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Eight Constraints To Writing The 2007 Farm Bill

A Presentation by

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for:

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Finance Markets in Transition
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Reminder: What a Farm Bill Does

1. Authorizes Programs:

- Provides USDA the authority to operate programs using provisions specified in the bill.
- For most programs, the authority to operate is temporary (e.g. 2002 through 2007 crops).
- A few programs have permanent authority to operate (i.e., until changed).

2. Funds Ag Committee Programs:

- Provides upfront ALL of the funds needed to provide benefits for an Ag Committee "Mandatory" program during its authorized life.
- Funding can be (a) whatever amount turns out to be needed under specified provisions OR (b) a fixed annual amount.
- These "Mandatory" programs and funding under Ag Committee jurisdiction are not subject to enactment of a new law every year—as with the "Discretionary" programs and funding of the Appropriations Committees.

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Reminder (cont.): What a Farm Bill Does

3. Authorizes the Appropriation of Funds for Appropriation Committee Programs.

- Not all programs authorized in a farm bill are Ag Committee mandatory programs with Ag Committee funding. Some are programs authorized for management and funding by the Appropriations Committee. Here, the Ag Committee authorizes the program and a funding level but it is then up to the Appropriators as to whether or not to fund the program.
- “Discretionary” programs are funded one year at a time; their operation and funding levels are reviewed each year by the appropriators.
- Discretionary funding generally covers salaries and expenses of USDA agencies and offices, building costs, most rural development programs, and most research programs.
- Enactment of an Ag Appropriations Act (or a continuing resolution) is needed each year for USDA to operate.
- Before funds are appropriated, the appropriation is supposed to be authorized but this does not always occur.

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Reminder (cont.): What a Farm Bill Does

4. **Must address “permanent law”** provisions of the Agricultural Act of 1949. Outdated commodity provisions of the 1949 Act (including acreage allotments and marketing quotas based on 1950s farm-level production and parity-based loan rates) would become effective if no new farm bill or extension were enacted. So far, the route has been to suspend the 1949 act for the years covered by a farm bill. Periodic attempts to repeal the 1949 Act have, to date, been unsuccessful.

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Constraint #1: Committee Jurisdiction: Which Committee Is Responsible for a Program Area?

- **The House Ag Committee has PRIMARY JURISDICTION for:**
 - Commodity Programs
 - Conservation Programs
 - Crop Insurance Programs **
 - Agricultural Trade Programs
 - Rural Development Programs (Most funds provided through Appropriations)
 - Agricultural Research (Most funds provided through Appropriations) **
 - Foods Stamps & Selected Other Nutrition Programs
 - Forestry **
- **The House Ag Committee DOES NOT HAVE jurisdiction for:**
 - **Any Appropriated programs** (e.g. USDA salaries & expenses, most research)
 - School lunch and other child nutrition (Senate Ag does have jurisdiction)
 - Immigration (e.g. agricultural labor policies)
 - Taxes (e.g. tax-related energy & safety net policies)
 - Trade Laws (e.g. trade agreements)

** May or may not be included in a farm bill. Often addressed in separate bills. 5

Constraint #2: Baseline Funding: Does the baseline assume funds continue for a program or is new funding needed?

NOTE: The Budget Resolution Baseline is the MAIN (PROBABLY ONLY) SOURCE of funds available to write a new farm bill.

- Congressional budget rules provide for a budget resolution “baseline” that projects federal spending into the future (typically five or ten years).
- The March CBO baseline is the starting point for the budget resolution baseline. The budget resolution may adopt the CBO baseline without change or it may change the assumed spending for particular programs.
- The budget resolution baseline shows each committee how much funding is available for programs under their jurisdiction. A changes in law that increases funding beyond a committee’s baseline level is subject to a budget point of order.
- If a Senator raises a budget point of order that is sustained, the bill cannot be considered unless the point of order is waived by a supermajority of 60 votes. In the house, the bill cannot be considered if a budget point of order is raised and sustained.
- The budget resolution baseline is the benchmark from which changes in costs for changes in laws are “scored” by the Congressional Budget Office.

