

Funding the Next Farm Bill

A Presentation by:

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“The Economics of the Next Farm Bill”**

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Where does Farm Bill Funding (Budget) Come From? the CBO Baseline

- The Congressional Budget Office 10-Year baseline serves as the primary budget for the Farm Bill. It is the primary source of money available to fund a new farm bill.
- The CBO baseline represents 10-year projections of the costs of government programs if current laws were to continue unchanged.
- 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 current and projected market conditions, economic trends, and USDA implementation decisions. They also consult with outside experts.
- As market conditions change from one baseline to the next, baseline costs for market-dependent programs change, too.
- Of the 3 CBO baselines for each year (normally January, March, September), the March Baseline is, in most cases, the “scoring baseline”—i.e., the benchmark from which changes in costs of proposed legislation are estimated.

Comments on the Baseline

- Budget law provides rules for constructing baselines under different conditions.
- Note that providing a baseline for the full 10 years provides a baseline forever--as long as certain rules are met.
- For some programs, funding is provided for less than 10 years which means they do not have a baseline for the next farm bill—see below.
- **Baseline Trade-Offs**
 - An full 10-year baseline provides the funding to reauthorize a program when its current authorization ends.
 - But that full 10-year baseline needs to be fully paid for at the time a program is initially authorized.
- The Total House (or Senate) Ag Committee baseline is the sum of the baselines for individual programs.

Part of a 2200 Row CBO Baseline for Farm Programs. (June, 2017 Baseline)

COMMODITY CREDIT CORPORATION ACCOUNT PLUS OTHER ACCOUNTS COMPARABLE TO THE USDA BASELINE													
CBO's June 2017 Baseline											June 29, 2017		
Millions of Dollars, by Fiscal Year ^a													
Program	2016 Actual	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	Total 2017-27
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Feed Grains	3,835	4,509	3,478	2,190	1,574	2,737	1,877	1,972	2,145	2,513	2,529	2,238	27,761
Wheat	650	1,007	1,947	1,579	997	1,140	878	880	989	1,088	1,091	991	12,588
Rice	432	654	1,026	820	661	501	446	430	424	422	423	427	6,234
Upland Cotton	781	127	60	125	58	84	90	74	67	61	63	64	874
Soybeans	323	1,113	557	883	612	448	363	371	402	419	400	419	5,987
Peanuts	313	635	589	267	538	557	573	581	581	569	552	518	5,960
Tobacco	0	0	0	0	0	0	0	0	0	0	0	0	0
Sugar	0	0	1	2	2	4	6	11	13	18	21	29	107
Dairy	-11	-27	23	51	118	104	90	85	106	82	99	108	839
Individual ARC	29	25	26	26	22	18	17	18	18	18	19	19	199
Other Commodities	179	165	205	216	200	194	189	189	188	188	181	184	2,099
Subtotal	6,531	8,210	7,911	6,159	4,782	5,787	4,528	4,610	4,932	5,378	5,378	4,997	62,674
Disaster Payments	539	374	348	318	322	326	324	320	315	318	319	331	3,615
Export ^c	391	334	342	311	303	300	300	300	300	300	300	300	3,390
Other Noncommodity ^d	426	278	288	265	239	212	212	212	210	210	210	210	2,546
Net Interest ^e	60	83	108	116	101	76	78	82	74	77	82	85	961
Announced Sequestration	-513	-639	-519	-720	-904	0	0	0	0	0	0	0	-2,782
Subtotal	903	430	567	289	61	914	914	914	899	905	911	926	7,730
Total Outlays	7,434	8,640	8,478	6,449	4,843	6,701	5,442	5,523	5,832	6,283	6,289	5,923	70,404

How are the Costs of a New Farm Bill Determined? The CBO Cost Estimate (or “score”).

- The CBO score is calculated as the **CHANGE IN COSTS** relative to the CBO baseline (which assumes that current law continues into the future) caused by changes in proposed legislation.
- So 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).”
- The CBO score does not represent the TOTAL COST !
- Using the baseline as the benchmark, CBO analysts estimate whether proposed legislation would increase, decrease, or have no effect on the federal deficit (or surplus) over the next 10 years if the proposed legislation were enacted.

Comments on the “Score”

- Multi-year and, at times, variable costs are fully paid for at the time a bill is passed based on CBO estimates.
- If actual costs come in higher than estimated at passage, no more funding is needed.
- If actual costs come in lower than estimated at passage, the “extra money” can’t be spent elsewhere.
- Only changes in costs that occur within a 10-year scoring window (currently FY18-FY27) are included in a score.

Part of the CBO Cost Estimate (or Score) for the 2014 Farm Bill

TABLE 4. DETAILED EFFECTS ON DIRECT SPENDING OF THE CONFERENCE AGREEMENT ON H.R. 2642, THE AGRICULTURAL ACT OF 2014, AS REPORTED ON JANUARY 27, 2014

(Millions of dollars, by fiscal year)

