for urban manufacturing industry. Today's telephone is more than a device for social contact and emergency communication. The farmer's telephone, like the electric motor, has become an essential tool in agricultural production.

Telephone cooperatives are proud of their achievements in rural areas, but much more needs to be done.

I appreciate the opportunity to appear before your Committee today in support of legislation (S. 15) to provide incentives for the establishment of new or expanded job producing industrial and commercial establishments in rural areas. The tax incentives embodied in S. 15 would attract new job producing industrial and commercial establishments which would in turn effectively use the human and natural resources of rural America.

It is undeniable that there has been a considerable movement of farm and rural people from the countryside to the more thickly settled areas or urban centers. Part of this movement is explained by the lack of economic opportunity in rural areas for people to receive a recompense which allows them to live a truly human life and to assume their family responsibilities.

Other factors underlying the farm-rural population shift to the urban centers are a desire to escape a confining environment and to seek the greater comforts of life more commonly offered in the heavily settled areas and urban centers.

There is no doubt that the farm-rural areas are depressed by whatever standard of measurement is used. In the United States, one-half of the poor population resides in rural areas, even though only 30 percent of the total population resides there. According to the latest census, 60 per cent of the three million rural-farm families and 41 per cent of the ten million rural-non farm families earn less than $4,000 per year.

It is clear that the social and economic development of rural areas should be undertaken on a much more massive scale than heretofore has been the case. The problems of the cities are also the problems of rural areas. That is to say, that rural areas should receive special help, in order to permit them to improve the standard of living of the rural-farm residents, to stem the movement of the rural farm population to the cities and to eliminate an environment considered confining and devoid of social and economic opportunities.

We believe that the substance of S. 15 is a step in the right direction towards solving the economic and social problems of rural areas. Mr. Chairman, and members of the Committee, the rural telephone cooperatives join those throughout the nation in asking you to approve this constructive legislation.

Thank you.

KAISER INDUSTRIES CORP.,
Washington, D.C., May 22, 1969.

Hon. TOM VAIL,
Chief Counsel, Committee on Finance,
Senate Office Building, Washington, D.C.

DEAR MR. VAIL: With respect to the scheduled hearings by the Senate Finance Committee beginning Wednesday, May 21st, on S. 15, introduced by Senator James B. Pearson and many other Senators, Kaiser Industries supports the objectives of this legislation. The Corporation feels that the provisions of the bill to encourage the development of new job-creating industries in rural areas would substantially help to achieve its objectives.

It is suggested, however, that the definition of "industrial or commercial enterprises" be amplified to make it clear the extractive industries, i.e., mining of minerals, whether or not further processing occurs, are included within the definition.

The Corporation is pleased to make these observations to the Committee for inclusion in the Record.

Sincerely,

WALTER T. PHAIR,
Assistant to the Vice President.

STATEMENT OF JAMES RUSSELL WIGGINS, BROOKLIN, MAINE, OWNER AND PUBLISHER, THE ELLSWORTH AMERICAN, AND FORMER EDITOR, THE WASHINGTON POST

This legislation (S. 15) is aimed at an imbalance of urban and rural population that has already adversely affected national life and one which, with rapidly rising total population and an increasing concentration of that population in urban centers, promises to more seriously effect the country in the future.

The economic disadvantages of rural life have caused millions of Americans who would prefer to live in rural areas to move into our crowded cities to compete for jobs for which they are not suited by background, experience or training. Those residing in towns of 2500, or in the open areas, have, on the average, an income of only about half that of urban residents. Of the 14 million families who qualify for the poverty classification (earning less than $1000 a year) six million are rural, notwithstanding the fact that 70 per cent of the total population is urban and only 31 per cent is rural. But the disparities and well being show up in terms of life expectancy, education, general health and many other aspects of American life.

One way to diminish these disparities and put a check on a further influx of the ill-equipped and ill-trained into urban areas no doubt is to increase income and add to other gratifications of rural life. The maintenance of farm income will continue to be at the core of efforts to correct income imbalance simply because agriculture, although it is still the direct employer of fewer and fewer people, remains indirectly, through agri-business, the employer of more than 20 millions of people. It also is a factor affecting the income of those who live in the great cities. But agriculture no longer can provide jobs even for the population now engaged in agriculture or for the children of farm families. So if we are to keep a substantial percentage of the population in rural areas we must find alternative employment. In the long run, I think that the advantages of urban living, the preferences of a large part of the population for rural life, coupled with the growing inconvenience and disadvantage of life in the cities, may help correct the balance. But, in the short run, steps need to be taken to encourage industry to explore the opportunities of rural development more fully, to invest in industries outside the urban areas and to disperse the labor force of the country to a larger degree than it has been possible heretofore.

There is every indication that if the economic disabilities of rural employment could be diminished a great many Americans who now live in cities would prefer to live in rural areas. George Gallup, in a survey made last year and the results of which were released at the National Wildlife Federation meeting in Washington, disclosed that respondents were asked to say where they would like to live or where they believed it would be most pleasant to live. Thirty per cent said they would prefer to live in rural areas, 25 per cent in small cities, 18 per cent in suburbs and only 6 per cent in large cities. Ideally we ought to make a national effort to afford more people an opportunity to live where they prefer to live.

The Advisory Commission on Intergovernmental Affairs in its report to the President in July, 1968 stated: "While agreeing that urbanization in varying degrees is, of course, inevitable and the natural concomitant of an increasing technological age, the Commission also believes that a combination of public and private actions can mitigate certain adverse effects of present urbanization trends. Specially, we note the dis-economies of scale involved in continued urban concentration, locational mismatch of jobs and people, the connection between urban and rural poverty problems, and urban sprawl. In addition to these nation-wide effects, such conditions are exacerbating the country's major social and political crisis, i.e., the declining health and vitality of many of our largest cities."