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What is the CBO Baseline?

- The CBO Baseline is a projection of future program costs for the next 10 fiscal years (beyond the current fiscal year) under the assumption that current laws and policies continue forever as in effect on the last day of a program's authorization.
- For a program to “earn” a baseline it must meet the “\$50 million rule” and must have funding on the last day of authorization. If funding for a program is stopped before the last day of authorization, no baseline funds are provided.
- The CBO baseline covers all federal government spending and receipts and often provides significant details for many programs.
- In constructing Ag Committee baselines, CBO analysts incorporate not only current laws but also current and projected market conditions, economic trends, and USDA policies. (This is especially important for farm programs).

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What is the CBO Baseline? (Cont.)

- CBO does three baselines per year: in January, March, and August.
- Baseline cost levels may change over time due to changes in market conditions, changes in USDA rules and regulations, structural changes in the agricultural sector, or because new laws are passed.
- The March, 2007 CBO Baseline (with adjustments, if any, from the budget resolution) will be the one used to score the 2007 farm bill.

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How much will the CBO Baseline Change between August, 2006 and March, 2007?

Ten-year changes in Total CCC outlays from August, t to March, t+1 Baselines

- August, 2003 to March, 2004: - \$2.5 billion (- 1.3%)
- August, 2004 to March, 2005: + \$10.7 billion (+ 5.8%)
- August, 2005 to March, 2006: - \$14.2 billion (- 7.2%)
- August, 2006 to March, 2007: ????

Excludes Tobacco Quota Buyout

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Programs Under HAC Jurisdiction

Status as of October 1, 2006

**** May be addressed in the farm bill
or in a separate bill.**

| <u>Programs Under HAC Jurisdiction</u> Status as of October 1, 2006 ** May be addressed in the farm bill or in a separate bill. | <u>Baseline Funding Available to Continue Program?</u> | <u>Permanent Authorization– Prog Automatically Continues?</u> |
|--|--|---|
| 1. Food Stamps | YES | no |
| 2. Most Commodity Programs | YES | no |
| a. Milk Income Loss Contracts | no | no |
| b. Peanut Storage Costs | no | no |
| 3. Most Conservation Programs | YES | no |
| a. Small Watershed Rehab Prog. | no | YES |
| b. Ag Management Asst. Prog. | no | YES |
| 4. Trade Programs | YES | no |
| 5. Crop Insurance ** | YES | YES |
| 6. Research: Init. Fut. Ag & Food Sys ** | YES | YES |
| 7. Renewable Energy Program | no | YES |
| 8. Most Rural Development Programs | no | YES |

** Supporters of a program would like a "YES" in both columns.

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Aggregate Funding for the 2007 Farm Bill

Funds Available to Write the 2007 Farm Bill

- = CBO March 2007 Baseline (Yes)
- + Any Funds Added in the FY 2008 Budget Resolution (Unlikely)
- Any Cuts Required by Budget Reconciliation (Significant Possibility)

Bottom Lines:

- Likely less money than currently available—especially when considering 2002 farm bill programs with no baseline.
- The only source of funding to expand an existing program or to start a new program will be to cut another existing program

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Caveats on Offsetting Increased Costs for New or Expanded Programs by Cutting Costs of Existing Programs

- Every program has a constituency. Proposed cuts may lead to interest group wars.
- Policy proposals that save money may become more attractive than they otherwise would be.
- Can lead to “bad” policy if policies are designed to capture quirks in CBO baselines or scoring (see explanation of scoring below).
- Cost trade-offs and savings opportunities can be heavily dependent on CBO Baselines and Scoring--which especially under “probability scoring” can be hard to predict.
- CBO’s introduction for the 1996 farm bill of “probability scoring” (stochastic analysis) has reduced the number of policy proposals (and enacted policy) that rely on budget gimmicks.
- Because probability scoring generally increases costs of price-dependent programs, probability scoring has increased the aggregate pool of available baseline funding.

