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Agriculture Outlook Forum 2005

Forces Shaping the Next Farm Bill: Budget & Outlook for Ag Spending

Presented by Chip Conley
Democratic Economist
House Agriculture Committee

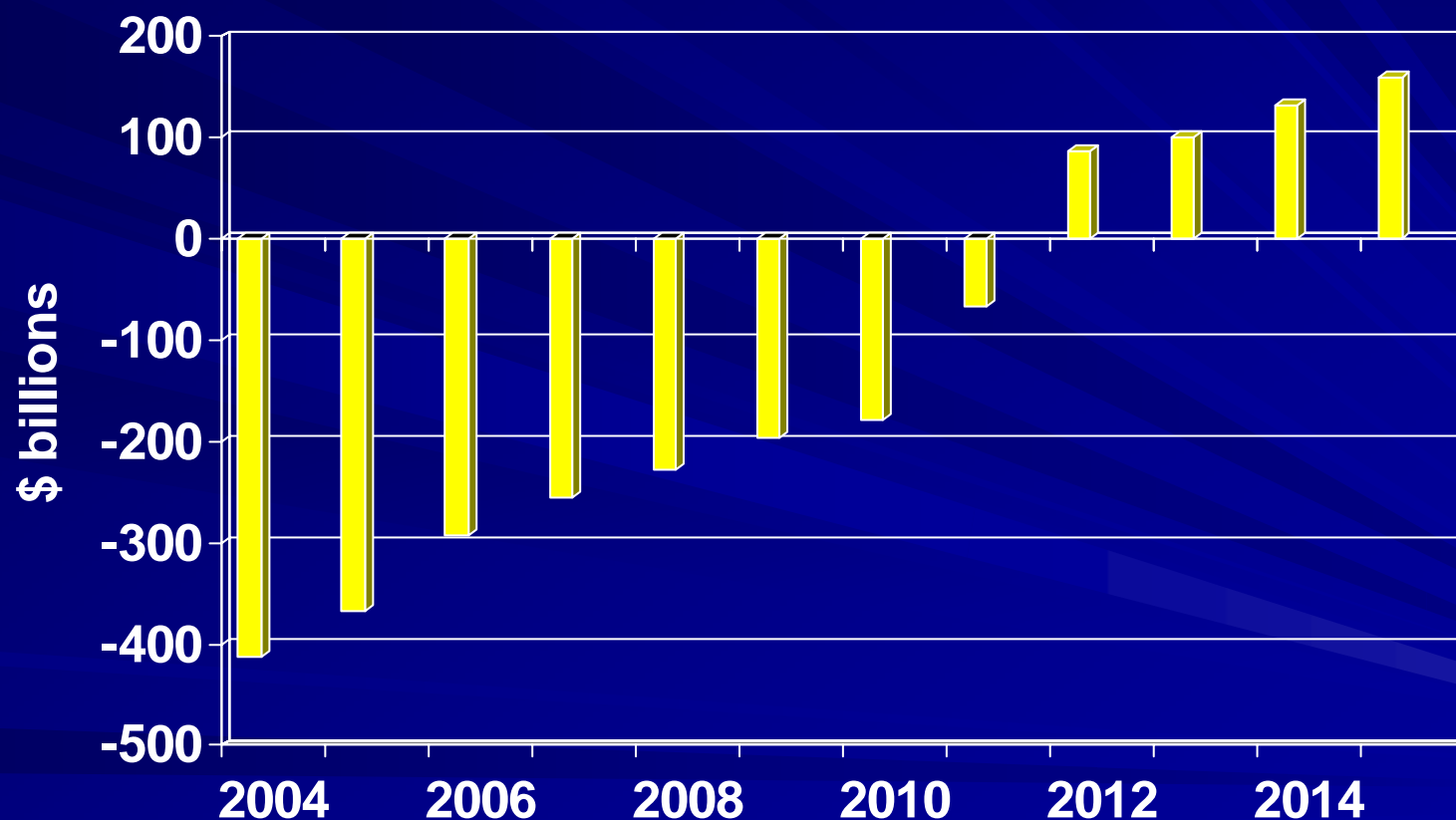
Budget Outlook

- 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