The legislation here involved and now before this Committee would certainly constitute an integral part of a national policy looking toward the effectuation of the ends sought by this Commission. Without something like the national policy they recommend it is clear that we face a continuation of urban growth in the country's major urban belts. When he was Secretary of Housing and Urban Development, Secretary Robert Weaver predicted that the population of the nation's three great urban concentrations—the one from Maine to Virginia and extending inland to Illinois and Ohio, the one in Florida and the one in California—would increase from 82 million in 1960 to 180 million by the year 2000. There are some indications that the rate of growth in the central cities may be moving differently than in the immediate past. There is a possibility that legislation such as that before you might now be working with a changing trend or at least dealing with a trend not so pronounced as heretofore. Herman Miller, the chief of the Population Division of the Census Bureau, has disclosed that white residents are leaving the cities at the rate of half a million a year—compared with the departure of 140,000 a year before 1966. Negro population in central cities, which was growing at the rate of 370,000 a year before 1966, now has dropped to an annual increase of 100,000 a year—normal reproduction rate. There is still, however, a large reservoir of low income population from which cityward immigration can be expected to continue unless steps are taken to provide a more attractive alternative than that now furnished by rural life for many of these persons in the low income group.

Urban life, viewed objectively, may be much less attractive than it has been in the past as a result of well-known developments in the great cities. These developments may greatly influence the judgment of persons now living in the great cities as some statistics on urban out migration indicate, but they are not likely to have much influence on the migrants moving from impoverished rural areas into the cities. These people are so much more sharply aware of their present miseries that they are not capable of acquiring knowledge of the real conditions in the cities. They are likely to be more impressed by miseries that they know than by the miseries of life in the cities of which they do not know. The consequence of this double migration, therefore, is likely to be a lowering of income and employment in urban work force at the same time that the outgoing migration diminishes the tax resources derived from upper income groups in the great cities. This would result in a worsening of the situation in urban communities.

It is hardly necessary at this juncture to dwell on some of the disadvantages of urban living for persons in the lower income brackets. This, of course, has been well known to science for more than a hundred years. I was interested recently to come across a report of the American and British Social Science Association meeting in London in February, 1868. The scientists concluded that "nearly all the causes of disease and death and more efficient in dense than in sparse populations, while the very concourse of human beings itself develops prolific causes of disease." They concluded that "our cities are maintained at a more fearful cost to human life than is generally supposed."

We are only beginning to be aware of the impact of sheer density upon the human animal. Experiments with other forms of animal life have given us a new insight into the consequences of overcrowding. John Calhoun, of Johns Hopkins University, made a study several years ago of the consequences of crowding in rat colonies. Similar studies have been made of other animals. There is no reason to suppose that the human animal is immune to these disadvantages. The stresses and social expectations of urban existence have a very adverse effect on constitutions of many citizens. There is a foundation of experience for the misgivings that intellectual Americans have had for nearly 200 years with the human environment provided in large cities.

The concentration of populations was an inevitable concomitant of one phase of industrial growth. It was essential, for generations, to bring raw materials and power and people together in order to take advantage of the economies of scale afforded by mass production-industries. The rise in the use of electric power, the increasing availability of transport and the growing mobility of the labor force has removed the necessity of such concentration in the case of many industries. But the mental habits of the early industrial age persist into a time when these disadvantages no longer need to be tolerated by countries wishing to achieve industrial growth. The agricultural processing industry in particular is finding out that it is extremely advantageous for it to move its concentrations of production back toward the source of supply. It is increasingly processing animal and vegetable products nearer their point of production. By this decentralization they are cutting transportation costs, improving the quality of their supply, upgrading labor forces and greatly diminishing the hazards of urban industry.

To encourage the processing industries and other industries to take advantage of the economies that the rural environment provides there must be across the board improvements in some of the utilities and facilities that are needed by industries in dispersed rural areas. Every improvement in communications lowers the arguments for centering industries in larger cities. The easier it is to move goods and people and carry messages back and forth, the easier it will be for many industries to seek a rural environment.

Victor Matskevitch, the Minister of Agriculture of the Soviet Union, in an intervie v in Moscow in 1965, told me that his country had largely imitated American industry in the location of its agricultural processing plants. He said that it had projected its processing industry at a time when "giantism" was a characteristic of the processing industry. Now, he said, the government realized that it ought to disperse these industries over a period of time and locate them nearer the sources of supply. The Minister of Planning in Moscow, Nikolai Evstramof, told me in a 1965 interview that he contemplated the movement of as many as 400 plants from Moscow to rural areas. Even a socialist regime that does not have to cope with the exigencies of private management and the necessities of private capital, does not find it easy to transplant industries from an urban to a rural environment. A government which, providentially, lacks the arbitrary power to decree the removal of industry will find itself under the necessity of utilizing the devices of private capitalism in order to effect any very large alteration in the concentration of industry of industry. The chief device of such a society, of course, is the profit motive. This legislation, and like legislation, will provide a short-run profit expectation that will encourage many industries to make moves that they might not be able to make even though they recognize the long-run advantages of change.

If the population of the United States were more evenly distributed over our continental domain, it has been estimated that each family might enjoy a residential site of more than 50 acres. No one hopes, at this late date, to achieve a relocation of the population on any scale like this. The figure does suggest, however, how unreasonable and illogical it is to continue to pile up our population in urban centers where only 6 per cent of the population would really choose to live, if they had a free choice. National policy clearly ought to give substantial encouragement to rural growth. In the language of the Advisory Commission on Intergovernmental Relations in 1968, there are "dis-economies of scale" in continued urban concentration. Policies that discourage this concentration will work a long-run improvement of the quality of life in this country.

[TELEGRAM]

SOUTH CAROLINA STATE DEVELOPMENT BOARD,
Columbia, S.C., May 21, 1969.

Senator RUSSELL LONG,
Chairman, Senate Finance Committee,
Senate Office Building,
Washington, D.C.

We wish to support your committee bill providing tax incentive for rural job development. We have had great success in South Carolina in rural industrialization, and feel that this would provide a valuable incentive to encourage industrialists to take advantage of the labor and natural resources of rural America.

