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> Presented by Chip Conley Democratic Economist House Agriculture Committee

Budget Outlook

Budget situation and outlook has determined outlook for farm policy.

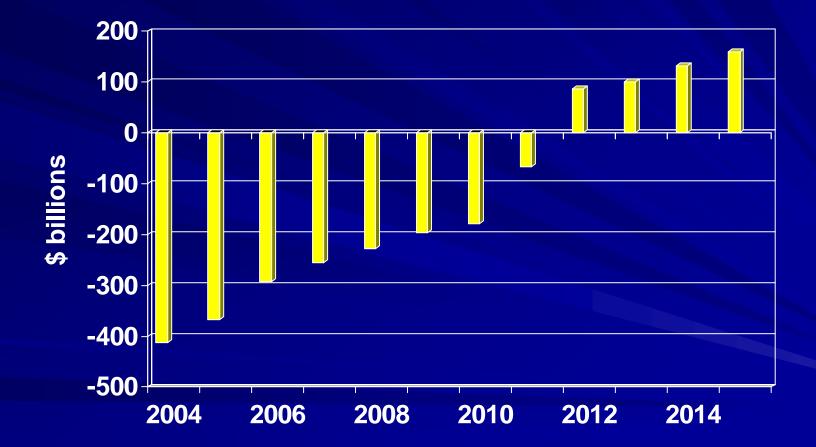
Federal deficits from 1981 to 1995 have led to cuts in agriculture spending in deficit reduction legislation.

Budget Outlook

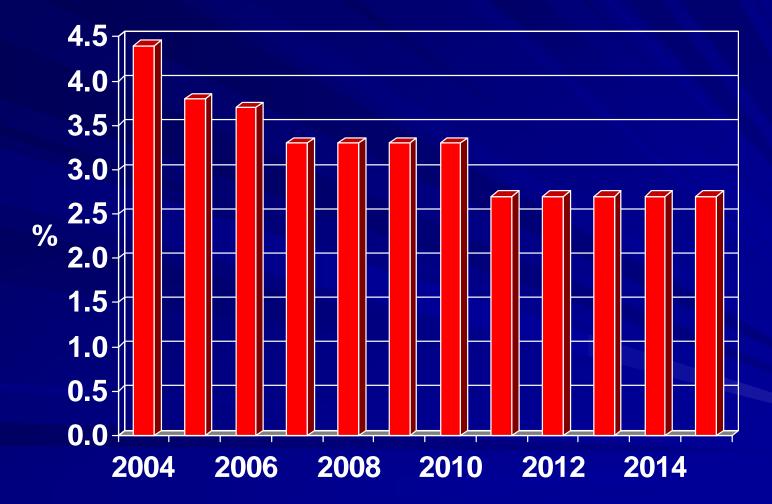
Federal surpluses in 1998 through 2001 have provided funding for emergency market loss and crop loss assistance and the Agricultural Risk Protection Act.

2001 projected 10-year federal surplus of \$5.6 trillion provided \$79 billion additional funding to write 2002 Farm Bill, along with \$1.3 trillion tax cut.

Projected Surplus/Deficit(-) CBO Jan. 2005 Adj. Baseline



Projected Real GDP Growth CBO Jan. 2005 Baseline



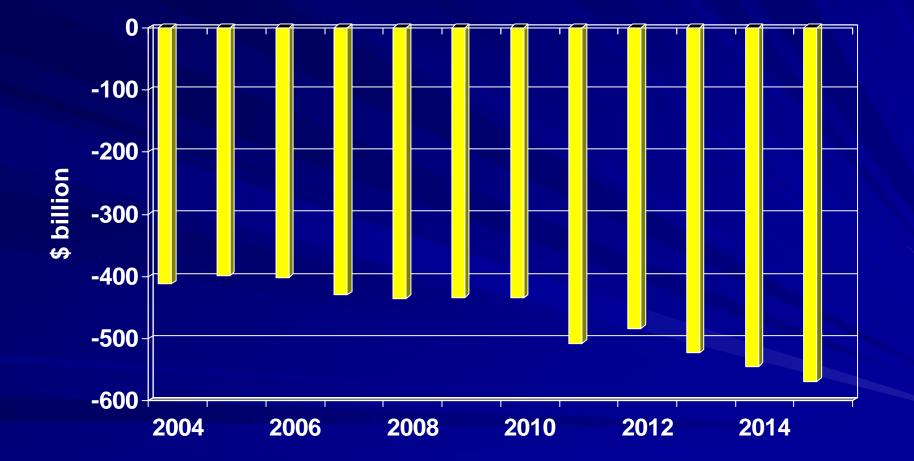
Budget Outlook, \$ Billion

Fiscal Year	2006	2006-15
Adj. CBO 2005 Jan. Baseline	-292	-737
Iraq, Afghanistan, Terrorism Add'l Cost	-73	-591
Adj. CBO Baseline	-365	-1,328

Expected Additions to Deficit Revenues, \$ Billion

Fiscal Year	2006	2006-15
Bush Defense/Homeland 2005 Increase*	-18	-802
Make Tax Cuts Permanent	-5	-1,616
AMT Repair	-12	-641
Additional Debt Service	0	-370
Resulting Deficit	-401	-4,757

Projected Surplus/Deficit(-) Resulting Deficit



Magnitude of Future Deficit Reduction, \$ Billion

Fiscal Year	2004	2005	2004-13
Resulting Deficit	-412	-398	-4,453
House-passed	-324	-230	-1,021
Budget 2003			
Reconciliation	-88	-168	-3,432

Comparison to 2004 House Budget \$ Billion

Fiscal Year	2004	2004-13
Reconciliation	-88	-3,432
House-passed Reconciliation '03	-7	-259
Multiple of House-passed	13	13

Comparison to 2004 Budget Reduction for Ag, \$ Billion

Fiscal Year	2004	2004-13
House-passed Ag Reconciliation '03	-0.6	-18.6
Agriculture's share of Reconciliation	9%	7%
Future Agriculture Reconciliation	-8	-256

Source of Spending Reductions Committee Spending Jurisdiction, over 10 years, \$546 bil. Agriculture/conservation, \$275 bil. Commodities, \$187 bil. Conservation, \$51 bil. Crop Insurance, \$37 bil.

