

Now, I maintain that our policy has inadvertently built in an incentive for large activities in agriculture by reason of an understandable but misguided desire to do something for the farmers through the income tax. You can see this in several ways. The option to report on a cash or an accrual basis is a concessional option. The option to choose your economic year in such way you can make it most advantageous from your particular business point of view is an attraction to the nonfarm investor who may choose an economic year for reporting his nonfarm business and a different economic year, say January 31, fiscal year, for his farm business. By postponing the report of his farm income into the next fiscal year, he is achieving, in effect, an interest-free loan for 11 months for his taxes due for last year's activity. These and other options included in the regulations to help farmers actually hurt them. They are only helpful to a small fraction.

We also have inadvertently aided large units in agriculture by our capital gains tax treatment. This is not peculiar to agriculture, it applies to all other long-run capital gains, but it has peculiar value in agriculture because of the very durable nature of the land resource. You yourself pointed out here this morning how different the nature of the natural resource base in agriculture is from that in so many other industries. This means that capital gains in agriculture are particularly attractive to investors that seek maximum security, are afraid of inflation, and would like to reduce their present level of income by converting annual income into capital gain. The opportunity to do this in agriculture is substantial. The classic case, of course, is the beef cattle ranch where almost all of your assets are in land and the beef breeding herd, both of which can be taxed at capital gains tax rates.

This is not of much advantage to the ordinary farmer, but to a man of great wealth this is a very great advantage, because the maximum tax rate on capital gain is 25 percent. For the income-tax payer in the 40- 50- or 60-percent bracket is not interested in current annual income. We assume that the ordinary farmer would like to manage his farm in order to maximize current income. The very wealthy farmer is, instead, likely to manage his farm to maximize capital gain because that reduces his tax rate from his marginal rate of 50 or 60 percent to a maximum of 25 percent. That advantage, I am convinced, is one of the major attractions to nonfarm capital now investing in agriculture, some of which is incorporated. In other words, this lies behind some of the trend toward farm incorporation today.

I believe that it is also fair to state that we have not adequately extended our agricultural education and advisory services to take care of modern technology. I am thinking particularly of agro-chemical technology. This is often unavailable in a practical sense to the smaller farmer. He does not possess the knowledge or the training to use today's complex chemicals to the best advantage. This seems to be an attractive advantage of the large corporation. They can hire skilled managers who know how to use these complex chemicals and other technologies. But another way to look at that is that it is also a condemnation of the kind of extension services we have practiced in the past. I suspect that we have not kept pace in our agricultural extension activity with our ability to create this new technology. I think we have