J. D. LITTLE, Jr.,
Director.

STATEMENT OF VERNOR R. ALDEN, PRESIDENT, OHIO UNIVERSITY, ATHENS, OHIO

For almost eight years I have served as the President of a rapidly growing state university located in the Appalachian region of Ohio. Prior to my coming to Ohio I served as a dean at the Harvard Graduate School of Business Administration. My interest in regional development and the involvement of private business in the solution of our nation's major domestic problems is long-standing.

During my tenure at Ohio University we have committed University faculty members, administrators and financial resources to the economic, cultural and education revitalization of our area. The need for such involvement by the University is readily apparent to anyone who visits our area. For a number of years the Appalachian region flourished when soft coal mining and small scale agricultural activities were profitable. Within fifteen years after World War I the technological revolution in mining took the jobs of almost four out of five Appalachian laborers. With the advent of large scale agricultural enterprises in other parts of the country, today only one in fifteen Appalachian residents is employed by agriculture. Between 1950 and 1960 mining and agriculture together dropped 641,000 workers in Appalachia—more than half their 1950 work force.

As the Presidential Commission on Rural Poverty revealed, there are 14 million rural Americans below the poverty line today. Out-migration has transferred the problem to many of our major cities; the total number of rural poor would be even larger than 14 million had not so many of them moved into the city. Some economists have predicted that if we completely cleared the urban ghettos with substantial Federal programs concentrated upon the cities, the slum districts would be filled up once again within two years with migrating rural poor—and this time they would probably be white ghettos, not Negro ghettos.

Those people who have left Appalachian Ohio and other depressed rural areas have compounded the problems of the big cities. Frequently they have not been able to find jobs, and they have become recipients of welfare, crime statistics or additional forgotten poor.

While Federal anti-poverty programs have made modest efforts to reach people in rural non-agricultural America, these programs have generally by-passed the rural poor. Rural poverty is not as apparent as urban poverty. There is less violence today in rural poor America, so it has been all too easy to assign a lower priority to non-urban areas.

The Federal programs which do reach rural America are badly out of date, because of their "vocational-agricultural" emphasis. Technical training programs conducted by universities such as ours have demonstrated that people in rural America can be provided with skills which will make them employable in our contemporary society. Paradoxically, while we have an over-supply of untrained, unskilled people in rural areas, many businesses are complaining about a critical shortage of skilled workers. During the past four or five years the Appalachian Development Commission has spearheaded the development of highways, commercial airports, medical and educational facilities and industrial sites, making Appalachia today hospitable to businesses, large and small, who may wish to locate in this underdeveloped part of our country. What is lacking, however, is a program of *incentives* which would enable the thoughtful businessman to move into a depressed rural area to provide job opportunities. It has been demonstrated time and time again that businessmen will respond favorably when tax incentives and other inducements are offered. Community incentive programs in the Southern Region of the United States and the "Operation Bootstrap" in Puetro Rico have attracted substantial business investment to economically depressed areas.

I wish to endorse Senate Bill 15, introduced by Senator James B. Pearson of Kansas and co-sponsored by 38 other Senators, and urge the Congress to pass special tax credits, special accelerated depreciation schedules and extra deductions for wages paid to low income persons. I endorse also those provisions which will assure that businesses will create new jobs and hire at least 50 per cent of the original working force from the area or within commuting distance. As an addendum to this statement, I am enclosing a copy of my remarks to the "Community Services Seminar" sponsored by the University of South Carolina last year.

THE UNIVERSITY AND COMMUNITY SERVICE

During 12 years as a teacher and Associate Dean at Harvard Business School, I observed and participated in the economic rebirth of one of our nation's historically rich areas.

New England, as most of you know, was an important textile center, much as South Carolina has been. The problem was that New England depended too heavily upon the textile industry, and when it fell so did the general economic picture of a major segment of the Northeastern United States.

Today, if you drive along Route 128, encircling Boston, you will see the visible results of energetic economic planning, stimulated by the great academic institutions of that area--M.I.T., Harvard, and others--not only because they were the kinds of institutions which could spawn and could attract modern day industries such as Polaroid, High Voltage Engineering, IBM, Raytheon, and the Digital Equipment Corporation, but also because it was in their enlightened self-interests to do so.

When I arrived at Ohio University in 1962, at the opposite end of Appalachia from you, I saw a similar opportunity for a university to make a major contribution to the revitalization of the Appalachian Ohio region.

As President of Ohio University, I felt we, as had M.I.T. and Harvard, also had an obligation to concern ourselves with such an endeavor.

As I took a harder look at the ills which beset our region, I began to realize for the first time how trying this commitment would certainly be. Appalachia is not just another economically depressed rural area.

Appalachia is a land of conflicting and opposite characteristics. It is both a paradise and a paradox. To the tourist, Appalachia is one of the most beautiful and enchanting vacation lands in the nation, dotted with clear lakes, striking in its beautiful hills, and restful in its quietly whispering streams. To the businessman or industrialist, it is a fruitless area, almost devoid of functional transportation, lacking of employable workers, stripped of its once valuable resources. It is an area lacking markets, consumers, and profit potential. And to the social worker, the teacher, and VISTA Volunteer, Appalachia is a region filled, with problem-ridden people.

Perhaps the title of Reverend Jack Weller's book, "Yesterday's People," is most successful in capturing the essence of the region's people and their problems. Implicit in Weller's two simple words---yesterday's people---is the fact that with the demise of the coal, oil, and timber industries in the region, the social and economic mainstream of the nation rerouted itself around Appalachia leaving the land and its inhabitants nearly untouched by progress. Appalachia's economic and human resources and much of its very existence are those of rural America at the turn of the century almost seventy years ago. In housing, income, education, medical care, public facilities, service facilities, employment, savings, highways, communications, and federal expenditures, Appalachia's advancements in this century have been negligible.

And while there may be a certain romance attached to the concept of an historical era preserved, it is a romance quickly and easily dispelled with knowledge of the symptoms of the cultural and economic illness that has ravaged large portions of thirteen of this nation's fifty states.