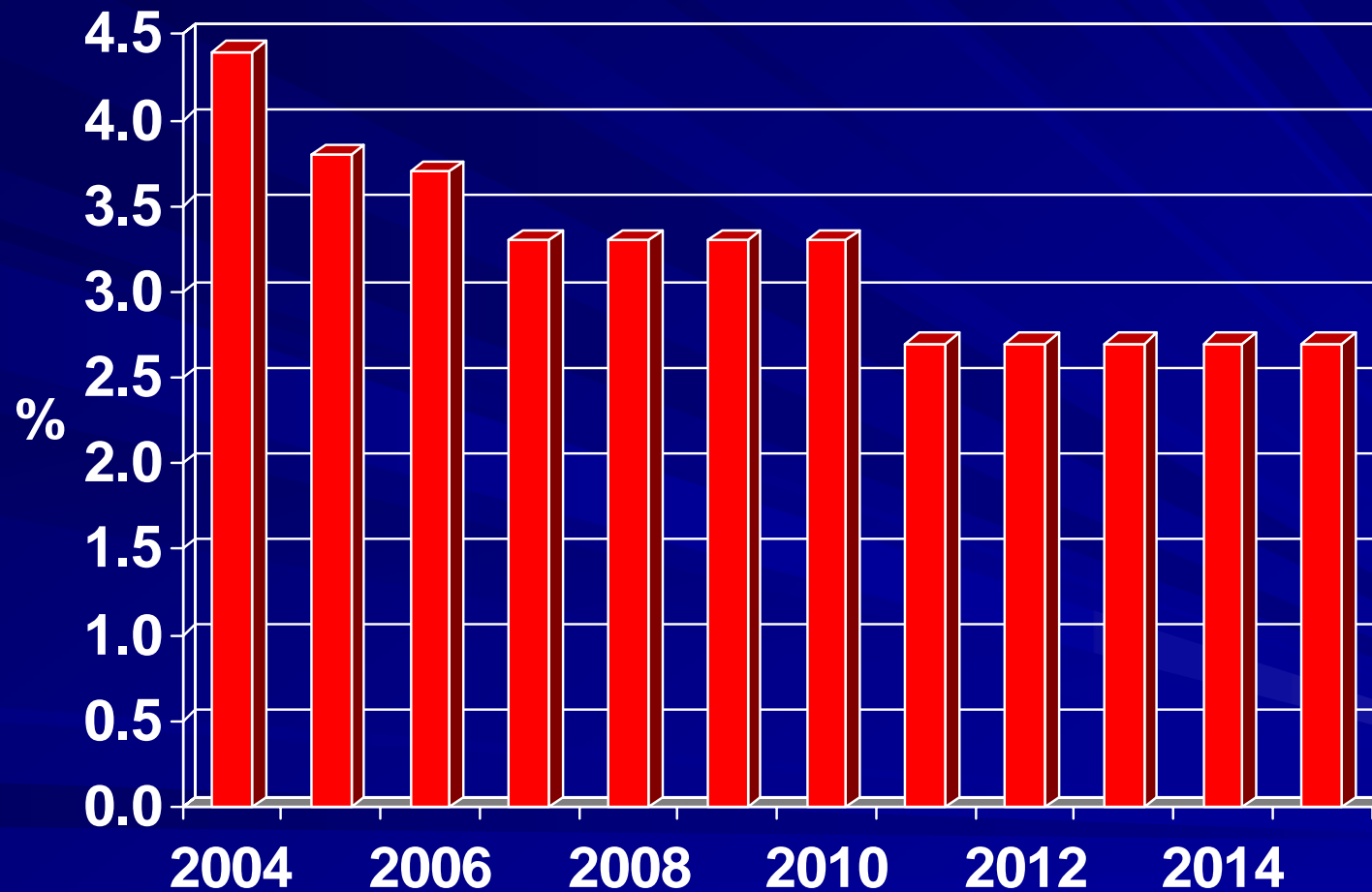
- Federal surpluses in 1998 through 2001 have provided funding for emergency market loss and crop loss assistance and the Agricultural Risk Protection Act.
- 2001 projected 10-year federal surplus of \$5.6 trillion provided \$79 billion additional funding to write 2002 Farm Bill, along with \$1.3 trillion tax cut.