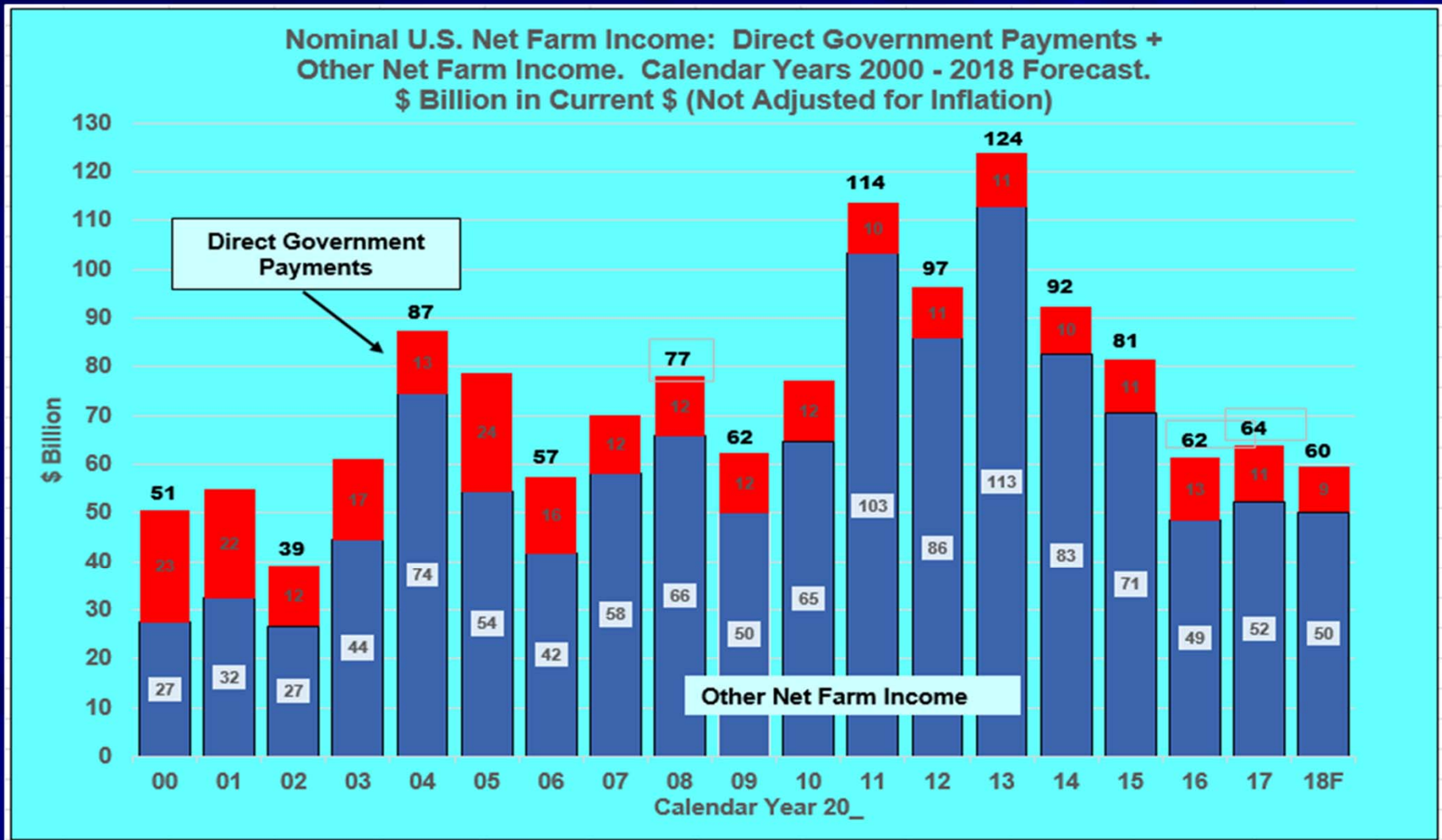
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014-2018	2014-2023
CHANGES IN DIRECT SPENDING OUTLAYS												
Title I - Commodity Programs												
Repeal Direct Payments	0	-4,538	-4,538	-4,538	-4,538	-4,538	-4,538	-4,538	-4,538	-4,538	-18,153	-40,845
Repeal Countercyclical Payments	0	0	-117	-182	-190	-215	-217	-207	-197	-194	-489	-1,519
Repeal Average Crop Revenue Election Payments	0	0	-1,336	-696	-462	-424	-413	-454	-429	-505	-2,494	-4,718
Price Loss Coverage	0	0	1,652	1,755	1,708	1,633	1,622	1,585	1,589	1,580	5,115	13,124
Agriculture Risk Coverage	0	0	2,115	2,327	2,086	1,628	1,396	1,557	1,416	1,583	6,528	14,108
Transition Payments for Producers of Upland Cotton	0	556	2	0	0	0	0	0	0	0	558	558
Nonrecourse Marketing Assistance Loans	0	6	7	5	5	4	4	6	6	5	23	48
Sugar Program	0	0	0	0	0	0	0	0	0	0	0	0
Dairy Program	81	-51	59	23	130	83	175	143	142	130	241	912
Supplemental Agriculture Disaster Assistance	897	364	314	296	295	297	300	302	303	306	2,166	3,674
Implementation	95	15	10	0	0	0	0	0	0	0	120	120
Loan Implementation	0	5	6	15	28	30	36	36	37	37	54	230
Subtotal, Title I	1,073	-3,644	-1,826	-997	-939	-1,502	-1,636	-1,570	-1,671	-1,596	-6,332	-14,307
Title II - Conservation												
Conservation Reserve Program	22	34	-187	-350	-392	-462	-451	-468	-502	-565	-873	-3,321
Conservation Stewardship Program	-8	-58	-100	-149	-197	-253	-303	-352	-401	-451	-512	-2,272
Environmental Quality Incentives Program	0	-5	2	10	37	62	76	91	107	117	44	497
Agricultural Conservation Easement Program	20	131	229	270	202	117	81	67	57	57	852	1,231
Regional Conservation Partnership Program	-1	-3	-3	-3	-3	-3	-3	-3	-3	-3	-13	-28
Other Conservation Programs	199	102	85	47	16	1	1	1	1	1	449	454
Funding and Administration	12	12	12	10	9	5	2	2	2	2	55	68
Repeal of Wildlife Habitat Incentives Program	-17	-35	-44	-53	-61	-70	-79	-79	-79	-79	-210	-596
Subtotal, Title II	227	178	-6	-218	-389	-603	-676	-741	-818	-921	-208	-3,967

Both Farm-Level and Macro Economic and Farm-Level Concerns Affect Farm Bill Funding

Examples:

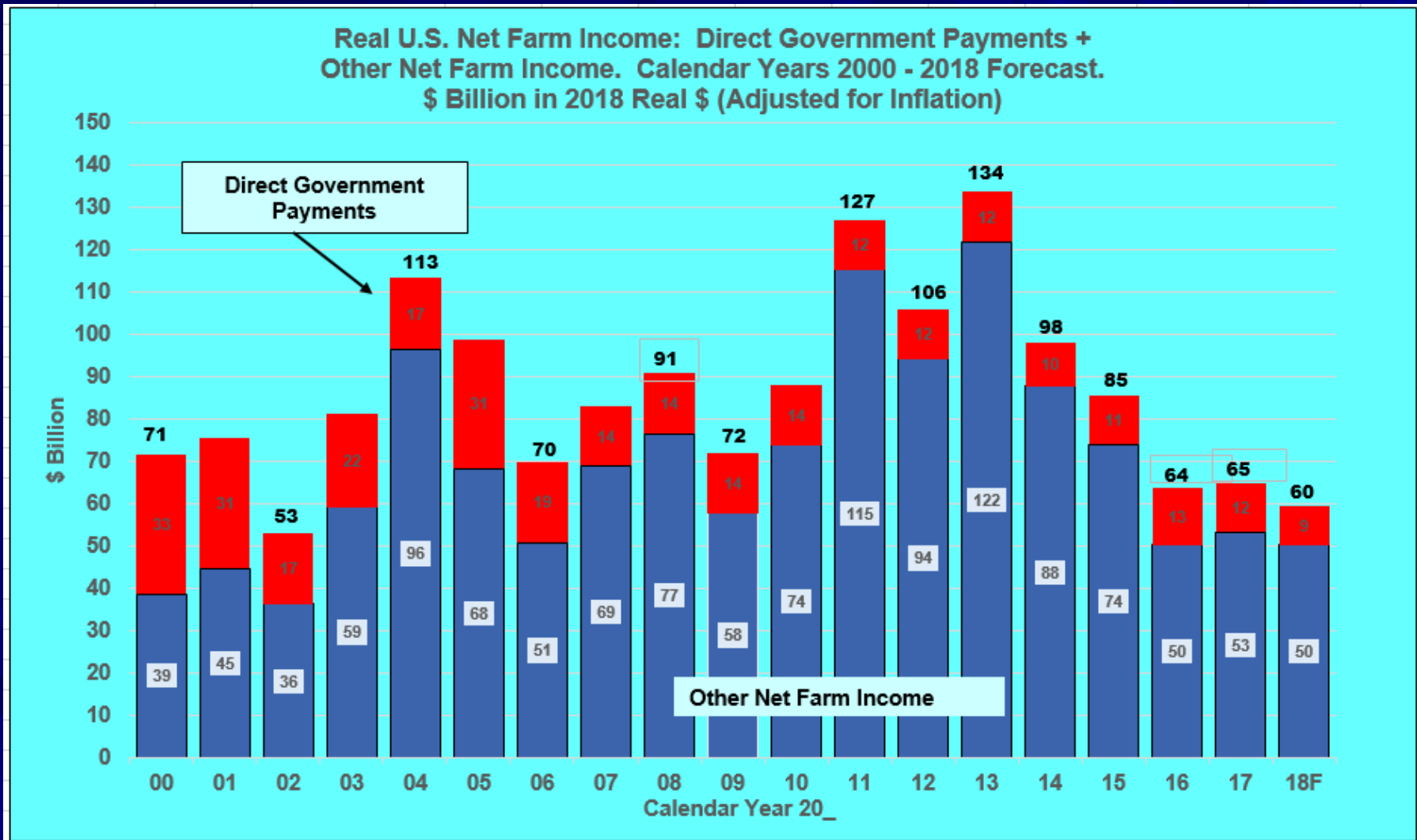
- Farm-Level: Continuing Low Returns from Farming
- Macro Economic: Continuing Annual Federal Deficits and Increasing Federal Debt

Nominal U.S. Net Farm Income Has Declined by 50% Since Its Record High Level in Calendar Year 2013 When the 2014 Farm Bill was being Finalized



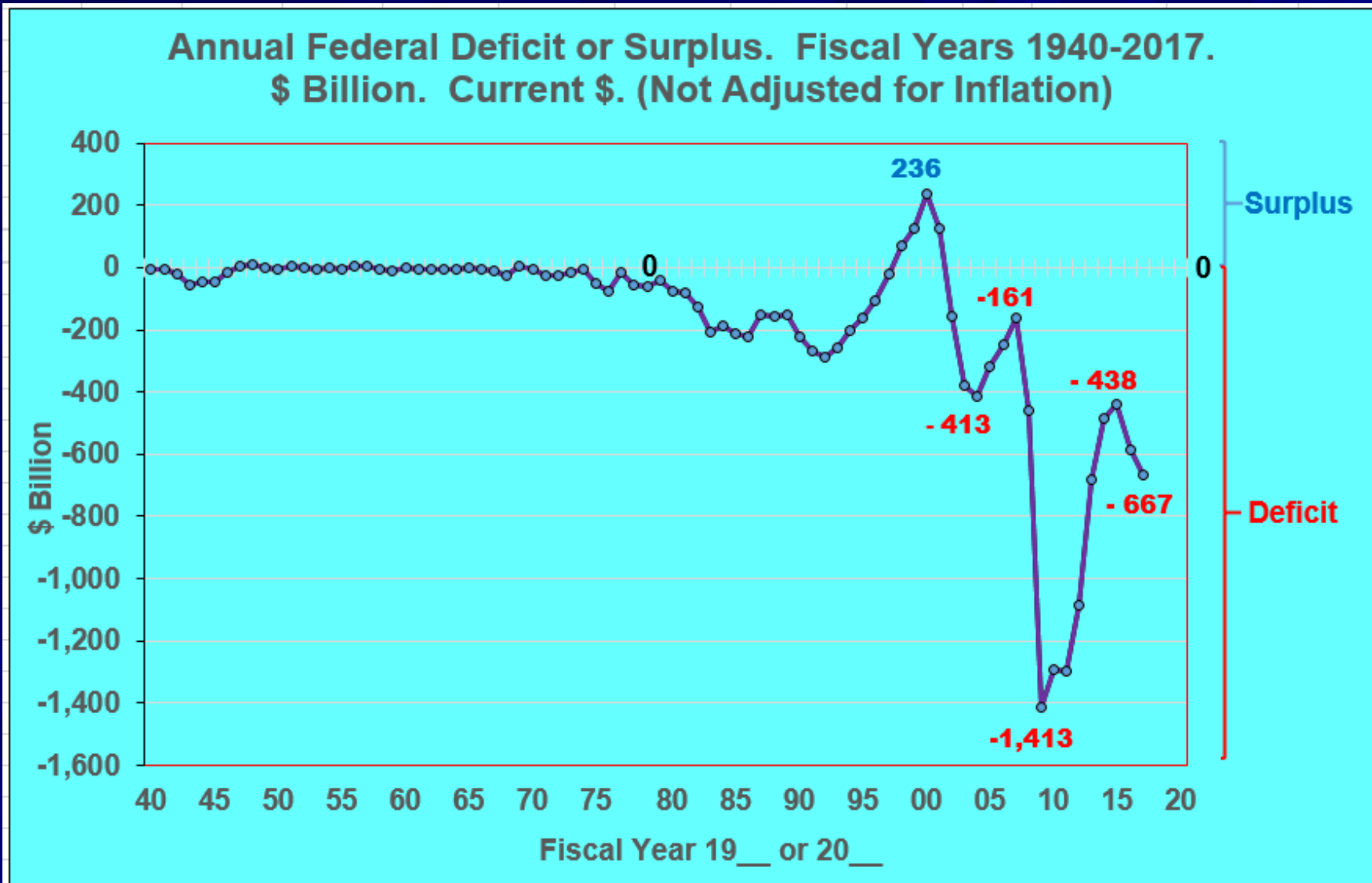
Note: Crop Insurance Subsidies are not included in Direct Government Payments.