Toward the end of the nineteenth century, there began a series of economic and industrial events which were viewed as progressive for the nation as a whole. These events gained in scope and intensity until they culminated in the near ruin of the Appalachian region. In essence, what might have become the economic advancement of this region and might have made it a major contributor to our nation's abundance and progress, served instead to retard its economic growth and impoverish and impede its economic status. The establishment of progress and prosperity in the nation's business and industry incidentally immolated Appalachia and destroyed her natural productivity.

As our nation expanded industrially, the demand for raw materials increased. Materials such as wood and coal were needed in increasingly greater amounts to feed the huge furnaces of Industrial America.

Appalachia abounded in these natural resources, and also was in a close proximity to the industrial centers. Agents of these industries came into the area and purchased from the mountain people the timber on their lands. To the uneducated and unknowledgeable mountain people, sixty cents a tree was a good price—they had plenty of trees. The agents purchased; the lumberjacks cut; but no one replenished. Eventually the timber resources began to run out. Appalachian timber was no longer needed as a fuel or as a raw material in the escalating production of paper and furniture. The land lay stripped and barren—devoid of trees to prevent erosion, devoid of beauty, devoid of hope. The mountain people and their children were left an impoverished despoiled land. Unless they received some type of help, the destruction of their land was ineradicable—the destruction of their future loomed inevitable.

Industry took more than trees, hungry furnaces still needed a good cheap fuel. Coal was the answer—the coal of Appalachia. So the naive mountaineer sold his mineral rights for a few dollars an acre. Thus began the coal industry in Appalachia—an industry mainly of exploitation. The non-resident coal and land corporations, owning up to ninety per cent of the mineral wealth in some counties, seldom took an interest in regional development, much less human development. To do so would have been contrary to the principle of maximum profits. Their goal was to extract the minerals as cheaply and efficiently as possible to be sold elsewhere in the nation, but little capital was ever reinvested by these companies into the region itself.

As the years passed, the sources of economic strength in Appalachia, agriculture, and coal mining, became impotent, rendered sterile by mechanization and technology.

At the end of World War I there began in earnest the mechanization of farm industries. In the flatlands of Indiana, Nebraska, Kansas, and Ohio, machines began to do the work of men. Production increased rapidly as man hours decreased. However, the small bottom lands and steep hillsides of Appalachia couldn't use these machines; ever more rapidly the Appalachian farmer became poorer and poorer, less and less able to make a living from those fields that had supported him and his family. He could not compete with mechanized production methods.

Coal mining experienced a similar "leveling" process. Within fifteen years after World War I, the technological revolution in mining took the jobs of almost four out of five Appalachian laborers. Thus, like farming, Appalachian mining became an economically impotent industry, frustrated by American progress.

Only one in fifteen Appalachian residents is now employed by agriculture today. Between 1950 and 1960, mining and agriculture together released 641,000 workers—*more than half their 1950 work force!*

Appalachia bloomed no more; she began to wither and die. This tragedy is best described in the words of Jack Weller when he said:

"The mountaineer through it all did everything right according to our American philosophy. He worked hard. He was frugal. He feared God. He was kind to his family, but he failed. We can say that he was almost forced to fail because our nation by indirection made it impossible for him to make his living. Now his wealth was gone, his jobs were gone, and the worst blow of all, his leaders were gone in this great stream of migration. His sons and his family leaving him all the wreckage, the unable, the dependent, with no wealth in the form of an adequate tax base for public service facilities to support him. Is it any wonder now that the region cries out for help to a government that is rich, because this region helped make it rich, asking for dollars to support it, for services to help it, and for leaders to help make something happen in it. Here are the people who face the American frontier in a peculiar place, a place that stopped them dead in their tracks instead of leading them on as in the rest of America, a place that was ultimately to defeat them. While the rest of us found an ever-expanding frontier, here were folk who as their numbers grew, knew only a decreasing opportunity as the land began to fill up against these steep mountain ridges.

"While the rest of us found that mobility was the order of the day, that there were new frontiers to conquer in terms of land and opportunities elsewhere, here were folk who were made immobile, circumscribed by this beautiful, but impossible geography, a kind of permanent ghetto in the very heart of eastern America, and developing a kind of culture of immobility.

"While the rest of us grew richer in our abundant American economy, here were folk who were strangely impoverished by the very forces that made us rich. Is it not tragically ironic that the first two technological revolutions in our society, in agriculture and in mining, should create an adverse effect on this people who already had to bear other blows.

"While the rest of us grew to believe that energy equals success and the more energy you put into something the more success you will have, here were people the harder they tried the more failing they grew. While the land yielded its riches to us and we conquered it, in Appalachia the land defeated its people."

To cite a few basic statistics which struck me six years ago:

1. Almost one in three Appalachian families lived on an annual income of $3,000 or less.

2. Per capita income in Appalachia was $1,400.

3. Over one-fourth of the homes were considered substandard, most without running water.

4. 11 per cent of Appalachian adults had not gone beyond the 5th grade and only 32 per cent had finished high school.

5. The population of the region had grown only a net 1.1 per cent from 1950 to 1960 while the nation's population grew 20.4 per cent—during that ten years, 2 million Appalachians simply packed up and left.

6. In Southeastern Ohio's 28 Appalachian counties alone, the statistics on out-migration of our most productive citizens in their 20's and early 30's were enough to convince me we needed to act fast. In 1950, Appalachian Ohio had 149,015 young people from ages 14 to 24. By 1960 this same group, which was then ten years older—24 to 34—had declined in number to 131,132—a drop of 12 per cent.

So I went before the businessmen, labor leaders, and public officials and told them that our university wanted to help.

We began by working with the Governor, state legislators, and community leaders on specific projects to develop physical characteristics which would attract industry and open up job opportunities.

We worked with state and Federal leaders on plans for new highways, airports, medical facilities, vocational and technical schools, and flood control projects.