2002 Farm Bill Spending, FY2002-11, \$billion

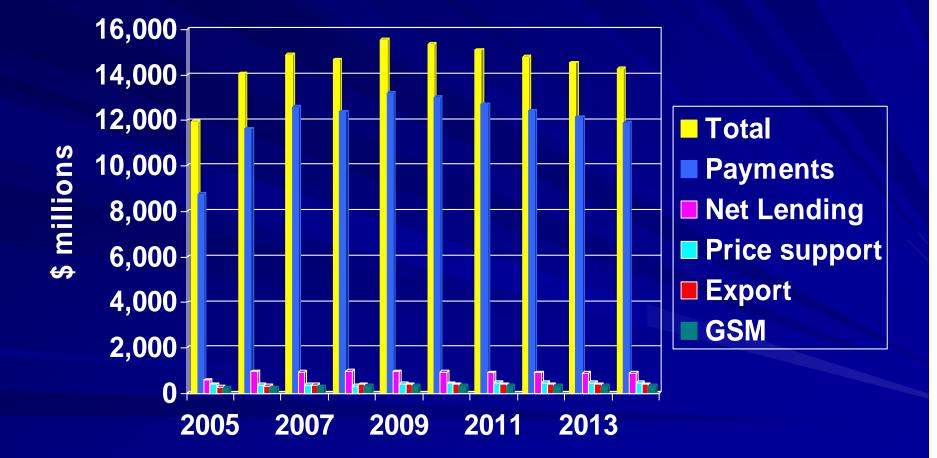
Commodity Programs	47.8	<mark>65%</mark>
Conservation Programs	17.1	23%
Nutrition Programs	6.4	9%
All Other Programs	2.2	3%

How to Reduce Ag Spending

- Farm Commodity Programs are now direct payment programs.
- Few efficiencies to be gained as in 1990 Flex Acres 15% reduction in deficiency payments.

Reductions likely to be in commodity, conservation direct payments, crop insurance premium subsidies.

CCC Outlays by Payment Type



WTO: 3rd Dimension

Policymakers must consider trade negotiation proposals in deficit reduction.
Previous U.S. proposal to reduce AMS to 5% of value of Ag production implies Amber Box limit of \$9.5B, 50% less than \$19.1B.

Current "Substantial Reduction" is suggested to mean 40-50% reduction. Amount TBN.

Policy Implications

WTO compliance by category (Amber, Blue, Green boxes).

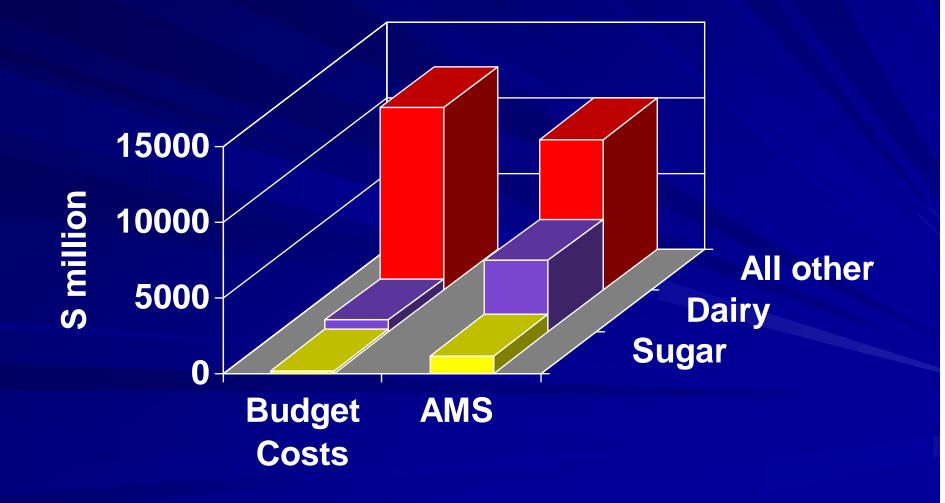
Dairy and sugar pose major challenge: small budget impact, significant AMS impact.

Fruit and vegetables, specialty crops, planting prohibition.

1st Year 20% Down payment, U.S.

Billion US\$	Permitted	2001
Total	49.1	21.5
Amber Box	19.1	14.4
De minimis		
Non-product specific	10	6.6
Product specific	10	0.2
Blue Box (CCP)	10	NA (5.0)
Green Box		50.7
With 20% reduction	39.2	21.5

Commodity Prog, Costs, 1999-01 Avg



Meeting WTO Agreement

 Dairy and Sugar must be considered in AMS reduction, if not budget reduction.
Cutting AMS will have disproportionate impact on farm income vs. budget cuts.
How reductions are made has broad policy implications.

Specialty Crop Issues

- WTO panel ruled Direct Payments may not be Green Box because of fruit and vegetable planting prohibition.
- Specialty crop interests seek CCC funds in Ose-Dooley bill, mostly Green box. Likely accommodation in next farm bill.
- Shifting funds from program crops to specialty crops while reducing overall spending.