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CBO Cost Estimates (“Scores”) are Used to Determine the Costs of Legislative Proposals (and, thus, the Funding Tradeoffs Among Programs)

- A CBO cost estimate (i.e., the “score”) shows the difference over the next ten years between:
 - Expected federal costs if a new proposal becomes law and
 - Expected federal costs if current laws are assumed to continue (i.e., “the baseline”).
- Remember: the score shows the change in spending--NOT total spending.
- The Budget Committees can (but rarely do) override a CBO cost estimate.
- Official cost estimates are approved by the CBO director and posted on the CBO website: www.cbo.gov
- Informal cost estimates are provided by CBO analysts to committees or members as legislation is being developed. Typically, this is a spreadsheet table. Congress and CBO work very closely as bills are being developed.

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What Legislative Changes Are Scored as Changes in Program Costs?

(From the Perspective of Achieving Savings)

- For commodity programs, underlying parameters need to be changed to achieve savings (e.g. target prices, loan rates.) Remember offsetting interactions between variables.
- For some conservation programs, savings are achieved by cutting funding levels. For other conservation programs, program parameters (acreage cap, payment rates) must be changed to achieve savings.
- Only legislated changes count. No credit is given for lower-than-expected costs from changes in market conditions or USDA implementation decisions different than expected.

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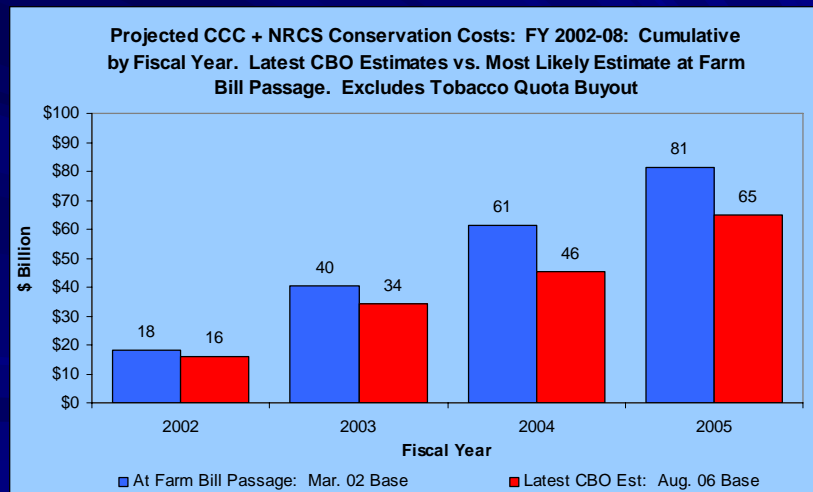
What Legislative Changes Are Scored as Changes in Program Costs? (Cont.)

(From the Perspective of Achieving Savings)

- Under CBO's Probability Scoring, a one-cent reduction in a parameter that depends on market prices provides less than a one-cent savings.
- Cuts must be prospective—e.g., fewer future contracts. Current signed long-term contracts cannot be cancelled or modified to get savings.
- CBO generally does not score savings for enforcement activities.
- Market conditions can impact CBO baseline projections and thus the amount of funding available for possible shifting around.