But, we soon realized that we needed an organized, comprehensively planned, and well-staffed effort. In early 1964, when President Johnson came to Ohio University and first publicly defined his "Great Society," we announced the establishment of our Institute for Regional Development.

The Institute began—

by assisting the counties in our area to draw up over-all economic development plans for the Area Redevelopment Administration and its successor Economic Development Administration;

by providing management assistance to faltering businesses and industries; and

by promoting tourism and recreation in the region.

We played a major role in helping secure Federal legislation for the Appalachian Regional Commission. We believed strongly in the desperate need for enlightened public investments designed to further stimulate the investment of private capital of significant proportions.

At the same time, the Institute did not fail to recognize the parallel need to help provide opportunities for Appalachian Ohio people who had been for so long forgotten.

The Institute, with help from the Office of Economic Opportunity, was instrumental in formulating community action agencies, Head Start Centers, and Neighborhood Youth Corps projects in all 28 counties. To increase the effectiveness of local human development efforts, the Institute has sponsored supplementary region-wide projects providing VISTA Volunteers, consumer development, and community action training.

The most significant achievement has been the formation of the Southeastern Ohio Alliance for Community Action—a confederation of leaders from business, labor, the professions, the church, private groups, and the poor themselves—all working together as a regional policy planning unit for the Institute.

In early 1966, our scope of activities were greatly expanded with the establishment of our Center for Economic Opportunity designed to stimulate and guide the involvement of the *private sector* in the development of the 13-state Appalachian region.

Aside from our "action" orientation to help solve the development problems of the region in which our University is located, it has been one of my major objectives *to create a University which is truly relevant to the problems of our times.*

Ohio University has found out what it's like beyond the usually self-imposed walls of academe—

by directly committing the resources of the University to human and economic development,

by providing our students with "living laboratory" experiences,

and by redesigning our curricula as results of these practical exposures.

Examples of increased awareness and concern abound throughout the academic structure of the University:

"Economics of Poverty" and "Economics of Human Resources" courses were begun in the College of Business Administration;

the College of Education started Head Start training, teen-age teacher aide, Upward Bound, and Teacher Corps projects;

our educational television and radio divisions have explored the depths of poverty through many series of documentaries and public affairs shows;

faculty members, in large numbers, are asking for undergraduate and graduate papers on the human and economic conditions of Appalachia;

our University Vice President for Research has launched a massive multi-million dollar comprehensive regional public affairs plan designed to stimulate, coordinate, and evaluate the hundreds of inter-twined research and action opportunities open to our faculty, students, and regional development staff;

the College of Fine Arts has extended cultural enrichment to adults and youngsters in the area;

the College of Engineering has provided industrial management assistance; and

even the College of Arts and Sciences has established a comprehensive library on the historical and cultural aspects of poverty in Appalachian Ohio.

The students have been instrumental in creating for themselves new opportunities for service—

over the past two years, over 300 dedicated students, many of them foreign students, have participated in Associated Student Volunteer projects, spending Easter vacation clearing slums of Youngstown, Ohio, and Christmas vacation building a road and a woodworking shop in the hollows of Breathitt County, Kentucky; and

at the request of the Associated Student Volunteers, an eight credit hour Appalachian Studies course will soon start, to be taught by faculty from seven academic disciplines and members of the Institute for Regional Development staff. This is just a beginning. We hope to have an even more comprehensive program in the not too distant future.

We've not only been active on the domestic scene. Ohio University was among the very first universities to establish a Peace Corps training and overseas administration projects. As a direct result of our Peace Corps efforts in West Cameroons, we developed African studies and language curricula, as well as a Center for International Programs, which now has three teacher-training projects in South Vietnam and two in Nigeria. Thirty-six of our faculty members are now in Nigeria and sixteen in Vietnam.

I have gone into great detail, not only because we're proud of what we've accomplished, but also because I think we've developed a relationship between the academic strengths of a university and the harsh realities of our times.

At Ohio University, as we've thrust ourselves more deeply into these many problems, as we've "gotten our hands dirty," the one thing we've learned best is that we've just begun to uncover the real roots of the problem.

Last summer, and the summer before, as our attention was drawn to the cities, where the loud voices of the ghetto poor were heard and the heat of its incendiary riots was felt across the land, we were forced to take a harder look.

Previously, we had talked about rural poverty and about urban poverty as if they were two foreign countries always unrelated to each other.

We had talked about separate solutions for rural and urban problems.

The simple truth is that they cannot be dealt with separately.

To quote from the recent report of the Presidential Commission on Rural Poverty:

"There are 14 million Americans in rural poverty today. It is so widespread, and so acute, as to be a national disgrace, and its consequences have swept into our cities, violently. The total number of rural poor would be even larger than 14 million had not so many of them moved to the city."

Some economists have stated more succinctly. They point out that if you completely cleared the ghettos in two years time they would be filled up again with the migrating rural poor—and this time they probably would be white ghettos—not Negro ghettos.

The Presidential Commission on Rural Poverty listed six reasons why institutions such as ours ought to be heavily engaged in striking a rural-urban balance:

1. "Today's rural poor have been left behind in the wake of basic changes in the fabric of rural life. (They) are refugees from an agricultural (and) . . . mining revolution. Cut off from opportunities to develop and prosper in rural areas, they are ill-equipped to help themselves. They, and the communities in which they live, are doomed to permanent and increasingly severe poverty unless they get help. Unless the barriers of economic, social, and racial discrimination are removed, many of them will never have a chance to work their way out of poverty."

2. "We must act now because the rural poor, in their desire for the same goods and services enjoyed by most urban people, continue to pile up in the central cities of America. . . . The senseless piling up of refugees from rural America in our central cities provides no solution to the problems of rural areas or of the cities."

3. "Our anti-poverty programs have bypassed the rural poor. Rural poverty is not as apparent as urban poverty. There is danger that programs limited to the needs of our central cities will be self-defeating. If economic and social conditions are greatly improved in our central cities without comparable improvement in rural areas, additional incentives will be created for migration to the cities. In the end, therefore, the special housing, education, employment, and other special programs for the central cities may lead to increased migration, thereby complicating the very problems we are trying to solve."

