Testimony of Senator Chuck Hagel

Senate Finance Committee Field Hearing: “Saving America’s Great Places: The Role of Tax Incentives in Preserving Rural Communities”

August 25, 2004

Mr. Chairman, I want to thank you for holding this important hearing concerning the preservation of America's rural communities and for your strong support of this effort. Rural America has seen a steady deterioration over the past several decades. During the last 20 years, residents of small Midwestern towns have deserted rural America in ever increasing numbers. Raised and educated in small towns throughout the Midwest, rural youth have moved to larger cities in search of opportunities unavailable in small-town America. Main Street businesses have closed, and family farms continue to be consolidated into larger, less labor-intensive, operations.

The lack of economic development and opportunities in rural areas has forced individuals and businesses to migrate from rural to urban areas at unprecedented rates. In March 2003, Senator Dorgan and I introduced the New Homestead Act in an effort to help reverse the longtime trend of population decline in rural America.

The New Homestead Act would create new economic incentives for small businesses and individuals in counties with high out-migration. Just as the original Homestead Act of 1862 enabled the settlement of the frontier, this legislation would help attract entrepreneurs and younger workers to rural areas suffering from high population loss, while giving current rural residents a better chance to preserve their heritage.

For decades, family farms and main street businesses have been disappearing from America's Heartland. As those farms and business fade away, so too do the small towns – from the Great Plains to the Deep South ... from the Midwest to the Southwest. Young people move away, forced to look for jobs and opportunities in already-overcrowded metropolitan areas. As a result, hundreds of small communities now struggle for survival.

Half the rural counties in America lost population in the 2000 census. Three of every four rural counties experienced below-average economic growth – despite the record levels of farm subsidies in the 1990s.

During the past fifty years, rural America has stagnated; over the same time span, the number of people living in urban areas has more than doubled.

More than 140 years after President Lincoln signed the original Homestead Act – Nebraska is one of the states hardest hit by the trend of rural out-migration. Of Nebraska's 93 counties, 55 have lost at least ten percent of their residents over the past twenty years due to out-migration. Most of these counties will see similar population losses over the next two decades without an expansion of non-agricultural industry.

The problem is that America has no comprehensive rural development policy. We must recognize there is more to stimulating the rural economy than just providing farm price supports and that national agricultural policies have not helped farming communities reverse rural decline. As an example of our insufficient farm policies, less than one percent of the funding in the recently passed farm bill was allocated for rural development.

The New Homestead Act offers some real solutions that will help close the gap between rural America and the rest of our country. It targets three categories – individuals, businesses, and capital formation.

The first section provides incentives for individuals to migrate to rural communities. The bill would repay up to 50% of college loans for qualifying individuals in rural areas. In addition, the bill would provide tax credits for home purchases, and tax deductions for losses in home values. It would also create tax-favored Homestead Accounts, that could be used to build savings, to pay educational expenses, to make first-time home purchases, or to start a small business.

The second section would help provide new jobs and opportunities by encouraging business growth in high out-migration areas. Rural Investment Tax Credits, administered by the states, would provide incentives for new businesses to locate in rural areas, while existing rural businesses could expand operations.

The third section would create a $3.3 billion Venture Capital Fund that invests in high out-migration counties. As in metropolitan areas, rural businesses need capital to exist and expand. This would bring together federal, state and private funds to help rural business ventures attract necessary equity funding.

It is in the broad interest of the country that we do not forget our rural areas.

Again, I thank you, Mr. Chairman, for holding this hearing and focusing on a major problem facing rural America. I hope this hearing will help raise a new awareness of rural America's plight and the policies necessary to help restore a new vitality.

Thank you, Mr. Chairman.