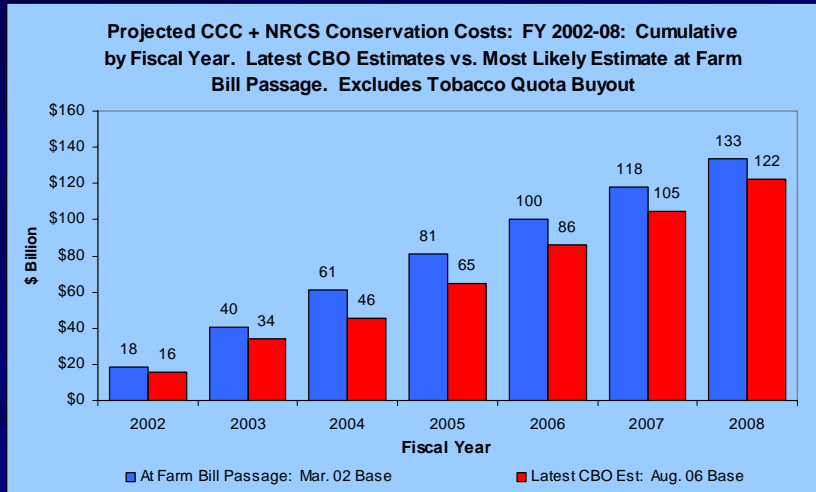
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CCC Outlays for the first 4 Fiscal Years of the 2002 farm bill were \$16 billion Lower than CBO Projected When the Farm Bill Was Passed. ("Savings" cannot be used to offset cost increases elsewhere)



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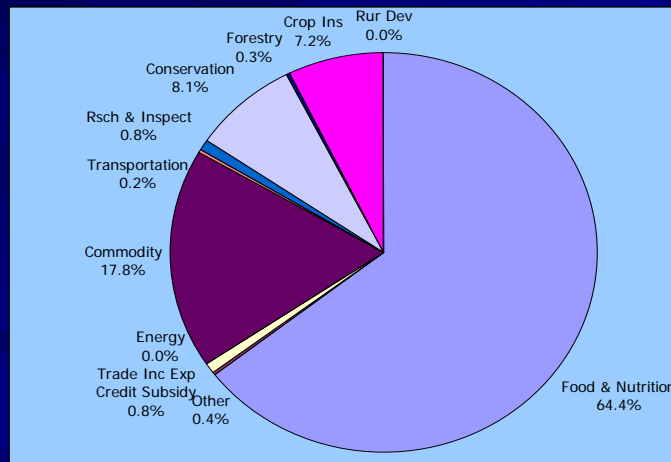
And CBO's Current Baseline Projects \$11 Billion Less Cumulative CCC & NRCS Conservation Spending by FY 2008 than CBO's 2002 Farm Bill Projections (FY 2008 roughly corresponds to the last (2007) crop year of the 2002 farm bill.



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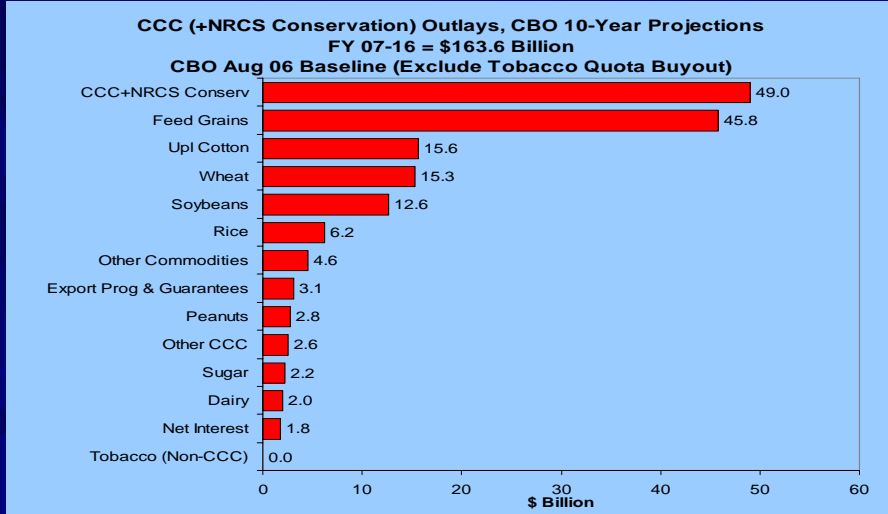
CBO's Current March, 2006 Baseline: House Ag Committee Funding by Type of Program. FY 07-16 Outlays for Programs Under House Ag Committee Jurisdiction = \$608 Billion.