"Even more important is the fact that there is a growing restlessness in rural America. Many people whose families have been deprived for generations are deeply resentful that little is being done to meet their needs. National action which in effect rewards the violence in the central cities is not unnoticed in rural America."

4. "Numerous rural centers have lost so much population they have become ghost towns, and resemble abandoned gold-mining villages. Their economic and social facilities are not meeting the needs of the people in the communities they serve. Nor can they without help. Poverty in these communities promises to be self-perpetuating unless there are effective programs to reach and assist the people who live there.

"The job to be done is to restructure rural facilities and services on a broader geographical base and to connect them with their urban counterparts. We have to change our traditional view of rural America—its function, its relation with the rest of the nation, and the social and economic processes required to assure a better life for rural people."

5. "We must act because our rural communities are unable to prepare people to participate in the modern economy, and they will become increasingly less able to do so unless there are concerted and extensive changes. . . . In entirely too many instances the schools, libraries, health facilities, churches and governments in rural America have failed to develop programs to meet the needs of the people".

"In a very practical sense, rural government has been left behind politically as well as economically. . . . The important decision on education, health, welfare, and other matters of vital public concern are made, more and more often, at higher levels. Because local rural government has failed to change, it has isolated itself and its constituents from the political mainstream.

6. ". . . Our public programs in rural America are woefully out of date. Many of them, especially farm programs and vocational agriculture programs, are relics from an earlier era. The programs emerged from legislation which equated the welfare of farm families with conditions on farms and the welfare or rural communities with the incomes of farmers. These conditions no longer prevail."

There is no question that each segment of our society have a part to play—labor, business, churches, private civic groups, and certainly the local governments have all got to work together.

However, the great universities, which have heretofore not thought of themselves as partners in this responsibility, must consider perhaps a new role.

Michigan State University's distinguished professor, James T. Bonnen, put it this way:

"Since the university is perhaps the only institution in modern life which admits the whole view of society to its central purpose, increasingly it is being turned to for an appreciation and understanding of development."

Michael Harrington, author of "The Other America," the book which focused President Kennedy's thoughts on poverty and the need for an all-out attack against its roots, just last week before the American Association of Higher Education in Chicago, laid down the challenge in no uncertain terms.

Harrington based his challenge on his thesis that:

"We are currently spending more money to promote poverty than to abolish it . . ."

Which he documented in his speech convincingly.

Harrington spoke of:

"the idea of social cost accounting, of understanding the social consequences on agricultural programs, or highway programs, or housing programs before we invest the billions of dollars, then we are going to have to make some fairly radical and conflict-laden departures. For example, to change our agricultural program will require challenging certain vested agricultural interests. To change transportation policy might cause some conflict with the major car manufacturers. And in the area of education, if we are going to have the true community-of-scholars participation in all of these levels, that might challenge some of the companies which are now coming into the knowledge industry who want to corporatize and systematize and profitize systems analysis."

He went on to say:

"If the colleges and universities begin to make these judgments, begin to develop measures and criteria of social consequence, we will involve the administrations of the universities and colleges in conflict, perhaps even with some of their donors. I think it is a dangerous business, but it has to be done if we are to escape from this truly obscene situation of spending more money to promote poverty than to abolish it."

"So, I would suggest that one of the basic challenges to the university in the coming period is for it to become a center where definitions of social costs and accountability are made. It must become a center to expose these problems, to define these problems, and to suggest alternate ways of dealing with them."

What we have learned at Ohio University was best summarized in a 1966 report from the Carnegie Foundation on "The University at the Service of Society."

The Carnegie report said:

"Although public service is usually thought of as one of a triumvirate of university pursuits, it can and often does include the other two, teaching and research. For example, courses for municipal officials in a school of public administration can be regarded both as part of the normal teaching function and as public service."

"Public service has to do with the outreach of a university to society at large, with extending the resources of the campus to individuals and groups who are not part of the regular academic community, and with bringing an academic institution's special competence to bear on the solution of society's problems. It can involve all members of the academic community, including students, although most frequently we think of it as an activity of the president and of the faculty. It can take place on or off campus, and can be related to either the governmental or private sectors of our national life. Lastly, the emphasis in public service is on converting knowledge into readily usable forms for immediate application."

The report continues:

"Our society today has compelling needs which force it constantly to call on the university for assistance; on the other, the university has characteristics which increasingly attract the larger society."

"The heart of the matter is that the university is the natural home of those kinds of highly trained and specialized talent on which the larger society is heavily dependent. In the university's science and social science departments, in its engineering and medical schools, and in many other places within its walls are housed the individuals best qualified to solve, or at least mitigate, some of the nation's most difficult problems. Since it is the natural will that these problems be attacked, pressure on the university for its help is immense."

On the other hand, as the report suggests:

"The availability of a real laboratory rather than an abstract one, of an actual problem rather than an theoretical one, makes the university a more vigorous institution. Furthermore, the university's willingness to reach out from its protected environment to help grapple with some of the community's nastier problems has won it new admirers and allies and broader public support."

The report goes on to say that:

"In practical terms every university will realize that it can no longer adopt the simple course of rejecting public service altogether. The university *must* have society's support. Society *must* have access to the university's resources. Were the university to turn its back on society's needs, it would be tantamount to self-destruction."

At the same time, this distinguished Carnegie panel concluded that:

"Many universities today are simply not governed in such a way that they can determine and enunciate any policy with regard to their public service role."

"What would appear to be desirable now, is the modernization of university governance to take account of *all three* functions in which the typical institution is engaged today—teaching, research, and public service."

Organizing and mobilizing a university for participation in regional development is a time consuming, oftentimes frustrating—sometimes painful—undertaking. It frequently takes a university president into political thickets and subjects him to dangerous crossfire. When discouraged at times because of misunderstandings or resistance, I am heartened by a quotation from Edmund which Tom Gee framed and presented to me:

"Those who would carry on the great public schemes must be proof against the most fatiguing delays, the most mortifying disappointments, the most shocking insults, and worst of all the presumptuous judgment of the ignorant upon their designs."