When Adjusted for Inflation, Forecast Net Farm Income for Calendar Year 2018 is the Second Lowest since 1986. Government Payments are the Lowest since 1983.

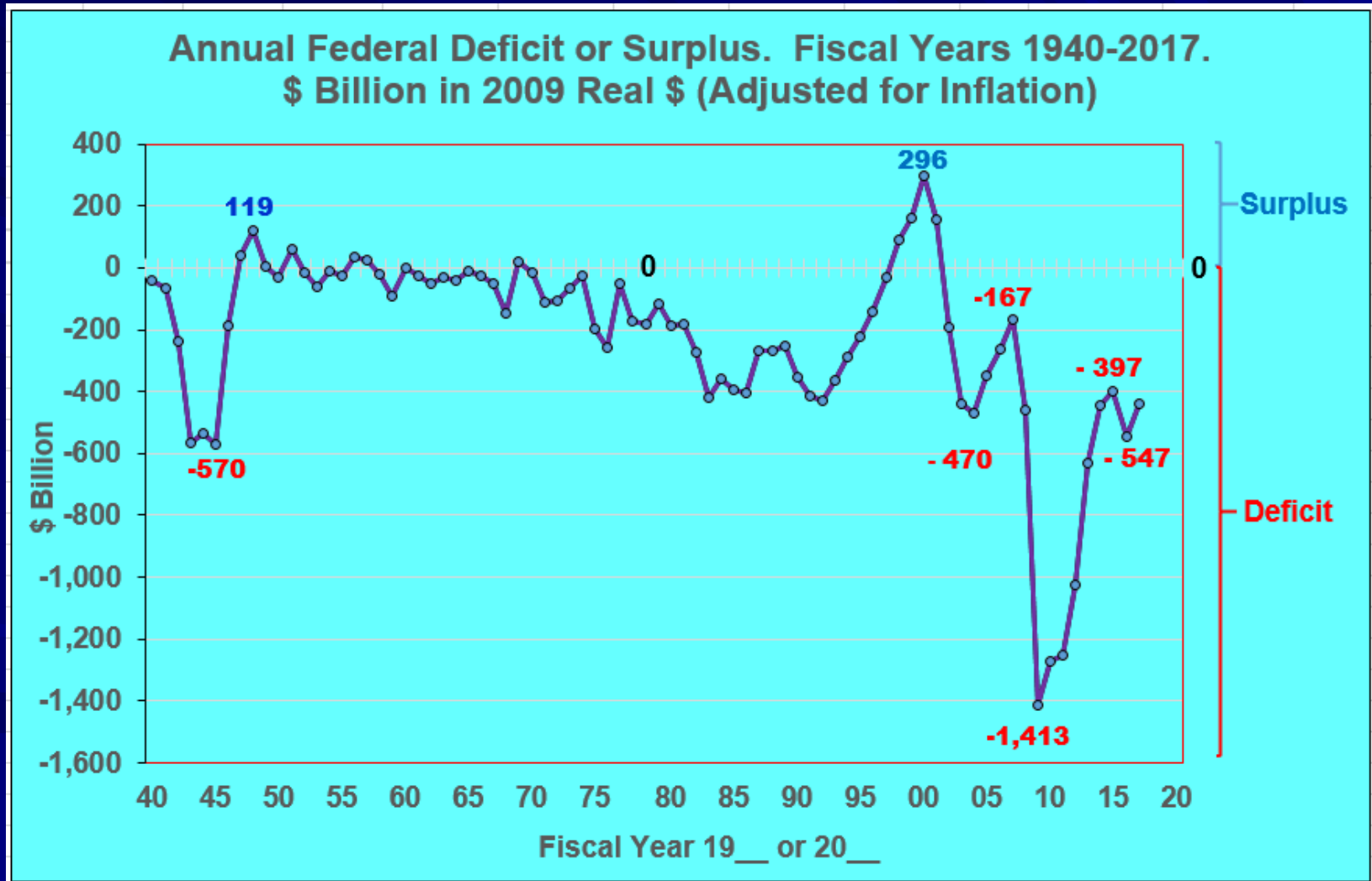


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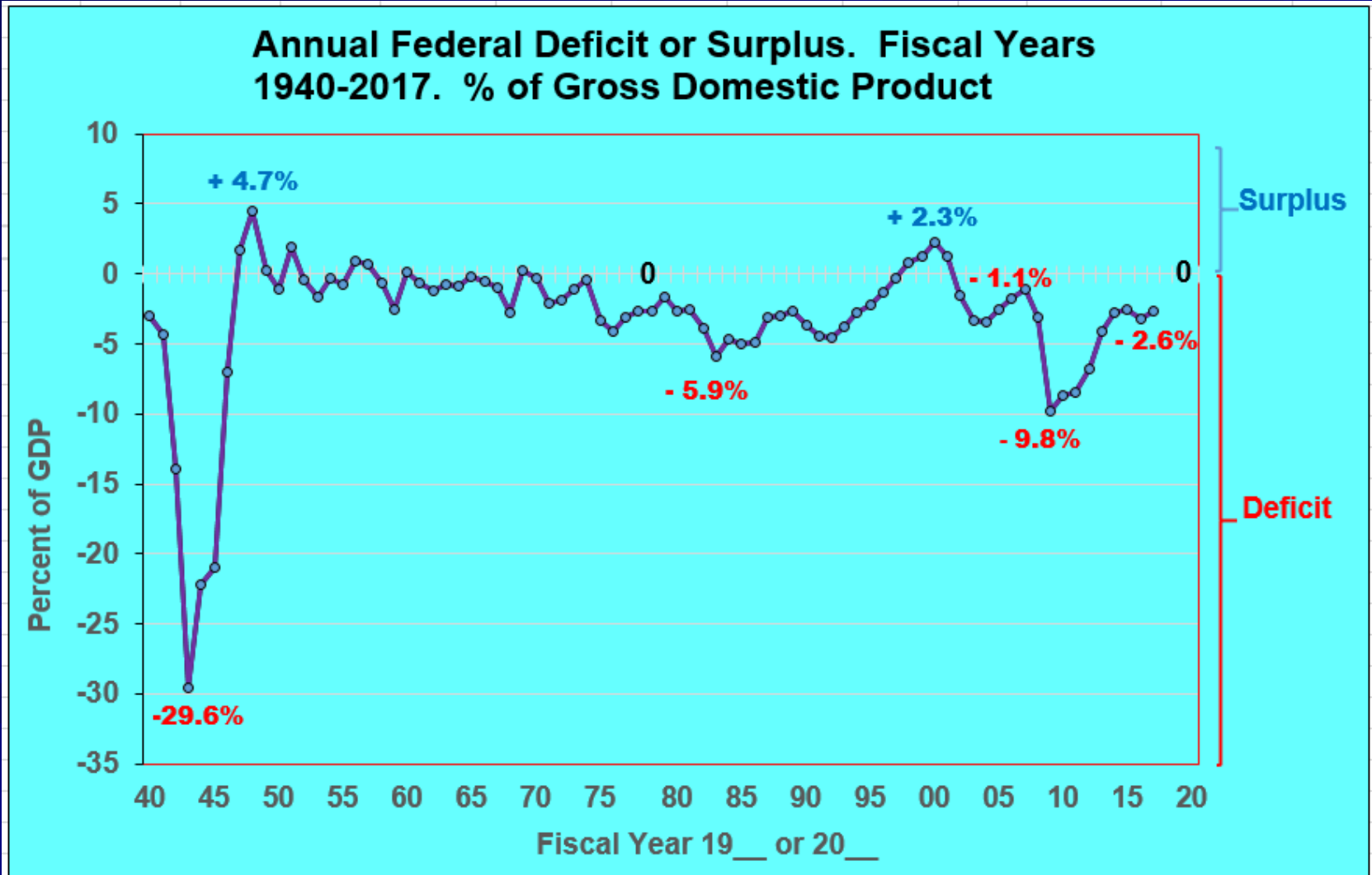
Since 1940, the Annual Federal Budget has been in Surplus only 8 times: 1947, 1948, 1949, 1951, 1956, 1957, 1960, 1969, 1998, 1999, 2000, and 2001