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



Projected Real GDP Growth

CBO Jan. 2005 Baseline



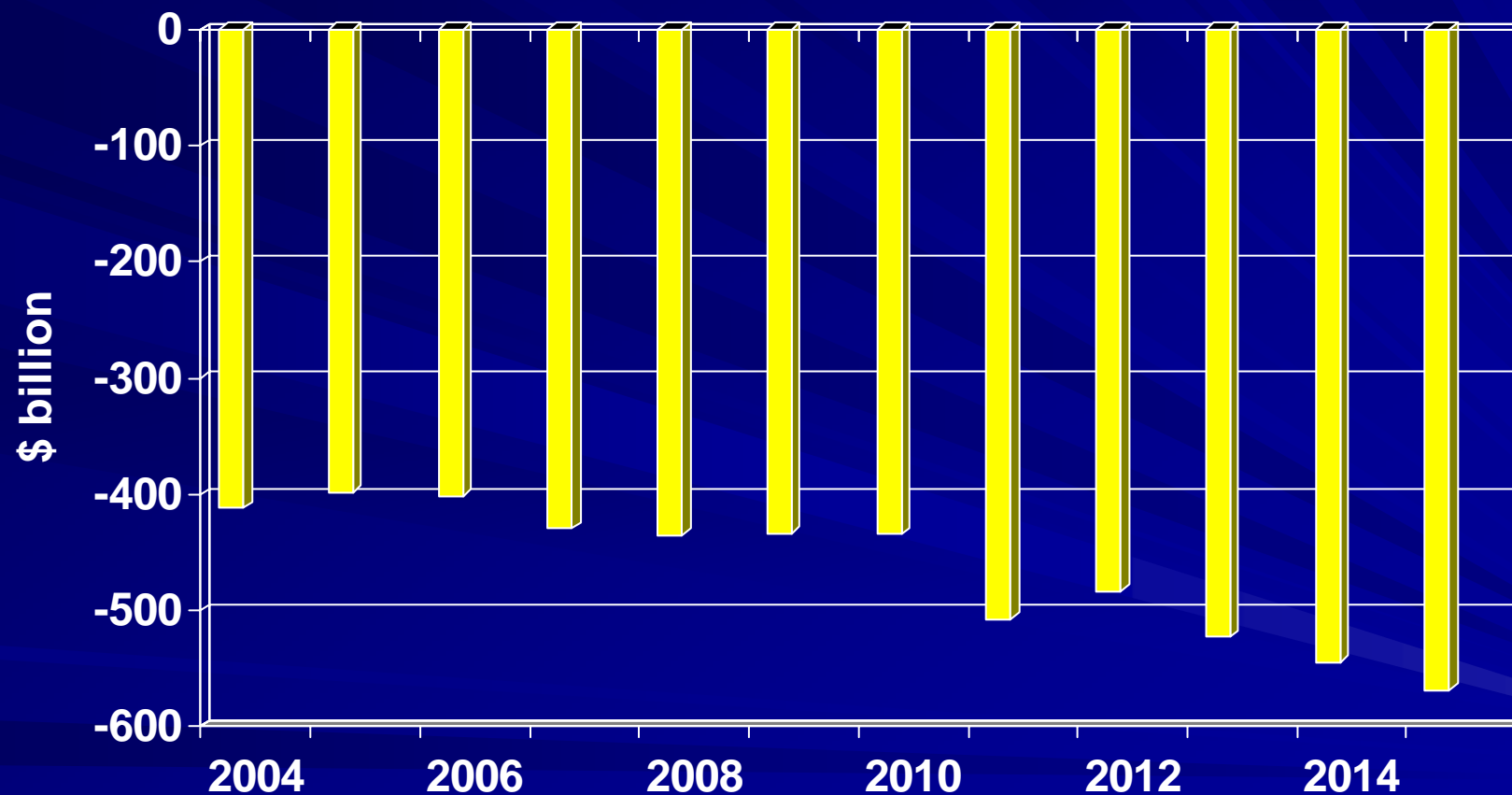
Budget Outlook, \$ Billion

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 Budget 2003	-324	-230	-1,021
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.