THE WINTER GARDEN FREEZER CO., INC.,
Bells, Tenn., November 17, 1967.

U.S. SENATE,
Washington, D.C.
(Attention: Chairman of the Finance Committee).

DEAR SIR: We have been informed of a bill now under consideration by your committee entitled The Rural Job Development Act of 1967. S-2134 is important to us because we are constructing, with EDA participation, a $6,000,000 vegetable and food processing facility in Fayette County, Tennessee.

This new plant will employ over 500 people at an annual payroll of approximately $1,000,000 and, in addition, the plant will buy an estimated $3,000,000 worth of raw product annually in the Fayette County area, half of which will come from small farms operated as family units. (10–50 acres).

Fayette County is one of the poorest counties in the nation with a population in a relative state of decline. This plant will involve over 5,000 local people in the production of raw product. In a county with a population of 23,800 and an average family income of $3,020 per year, the effect will be dramatic.

We have great faith in the people of this area. The passage of this legislation will enable us to implement this faith by providing the incentive for a more rapid expansion of our production facilities.

Respectfully yours,

JOHN M. REAMS,
Assistant to the President for Legal Affairs.

AMERICAN FARM BUREAU FEDERATION,
Washington, D.C., May 12, 1969.

Re S. 15.

Hon. RUSSELL B. LONG,
Chairman, Senate Finance Committee,
U.S. Senate, Washington, D.C.

DEAR MR. LONG: At the last annual meeting of the American Farm Bureau Federation, the voting delegates of the member State Farm Bureaus gave consideration to the question of the development and industry and employment opportunity in rural areas. As a result of such consideration, the following policy was adopted:

"The growth and development and industry and commerce in rural areas provides local markets for farmers, increases job opportunities for members of farm families and other rural people, improves the capacity of rural areas to provide essential community facilities, and reduces the outmigration of people from rural areas.

"Such development as has occurred in many rural areas is a result of resource, location, and other economic factors and community efforts to improve facilities and services. Recently there has developed a substantial interest in the stimulating economic development in rural areas by other means, such as loans, grants, or tax credits. We believe that tax credits are preferable to loans or grants. This is an areas to be approached with caution. Hasty and ill-conceived action to dedicate tax resources to this purpose may result in wasteful use of such resources and increase the current budgetary imbalance.

"We recommend that an analysis of this issue be developed for consideration and study by State and County Farm Bureaus during 1969."

A related problem is that in some rural areas average farm resources available to many farm operators are insufficient to provide an adequate income or take advantage of new technology. Our voting delegates adopted the following policy to deal with this problem:

"We will support a transitional program to deal with the problems of noncommercial farmers. This could take the form of whole farm cropland retirement, permanent retirement of allotments, adjustment and retraining assistance, or other means."

It will be appreciated if you will include this in the hearing record relating to S. 15.

Very sincerely,

MARVIN L. MCLAIN,
Legislative Director.

STATEMENT OF PHILIP J. LEYENDECKER, DEAN AND DIRECTOR, COLLEGE OF AGRICULTURE AND HOME ECONOMICS, NEW MEXICO STATE UNIVERSITY

Mr. Chairman, Members of the Committee:

I welcome this opportunity to review with you some of the important aspects of S. 15, Rural Job Development Act, introduced by Senator James B. Pearson of Kansas and co-sponsored by 38 other Senators.

I can enthusiastically recommend support of this legislation, for it is designed to attract new job-producing industrial and commercial establishments into rural areas of this nation, which will stimulate the full utilization of the available human and natural resources. The bill also creates opportunities for rural people that will slow their migration into the already overcrowded cities.

The legislation would permit expansion of economic and social opportunties for our depressed rural communities and provide many public services that are now lacking. We as a nation must improve and expand social opportunities for all rural communities of America. The provisions of the bill are especially meaningful, since they provide for a joint endeavor uniting private industry and the federal government in meeting the responsibilities which we all must assume in solving rural and urban problems of America. The private sector has long recognized this need, and S. 15 will provide the necessary incentive to attract the expertise and enthusiasm which can be provided by the industrial sector of our nation.

With the development of our rural communities, the rural urban migration will be reduced. We all know that overcrowding due to migration into the cities has created serious problems which are not easily solved, once the rural migration has occurred. With the help of this legislation we can tackle these problems at their source, rather than haphazardly meeting the city migration problems they have. One way to solve the migration problem is to expand the quality of economic and social opportunities in rural America, so those who choose to do so can remain where they are and not be forced to move into the overcrowded metropolis areas.

S. 15 will provide new jobs for those who wish to remain in a rural setting. It is a well known fact that as industry moves into rural areas it brings with it public services such as electricity, water, and sewerage, which in many cases cannot be provided by underdeveloped rural communities under their present tax structure. Another salient point of the bill is that it will provide help for all of rural America, not just poverty-stricken areas. This feature will encourage full development of rural America and its people. This fact is of great importance, since it will prevent the further spread of poverty and at the same time generate new rural prosperity.

I am especially pleased to note that the Secretary of Agriculture, in consultation with the Secretary of the Interior, will be permitted to certify rural job development on American Indian reservations. This is an especialy important part of the bill, since we must address ourselves to providing jobs and opportunities for this forgotten segment of our society. Too few opportunities are available to the American Indian to fully develop the human and natural resources present on the reservations to which they are traditionally tied.

Mr. Chairman, the passage of the Rural Job Development Act will go a long way toward solving the many problems of rural America. It would do a great deal to provide services, opportunities, and choices which do not presently exist. New job opportunities in rural America will reduce the flow of rural people to urban slums and in turn will reduce the public cost of unemployment, welfare and law enforcement. The industrial muscle of our great Nation will also be given an opportunity to share its know-how to maintain a healthy rural urban balance.