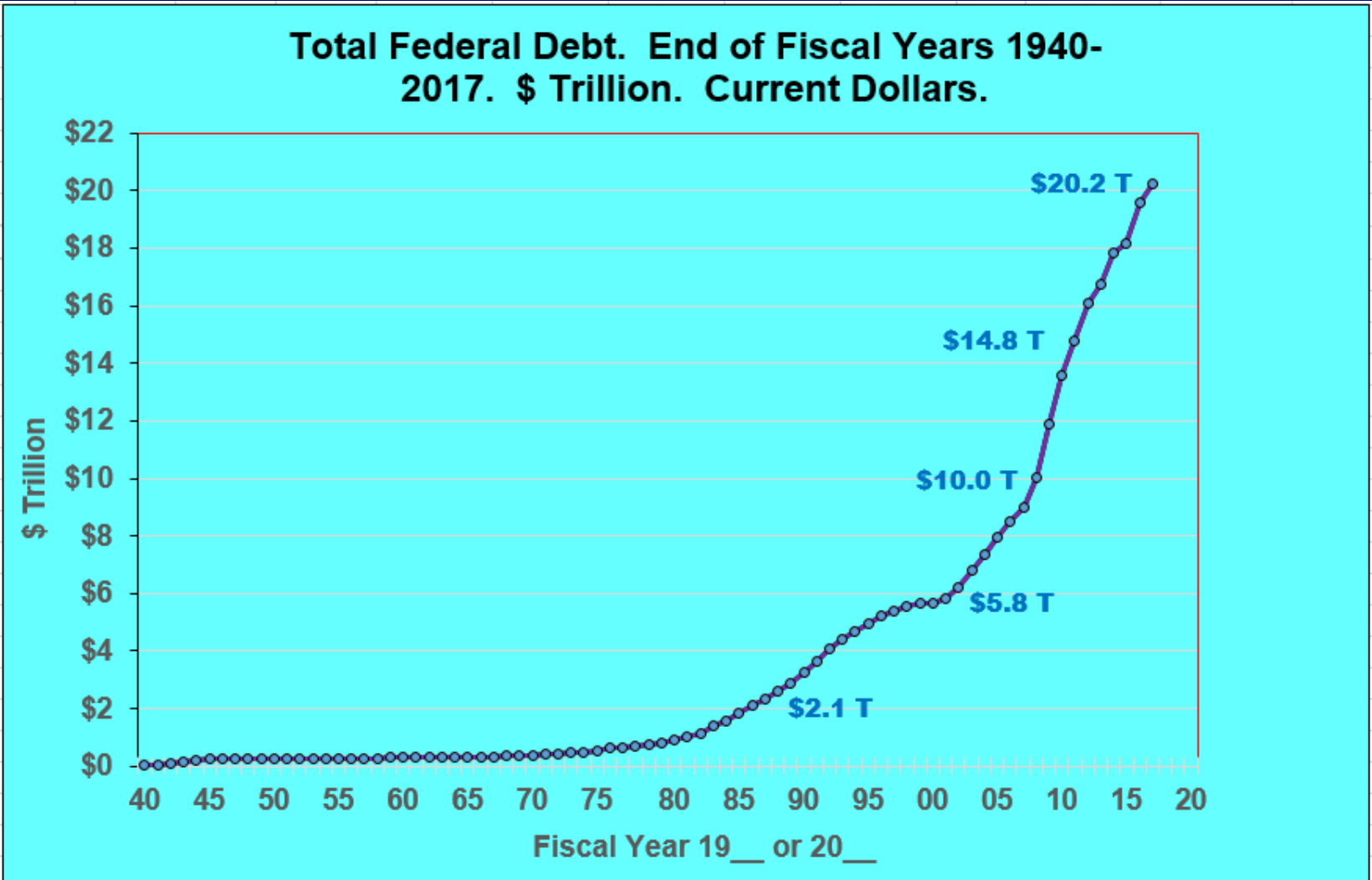
Whether Measured in Current Dollars or Real Dollars, Annual Federal Budget Deficits Far Outnumber Federal Budget Surpluses