Of this Total, a projected 64.4% is for Food & Nutrition and 33.1% is for Commodities, Conservation & Crop Ins. 2.5% is for Other.

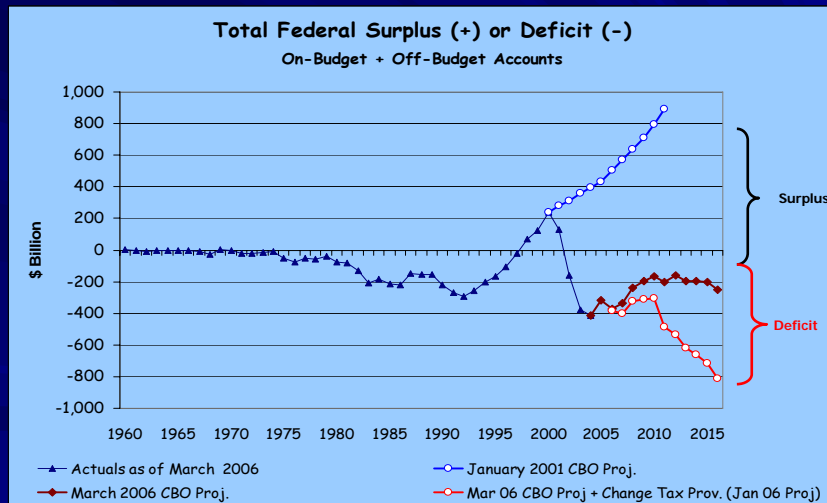


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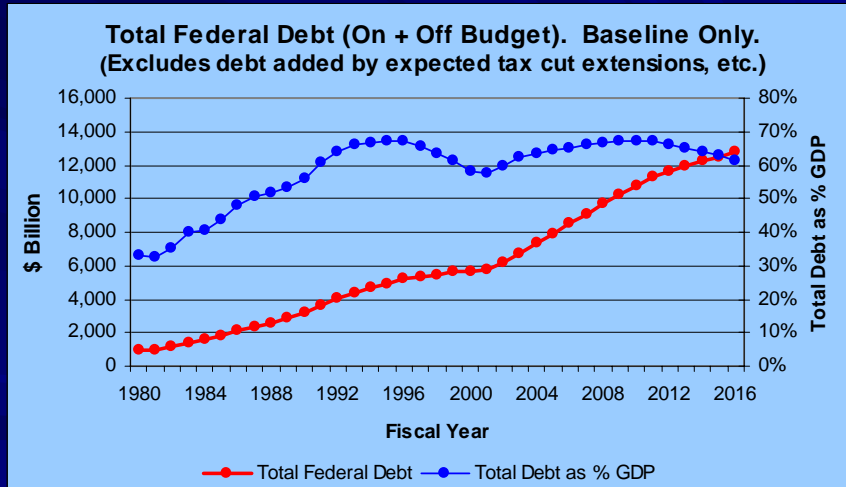
CBO's Current August, 2006 Baseline: CCC + NRCS Conservation Spending by Crop or Program Area



Constraint #3: Federal Budget Deficits and Debt. Large budget deficits and increasing federal debt mean finding extra money beyond baseline levels is difficult. *(Unlike the extra \$79 Billion in 10-year funding for the 2002 farm bill.)*



