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Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C. Agriculture Outlook Forum 2005 Forces Shaping the Next Farm Bill: Budget & Outlook for Ag Spending

> Presented by Chip Conley Democratic Economist House Agriculture Committee

Budget Outlook

Budget situation and outlook has determined outlook for farm policy.

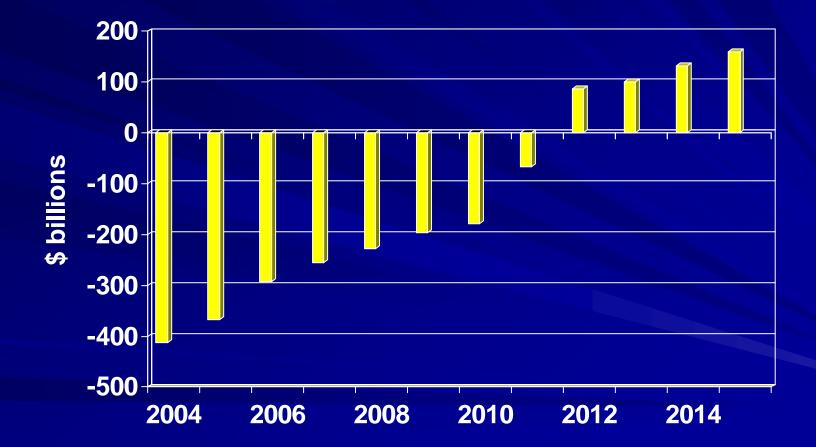
Federal deficits from 1981 to 1995 have led to cuts in agriculture spending in deficit reduction legislation.

Budget Outlook

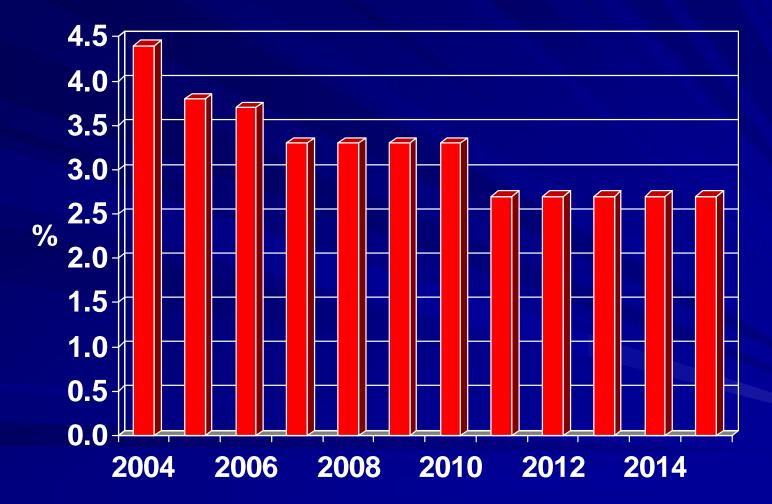
Federal surpluses in 1998 through 2001 have provided funding for emergency market loss and crop loss assistance and the Agricultural Risk Protection Act.