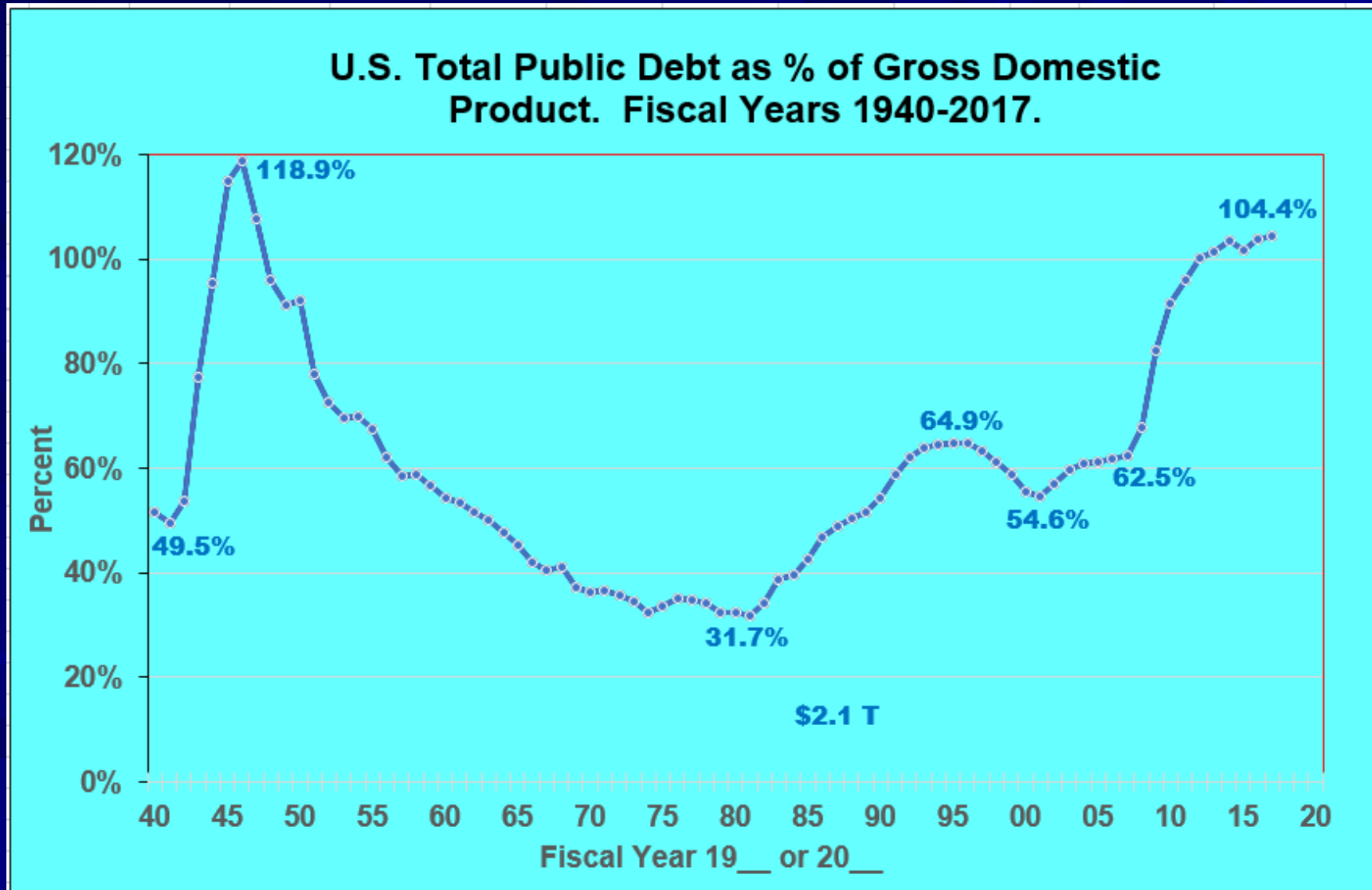
Measuring the deficit as a % of GDP, takes inflation out of the equation