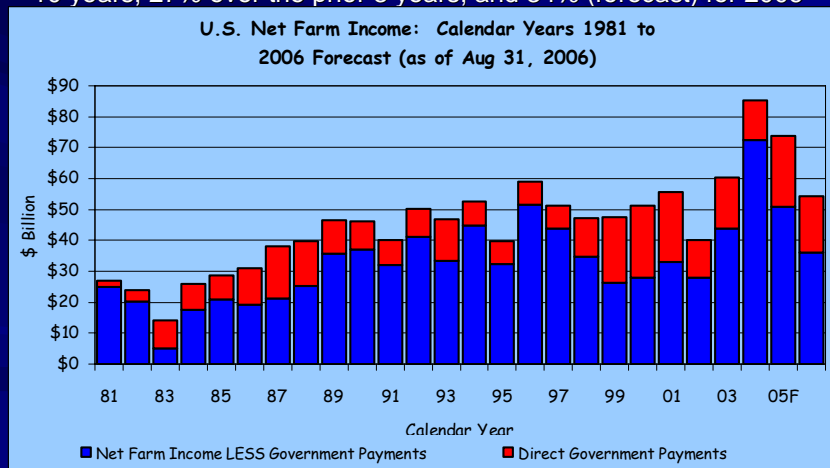
Constraint #3 (Cont.): Federal Budget Deficits and Debt.



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Constraint #4: Producer Expectations and Investments: Government Payments Continue to Be a Major Contributor to U.S. Net Farm Income (and to Land Values & Cash Rents)

Government payments averaged 28% of net farm income over the prior 10 years, 27% over the prior 3 years, and 34% (forecast) for 2006



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Constraint #5: Budget Reconciliation: Many observers expect that the 2007 Farm Bill Will be done in tandem with budget reconciliation.

- Budget Reconciliation for Ag & Most Other committees: share the pain of reducing the deficit by all changing their mandatory programs at once to reduce spending.
- Budget Reconciliation is initiated by including reconciliation instructions in the annual Congressional Budget Resolution.
- The FY 2006 Budget Resolution establishes a sense of Congress that reconciliation be done every two years.
- FY 06 Reconciliation Conference Instructions were to Reduce HAC Spending by \$3 billion over 5 years (1% of HAC Total spending). Final Reduction = \$2.7 billion.
- Some Prior (and Current) Budget Reconciliations Affecting Agriculture: 2005/2006, 1995, 1993, 1990, 1989, 1987
- The 1990 and 1995 farm bills were done in tandem with budget reconciliation.
- Average Annual Ag Reconciliation Cuts in 1990 to 2005 House & Senate Reconciliation Instructions Have Varied from \$74 Million to \$6.9 Billion. Average = \$1.9 Billion

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Constraint #6: Some Dissatisfied with 2002 Farm Bill. While Participants in Commodity Programs Generally Are Satisfied with the 2002 Farm Bill, Others Are Not and Want to Shift Funds to Other Areas

- Various Groups want additional funding from the likely smaller pie for:
 - Fruits and Vegetables
 - Conservation
 - Rural Development
 - Crop Insurance
 - Standing disaster assistance (Budgeteers have increasingly wanted to tighten up on “emergency” spending—sometimes in recent years requiring offsets from existing programs).
- Concerns with the large amount of program funding spent on conservation technical assistance.
- Pay Limits will be an issue: Pay limits reduce spending either through limiting benefits to larger producers or by limiting eligibility for payments.

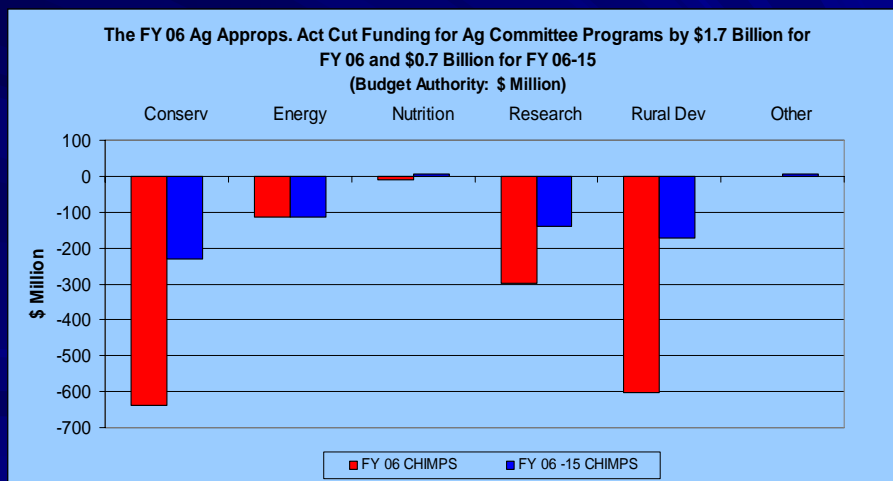
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Constraint #7: Appropriation CHIMPS. (“*CH*anges In Mandatory Program Spending” enacted by Appropriations Committees)