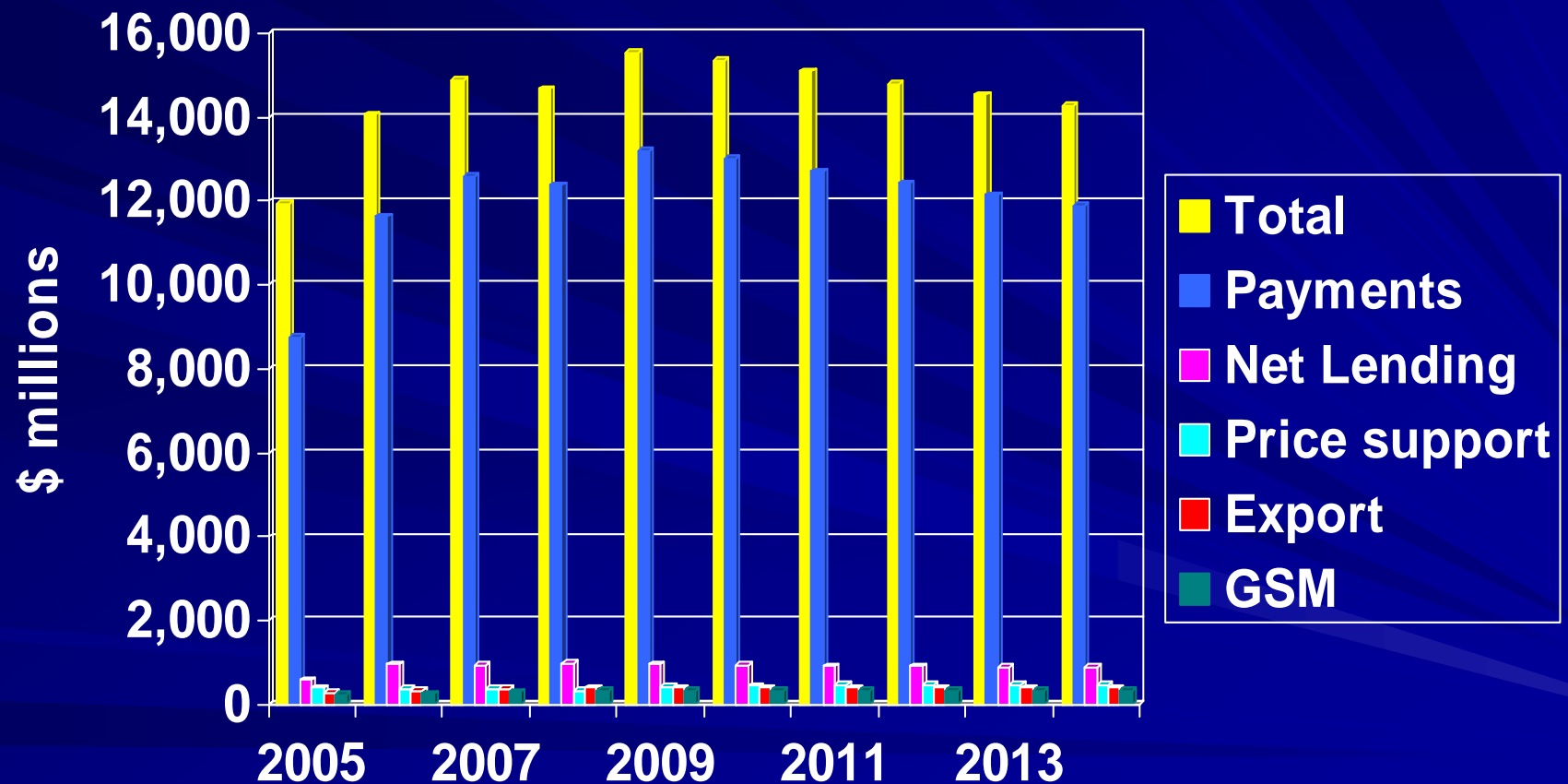
2002 Farm Bill Spending, FY2002-11, \$billion

Commodity Programs	47.8	65%
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.