Federal Debt has Increased Substantially in the Last 10 years in \$ Terms



Federal Debt has Increased Substantially in the Last 10 Years as a % of GDP



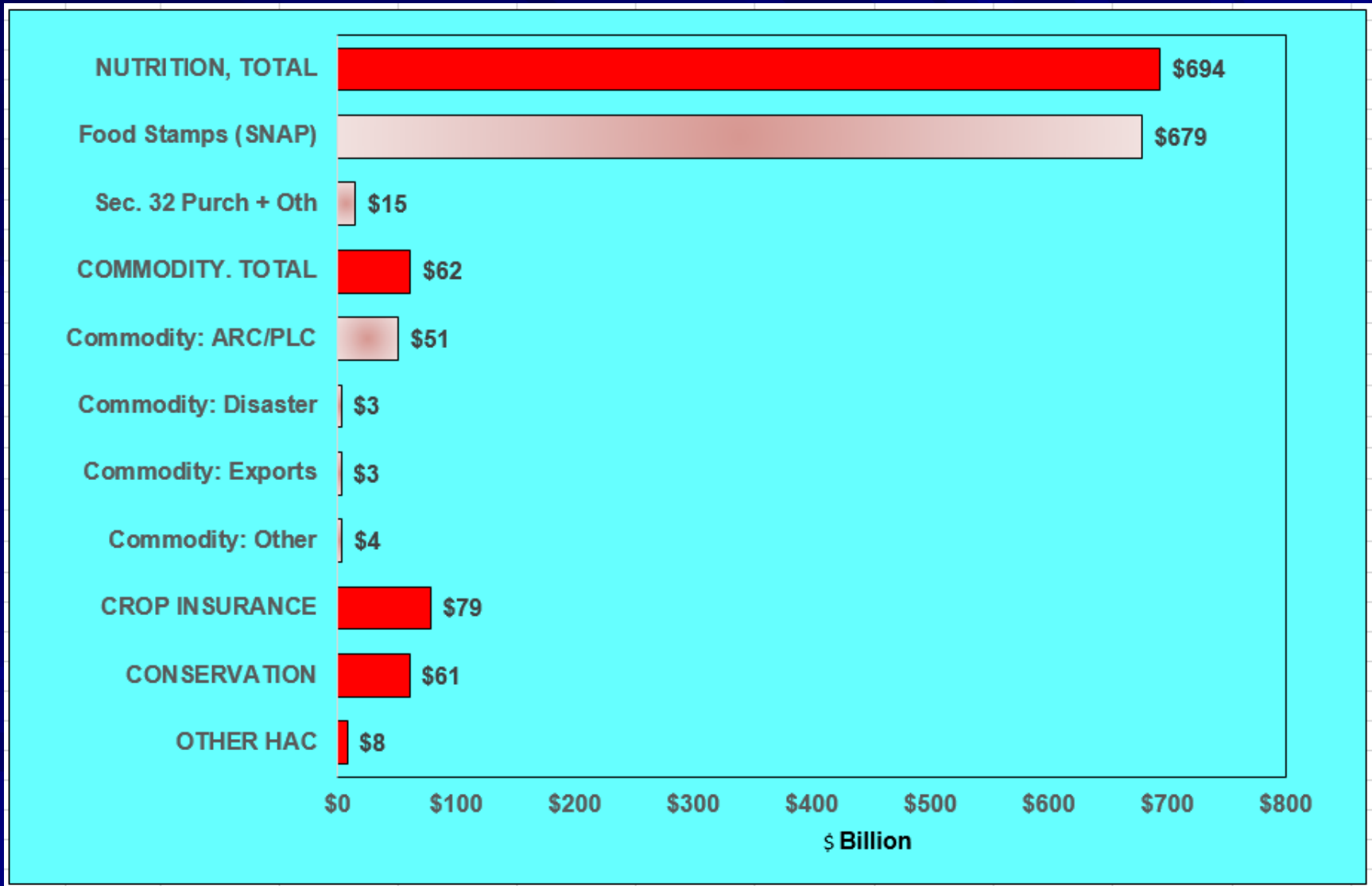
House Ag Committee Jurisdiction

- The House Ag Committee HAS Primary Jurisdiction for the Following:
 - Commodity and Crop Insurance Programs
 - Conservation Programs
 - SNAP (Food Stamps) and selected other Nutrition programs (see below)
 - Agricultural Trade Programs (Shared)
 - Rural Development Programs (Most funds provided through Appropriations)
 - Agricultural Research (Most funds provided through Appropriations)
 - Forestry
 - Horticulture and Organic Programs
 - Selected Energy Programs
 - Commodity Futures and CFTC

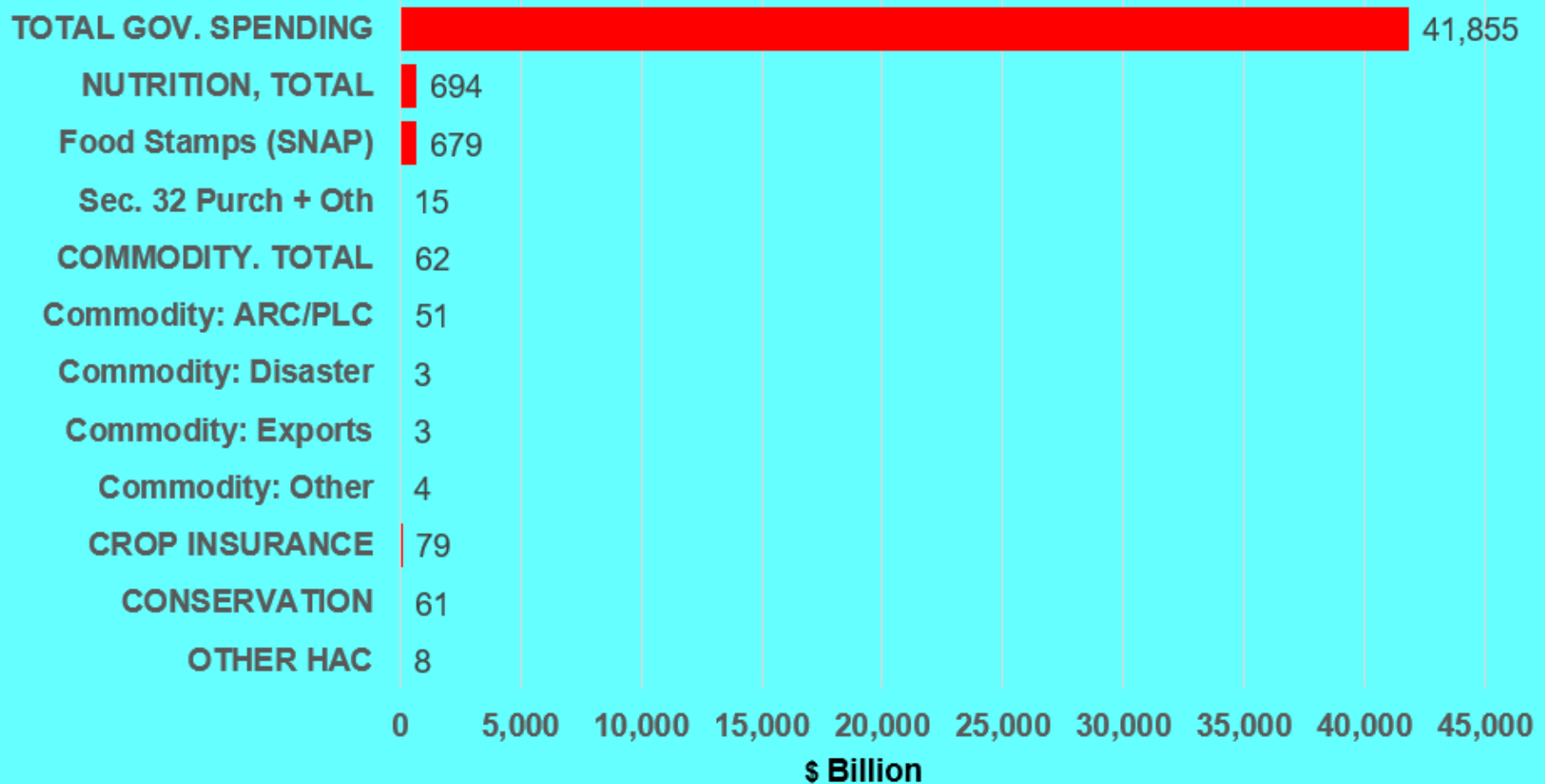
House Ag Committee Jurisdiction

- The House Ag Committee DOES NOT HAVE jurisdiction for the following:
 - School lunch and other child nutrition (Senate Ag has jurisdiction)
 - Rural Housing
 - Immigration
 - Taxes (including ethanol and biodiesel tax credits)
 - Trade Laws
 - Climate Change
 - Environmental Programs

**The House Ag Committee's \$904 Billion Projected
10-Year Budget: \$ Billion by Program.
*Rackup of CBO June 2017 Baseline: FY 2018-27 Budget Auth.***



House Ag Committee Programs are Projected to Cost \$904 Billion over 10 Years.* This is 2.2 % of All Federal Govt. Spending Projected at \$41.9 Trillion During This Time. # Based on CBO June 2017 Baseline: FY 2018-2027 Budget Auth. \$ Bil.



Ag Committee BA is entirely Mandatory BA and is from the CBO June, 2017 Estimates.
 # All Federal Govt. Spending includes Budget & Offbudget Discretionary and Mandatory BA.