It must be recognized that the passage of this bill will not solve all of the problems of rural people, but it will create new opportunities and choices which do not now exist in rural America.

STATEMENT OF THE KANSAS STATE CHAMBER OF COMMERCE, TOPEKA, KANS., SUBMITTED BY ROBERT SCHMIDT, PRESIDENT

Mr. Chairman and Members of the Committee:

The Kansas State Chamber of Commerce welcomes this opportunity to comment upon the proposed Rural Job Development Act, and requests that this statement be made a part of the record of the hearings. The Kansas State Chamber is a voluntary, non-profit organization with a statewide membership of more than 3,000 business firms, associations, and individuals in the state of Kansas, representing practically every segment of the state's economy.

By action of the Board of Directors of the Kansas State Chamber of Commerce at its February 14, 1968, meeting in Topeka, this organization adopted the following policy declaration:

"The Kansas State Chamber of Commerce supports the principles of the proposed Rural Job Development Act, providing special tax incentives to attract new job-creating industries into rural areas."

This action by our 87-member Board was taken upon recommendation of our 78-member Agricultural Relations Council with statewide representation which considered this matter twice in all-day sessions.

As stated by Kansas' Senator Pearson in the July 21, 1967, *Congressional Record*, this bill provides "a blend of public responsibility and private initiative," seeking to substantially expand the quantity and quality of economic opportunities in rural America. A series of tax incentives would encourage private enterprise investment with the aim of utilizing more fully and effectively the human and natural resources of rural America, slowing the migration from the rural areas which is principally the result of a lack of economic opportunity, and reducing the population pressures on our metropolitan areas.

In recent decades, the heavy outmigration from the farms as a place of living and working is well known. The exodus to urban centers was primarily for the reason that is where the job opportunities can be found. Also well recognized is that areas of high economic activity and growth attract inmigration.

Future projections indicate an urban population increase of approximately 83 percent by the end of the century. The rural population will account for only 15 percent of the 314 million total. The lion's share of the population increase will occur in the largest, fastest growing urban areas, with 27 giants adding over 65 million to their population—or more than ⅗ of the total.

While the evidence is not conclusive, it may well be that increased size and congestion will take a net social and psychological toll in urban living conditions. At the same time, the nation's smaller urban places outside of metropolitan areas will be increasingly bypassed by the economic mainstream and will also find it difficult to offer enough jobs for all their residents and those of surrounding rural areas. Many rural areas will suffer from a further siphoning off of the young and able work force with a resultant greater concentration of older and unskilled among those remaining, and a continuing decline in the capacity of rural communities to support basic public services.

If it so desires, the national government can use its fiscal resources to influence the location of economic activity in order to achieve a more balanced distribution of population and economic growth. Among the choices open are those to grant tax incentives such as those contained in the proposed Rural Job Development Act. This taxing device allows a fundamental economic law to come into play:

Those firms which find a location in less densely populated areas most desirable and urban locations least necessary could be induced to locate in rural areas, and those firms which find that location in a large city is essential to their operations will be willing to pay the price.

Aggregate business investment in new plant and equipment now approximates $60 billion annually. While much of this replaces outmoded facilities and machinery, a vast amount represents the opportunities private enterprise sees in new products and new markets. The diversion of even a substantial fraction of this amount by the use of fiscal incentives could well change the disturbing trends and future economic prospects for vast areas of the nation.

The tax credit approach has several virtues when compared to the alternative subsidy arrangements. Tax credits interfere least with business decisions, are generally more stable than appropriations, subject business to less detailed s :utiny than subsidies or lending operations, and have greater appeal simply because they permit greater flexibility in managerial decisions.

The partnership of government and private enterprise in the solution of some of the basic problems of our nation today, such as is envisioned in the proposed Rural Job Development Act, is worthy of support and we urge your serious consideration of this approach.

INDEPENDENT BANKERS ASSOCIATION OF AMERICA,
OFFICE OF THE EXECUTIVE DIRECTOR,
Sauk Centre, Minn., June 2, 1969.

Hon. RUSSELL B. LONG,
Chairman, Committee on Finance,
U.S. Senate Office Building,
Washington, D.C.

DEAR MR. CHAIRMAN: On behalf of the Independent Bankers Association of America, we respectfully submit these views, for your distinguished consideration, on S. 15, the Rural Job Development Act of 1969.

The purpose of the bill is to attract new job-producing industrial and commercial establishments in rural areas so as to more fully and effectively utilize the human and natural resources of rural America; slow the migration from the rural areas due to lack of economic opportunity, and to reduce population pressures in urban centers resulting from such forced migration.

Our association supported the principles and objectives of S. 15 in resolutions adopted at the national IBAA conventions in Houston, Texas, in 1968, and Las Vegas, Nevada, in 1969. In these resolutions, the association urged legislation that would encourage profitable farming operations and other efforts at the local, state and national levels to promote industrial expansion and development of rural America and help restore economic balance in the rural sector.

We believe Congress is properly interested and concerned about job opportunities in rural areas, recognizing the need for more fully and effectively utilizing the human and natural resources of rural America. We believe that Congress should exercise great concern about the exodus from rural America and the resultant population crunch in the cities.

Community bankers strive to lead their communities in industrial and commercial development and in providing new job opportunities. The enactment of S. 15 would indicate clearly that Congress intends to provide a better opportunity for rural people..

We direct your Committee's attention to page 2, line 13, of the Bill, which provides as one of the criterion for eligibility that at least 15 per cent of the families in the county have incomes of $3,000 or less per year. We believe that poverty is poverty, and the percentage figure should be amended downward, thus enabling more areas to qualify.

This association has a long-standing concern for rural America and holds firmly that a prosperous agriculture, supported by industry and commercial enterprises which employ people in the rural sector, is vital to this nation.

Respectfully and sincerely,

B. MEYER HARRIS,
President.
BRADFORD BRETT,
Chairman, Federal Legislative Committee.
DON F. KIRCHNER,
Chairman, Agriculture-Rural America Committee.

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