- Under Scorekeeping Guideline #3, the Appropriations Committees can limit spending on the Ag Committee’s mandatory programs and use the funds saved to increase or maintain spending on their discretionary programs.
- If appropriators continue to take funding from Ag Committee programs to fund their programs (ag or otherwise), how much scarce Ag Committee funding should be put into rural development, research, energy, selected Conservation, and other programs that may never be implemented or implemented at dramatically lower levels than intended?

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The FY 06 Ag Approps. Act Cut Funding for Ag Committee Programs by \$1.7 bil. For FY 06 and \$0.7 bil. For FY 06-15



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Appropriation CHIMPS for FY 07 will be smaller But will still cut into funding for important programs.

- Earlier this year, the Ag Committee cut \$1.25 billion in program funding for programs often used as CHIMPS to help meet the Ag Committee's FY 06 budget reconciliation instructions.
- The House version of the FY 07 Ag Appropriations bill reduces funding for Ag Committee Programs by \$592 million for FY 07 rather than \$1.7 billion as in FY 06.
- Reductions for conservation program funding equals \$483 million. BUT even this level averages 21% of FY 07 conservation program funding for WRP, EQIP, CSP, WHIP, FRPP, G&SWC, Dam Rehab, and the Ag Mgmt Assist Prog.
- NOTE: When reductions for both conservation technical assistance and CHIMPS are considered, far less program funding is available for producers than the levels provided in the 2002 farm bill would suggest.

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Constraint #8: WTO Requirements

- ❑ Ag Committee will spend significant time in trying to meet WTO requirements—as was done for the 2002 farm bill.
- ❑ Concern over not only the WTO Agreement on Agriculture but also the WTO Agreement on Subsidies and Countervailing Measures that covers non-ag and ag sectors and was used in the Brazil Cotton Case.
- ❑ Contrary to the accusations of some other countries, reducing the U.S. amber box AMS support limit from \$19.1 billion to the \$7.6 billion proposed by the U.S. would necessitate significant changes in current domestic support programs.
- ❑ Remember that, in some cases, WTO AMS Calculations are different than Government Cost Calculations (e.g. Sugar and dairy price supports that include consumer costs).

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Constraint #8: WTO Requirements (Cont.)

- “Constructive ambiguity” that allows WTO deals to be signed but that may be interpreted in WTO challenges differently than we thought, is a major problem in writing legislation.
- HAC will write the 2007 farm bill to WTO provisions in effect at the time—not to pending proposals.
- How to deal with programs whose costs vary significantly from year-to-year? (WTO Circuit Breaker)
- Commodity Trade-offs that used to be solely domestic political issues now may be WTO issues
 - Unique provisions for one commodity
 - Different countries are affected when one crop is favored over another

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For More Information on the Budget & the 2007 Farm Bill:

- “**Financing the 2007 Farm Bill.**” A presentation by Craig Jagger at the 2007 Farm Bill Forum: A Farm Foundation Project. May 17, 2006.
- Go to: www.farmfoundation.org.
- Click on: 2007 Farm Bill Forum
- Scroll to “Past Forum Sessions”: May 17, 2006
- Click on: Craig Jagger

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