Two Fundamental Realities of Funding for the Next Farm Bill

- 1) The CBO Baseline for Agriculture is the Only Certain Source of Funds for the Next Farm Bill**
- 2) The CBO Baseline for Agriculture is Not Enough to Fund All Current Farm Bill Programs**

37 Current Provisions / Programs in the 2014 Farm Bill have no Baseline Funding after 2018

- 7 Energy: FY2014-18 CBO Projected Outlays: \$444 million
% of Total Energy Funding: 71.0%
Biorefinery Assistance, Biomass Crop Assistance, Bioenergy Program for Advanced Biofuels, Biobased Markets, Repowering Assistance, Biomass Research & Development, Biodiesel Fuel Education:
- 7 Nutrition: FY2014-FY2018 CBO Projected Outlays: \$355 million
% of Total Nutrition Funding: 0.1%
Pilot Projects to Reduce Dependency, Food Insecurity Nutrition Incentive, Northern Mariana Islands Pilot, Retail Food Store and Recipient Trafficking, Canned, Frozen, or Dried Fruits, Vegetables, Food Distribution on Indian Reservations, Cash Nutrition Assistance in Puerto Rico
- 5 Conservation: FY2014-FY2018 Projected Outlays: \$455 million
% of Total Conservation Funding: 1.6%
Small Watershed Rehab Program, Terminal Lakes, Voluntary Public Access, Wetlands Mitigation Banking, Grassroots Source Water Protection
- 5 Miscellaneous: FY2014-FY2018 Projected Outlays: \$268 million
% of Total Miscellaneous Funding: 17.3%
Wool Apparel Manufacturers Trust Fund, Pima Cotton Trust Fund, Socially Disadvantaged Veteran Producers, Wool Research & Promotion, Sheep Production & Marketing Grants

37 Current Provisions / Programs in the 2014 Farm Bill have no Baseline Funding after 2018

- 4 Horticulture: FY2014-FY2018 Projected Outlays: \$218 million
% of Total Horticulture Funding: 24.9%
Farmers' Market Promotion, National Organic Certification Cost-Share, Organic Production & Market Data, National Organic Program Upgrade.
- 3 Research: FY2014-18 CBO Projected Outlays: \$400 million
% of Total Research Funding: 50.0%
Foundation for Food and Ag Research, Organic Agriculture Research and Extension, Beginning Farmer, Rancher Development
- 3 Rural Development: FY2014-FY2018 CBO Projected Outlays: \$228 million
% of Total Rural Development Funding: 100.0%
Rural Water and Waste Application, Value-Added Market Development Grants, Rural Microentrepreneur Assistance
- 3 Commodity: FY2014-FY2018 Projected Outlays: \$120 million
% of Total Commodity Funding: 0.5%
Commodity Program Implementation, Crop Insurance Implementation, Index-Based Weather Insurance Pilot

Source: Jim Monke, Farm Bill Programs Without a Budget Baseline Beyond FY2018. Congressional Research Service. R44758. Feb. 7, 2017. Available at <http://nationalaglawcenter.org/wp-content/uploads/assets/crs/R44758.pdf>

The Opportunities for Addressing Funding Shortfalls in a Farm Bill Have Changed

- Most, if not all, timing Shifts have been used
- Budget rules that in the past allowed additional funding to be added to the CBO baseline for scoring purposes have been eliminated.
- Leadership support and ability to take funds from most other committees is likely slim.
- While the appropriators sometimes will add funding for a new program or two in must-pass (eventually) bills, they routinely each year take funding from Farm Bill programs through (CHIMPS)

General Observations

- Not only is there a Federal budget problem but there also are state and local funding problems, tax expenditures, etc.
- Not only is the budget situation tighter than in the past, but so are the budget rules.
- The process for reducing government spending is critically important for who makes the decisions. It matters whether budget reconciliation procedures to reduce funds or ad hoc rules are used.

Ag Observations

- Can not just extend 2014 Farm Bill because of programs / provisions without funding after 2018.
- Issues beyond traditional ag policy issues are increasingly important and not under Ag Committee jurisdiction.
- Arguments that have “protected” agriculture in the past won’t necessarily do so in the future.
- At some point, Ag will be forced to answer the question, “what do we really need?” This is a different question from “what do we want?” or “what do we have but don’t want to give up?”
- The Ag Committees may be lucky if they can maintain current funding.

The Most Critical Question: What Kind of World Are We Leaving to Our Children and Grandchildren?



Contact Information

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Craig Jagger

Before semi-retiring in 2012 after 27 years of government service in Washington, Craig worked for 10 years as Chief Economist and lead budget strategist for the House Committee on Agriculture under two Republican and one Democratic Chairmen, 6 years as a Principal Analyst for Agriculture at the Congressional Budget Office, and 6 years as the Wheat Program Analyst at USDA's Farm Service Agency. He also held early career positions at the Government Accountability Office and USDA's Economic Research Service.

During this time, he helped analyze, write, and/or implement 5 farm bills, 2 crop insurance bills, and 5 budget reconciliation bills. The Agricultural and Applied Economics Association (the national association of agricultural economists) in 2011 awarded Craig its Bruce Gardner Memorial Prize for Applied Policy Analysis. He also received the 2013 Distinguished Alumnus Award from the Department of Agricultural Economics at Kansas State University. For eight years, Craig and his wife, Joy Harwood, co-taught a popular evening class on commodity programs at the USDA Graduate School that was taken by over 200 students including about 50 Hill staff.

Craig was raised on the Kansas family farm that his great-grandparents homesteaded 152 years ago. "Jagger" wheat, the most widely planted wheat variety in Kansas from 1998 through 2005, is named after his late father. He started his formal education at a two-room country school (without indoor plumbing) a mile and a half from the farm. His Bachelors degree in technical theatre and Masters' degree in agricultural economics are from Kansas State University and his Ph.D. in agricultural economics is from Cornell University.

Craig has been married to Joy Harwood for over 30 years. Joy is an Illinois native whose family's farm was established in the 1840s. She and Craig met in the Ph.D. program in Agricultural Economics at Cornell University. Joy is the Chief Economist and Director of Economic and Policy Analysis at USDA's Farm Service Agency. In 2001 and 2005, Joy and Craig adopted two beautiful and talented daughters from China—Margaret Joy Ling, age 17, and Caroline Shu Ni, age 13.

In his semi-retirement, Craig especially enjoys supporting his girls' church and school activities and playing drums in his church's praise band.