

**Testimony of
Mr. Mark Haney
On behalf of
The Kentucky Farm Bureau Federation
To the
U.S. Senate Committee on Banking, Housing and Urban Affairs
Subcommittee on Economic Policy**

Hearing on the Status of the Rural Economy

June 25, 2003

Mr. Chairman and members of the Subcommittee, I appreciate the invitation to make brief comments on the status of the rural economy to the Subcommittee on Economic Policy.

My name is Mark Haney, I am Vice President of the Kentucky Farm Bureau and also a board member on the Monticello Banking Company-Somerset Bank. I own and operate a 70 acre apple and peach orchard in Somerset, Kentucky, where we manufacture and market our own value-added frozen apple pies.. My farming operation also entails 90-head cow/calf operation and a 38,000 pound tobacco allotment. Somerset lies in southeastern Kentucky.

I am excited that the members of the subcommittee chose to have a separate hearing on the status of the rural economy. Because rural America enjoys different advantages but also different challenges in building a vibrant economy.

Let me briefly mention the current status of agriculture since the well being of rural economies depends so heavily on that sector. Because of poor crop yields and shifting farm policy, farmers are coming off of a very difficult year in 2002, in which U.S. net farm

income fell from \$45.7 billion dollars to \$30.2 billion dollars. Please consider that this total loss of \$15.5 billion is not just a loss to farm families but also to many rural financial institutions.

Fortunately, economic aspects of the 2003 crop year seem to be looking up on a national scale. Since this point last year, grain prices have been on the rise. Last month's projections estimate that U.S. net farm income is expected to rebound 53 percent to \$46.2 billion in 2003. While this short term increase should make many bankers smile, please consider that it is an increase to already unacceptable levels we have seen in the last decade.

While agriculture is one segment of the rural economy that is not thriving, other factors are contributing to its current sluggish conditions. First, rural America is struggling to equip itself with the nation's newest form of infrastructure, telecommunications. In this era, access to broadband internet service and mobile cellular towers is nearly as important in securing jobs and recruiting business as four lane roads. Many state legislatures are considering programs to enhance the ability of rural residents to gain greater access to telecommunications, but while we wait, large businesses find it a difficult choice to locate in rural areas.

Second, the physical infrastructure of rural America needs improvement. While state legislatures deal with slumping budgets, improvements to roads and bridges wait.

Proponents of many worthwhile new projects are being told to wait for years until economies balance. Examples such as weekly garbage collection, animal removal and

maintenance of roadside vegetation that seem insignificant to most Americans is not at available in many rural areas. Eastern Kentucky has placed great emphasis on maintaining the environment through the leadership of Congressman Hal Rogers and his PRIDE program. With this project, we have done a good job of cleaning up unsafe dumps and litter. I think we need to consider a greater nationwide focus on these kinds of ideas.

Lastly, the lack of availability of affordable health care plagues rural communities, but I know that rural America does not suffer from this alone. Rural America is built on small business that often cannot afford group policies to insure their employees. Kentucky Farm Bureau strongly believes the Associations Health Plans legislation that recently passed in the House will help to remedy this burden. Also, I think we must pay attention to is the lack of adequate long-term care for seniors; since outlets for special needs assistance in nursing homes are sometimes hours from rural communities.

Despite burdens that make it difficult for rural economies to be vigorous; rural areas do have some advantages not provided to our urban friends. Rural investments tend to be more stable than the fluctuating stock market more commonly used in urban areas. Rural Americans typically have their savings tied to fixed assets such as land, buildings and equipment. In other words, we don't get rich quick but we don't get poor quick either.

The sense of community in rural America helps its residents endure tough economic situations. The hard times don't come and go as often in rural areas but stay longer when they hit. Although agriculture can be a competitive business you will frequent see farmers

working together to help each other get their crops planted or harvested before seasonal deadlines hit. The entrepreneurial spirit is also creating new ideas and strategies for enhancing economic development through tourism and other value-added businesses in rural communities across the United States.

Lastly our natural resources provide us opportunities not granted to urban areas. From coal in the Appalachian region to oil fields in the southwest, but most obviously the fertile land from which we derive the world's food supply, our resources provide the backbone for our economies. That is why it is evermore important to be mindful of the impact unreasonable environmental regulations can have on rural America. What works for downtown Philadelphia, Pennsylvania does not always work for Inez, Kentucky. Some environmental regulations can strip rural communities from the staple of their economies. Please allow me one minute to mention an issue that is of utmost importance to the rural economy in Kentucky and other states in the Southeast region of the country. The status of the tobacco industry is in complete disarray. Tobacco, historically, the states largest cash crop has had a profound effect on the state's rural economy. Kentucky is a rural state. And agriculture is the largest economic contributor to the state's economy. According to most recent statistics, 13.6 of 25.4 million acres, or 53 percent, is declared farmland. The average farm size in Kentucky is 155, compared to the same national statistic of 436. These numbers indicate Kentucky to be a very small-scale agricultural state. Kentucky ranks fourth in the United States in total number of farms. All characteristics of Kentucky agriculture - the size, scale and frequency of farms - is largely influenced by a strong reliance on the production of tobacco.

Kentucky's geographical characteristics, climate and soil types; especially in the eastern portion of the state, are an ideal match for the very specific requirements in the production of the crop. Throughout Kentucky's history, the production of tobacco has been the strongest financial resource to a vast majority of rural communities throughout the Commonwealth. For most of the twentieth century, tobacco markets and warehouses were as prevalent as U.S. Post Offices in the downtown areas of rural Kentucky.

Rural communities in Kentucky are currently witnessing a dramatic revolution. Due to a variety of factors, the demand for tobacco has decreased from 704.5 million pounds in 1997 to 289.5 million pounds in 2003. This is a 59 percent decline over 7 years. Since tobacco production operates within a supply management, quota system; lease costs have skyrocketed from a 26 cents per pound average to a 62 cents per pound average over a similar time period.

Current concepts for federal legislation can take a large step in helping stabilize the tobacco industry and thus rural economies throughout the Bluegrass State. It would give farmers the resources to retire or venture into more promising industries while still being able to remain in the rural areas that they were born and raised in. Tobacco buyout legislation will not only help our economies but also can have a nationwide health benefit if it is tied to FDA regulation of tobacco products. I will not spend anymore of your time on the details of tobacco buyout legislation, but I encourage you to work with the Senators from tobacco states who will most assuredly be contacting you about this issue.

Thank you again, Mr. Chairman, for the opportunity and for taking an interest in rural areas. I look forward to answering any questions you or the members of the Subcommittee have.