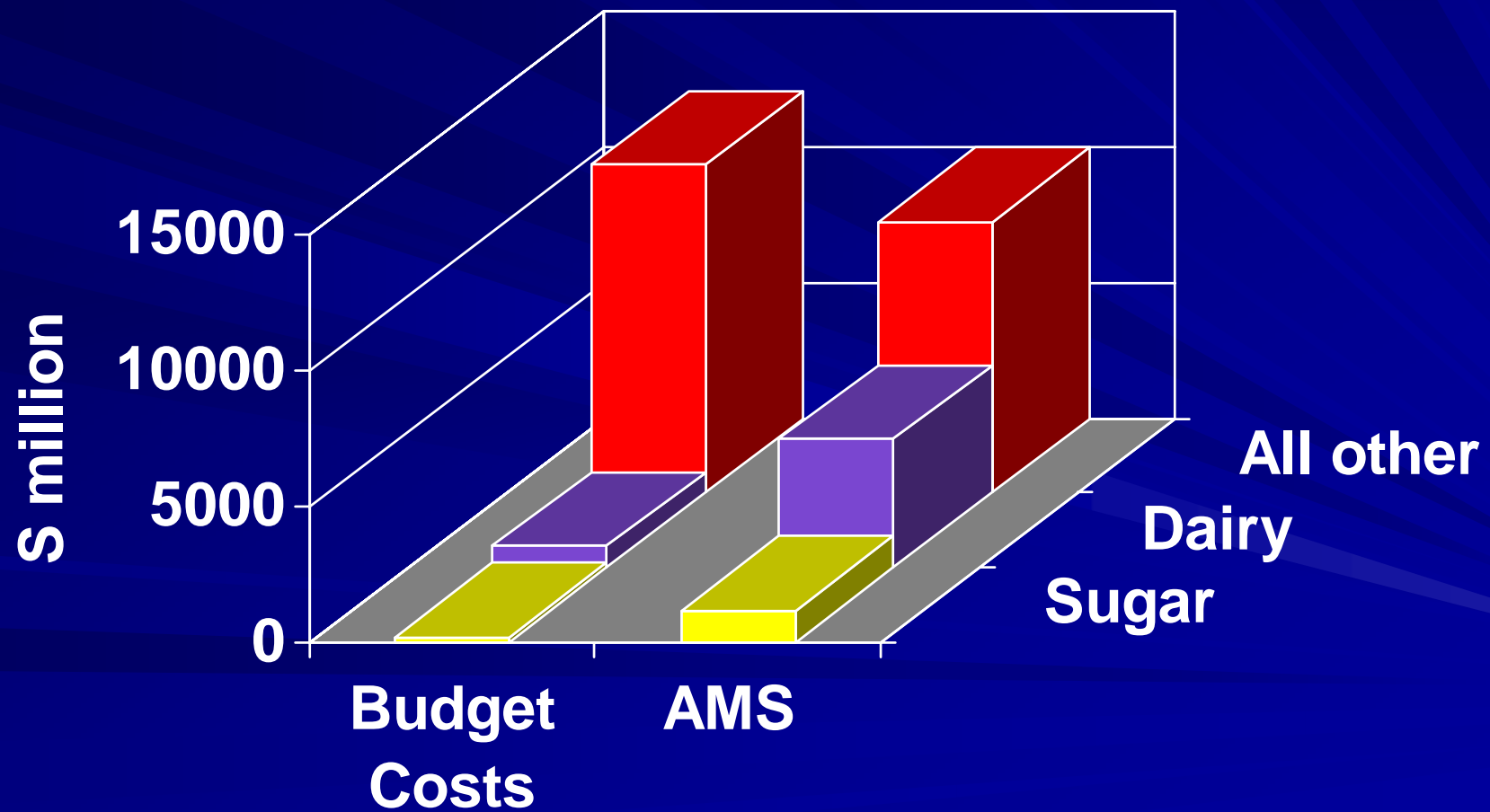
Policy Implications

- 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.