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



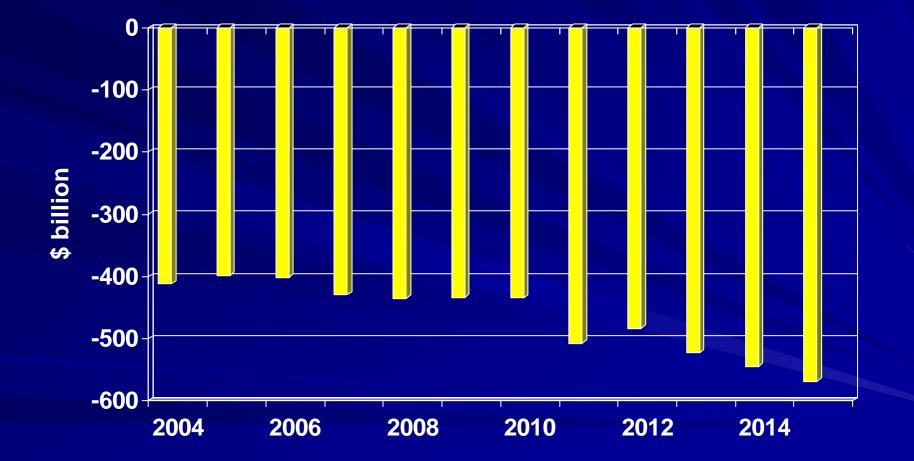
Budget Outlook, \$ Billion

| 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

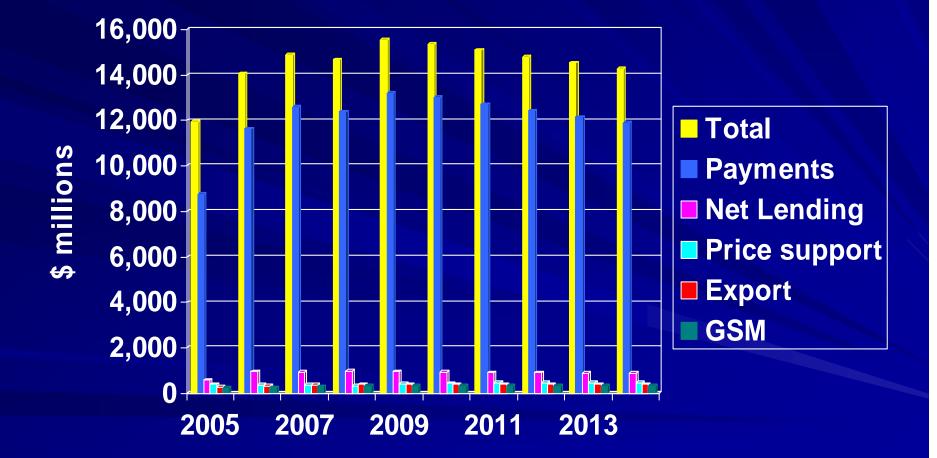
| Commodity Programs | 47.8 | <mark>65%</mark> |
|--------------------------|------|------------------|
| Conservation Programs | 17.1 | 23% |
| Nutrition Programs | 6.4 | 9% |
| All Other Programs | 2.2 | 3% |

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).

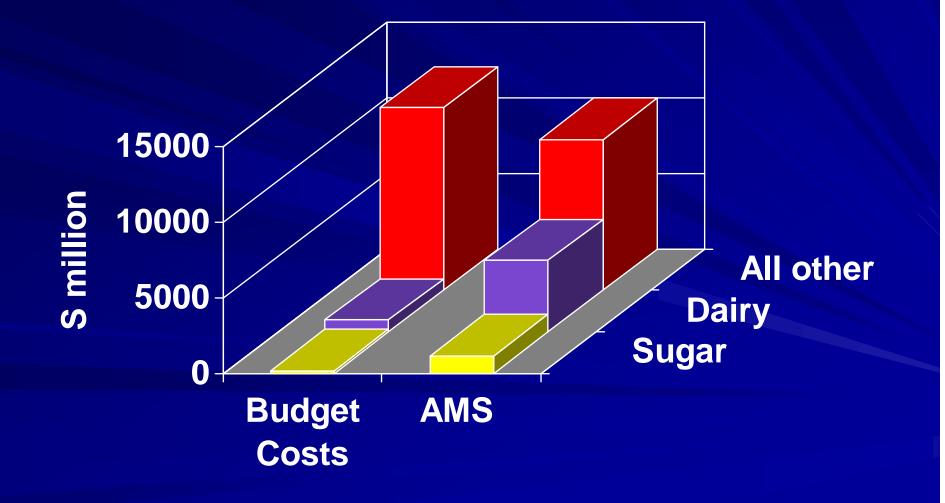
Dairy and sugar pose major challenge: small budget impact, significant AMS impact.

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.