Funding the Next Farm Bill

A Presentation by:

Craig Jagger

Farm Foundation Forum on “The Economics of the Next Farm Bill”

Washington, DC
February 13, 2018

craigjagger1@gmail.com
301 775-1012
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

<table>
<thead>
<tr>
<th>CBO’s June 2017 Baseline</th>
<th>June 29, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Program</strong></td>
<td><strong>Actual</strong></td>
</tr>
<tr>
<td>Feed Grains</td>
<td>3,835</td>
</tr>
<tr>
<td>Wheat</td>
<td>650</td>
</tr>
<tr>
<td>Rice</td>
<td>432</td>
</tr>
<tr>
<td>Upland Cotton</td>
<td>781</td>
</tr>
<tr>
<td>Soybeans</td>
<td>323</td>
</tr>
<tr>
<td>Peanuts</td>
<td>313</td>
</tr>
<tr>
<td>Tobacco</td>
<td>0</td>
</tr>
<tr>
<td>Sugar</td>
<td>0</td>
</tr>
<tr>
<td>Dairy</td>
<td>-11</td>
</tr>
<tr>
<td>Individual ARC</td>
<td>29</td>
</tr>
<tr>
<td>Other Commodities</td>
<td>179</td>
</tr>
<tr>
<td>Subtotal</td>
<td>6,531</td>
</tr>
<tr>
<td>Disaster Payments</td>
<td>539</td>
</tr>
<tr>
<td>Export</td>
<td>391</td>
</tr>
<tr>
<td>Other Noncommodity</td>
<td>426</td>
</tr>
<tr>
<td>Net interest</td>
<td>60</td>
</tr>
<tr>
<td>Announced Sequestration</td>
<td>-513</td>
</tr>
<tr>
<td>Subtotal</td>
<td>903</td>
</tr>
<tr>
<td><strong>Total Outlays</strong></td>
<td>7,434</td>
</tr>
</tbody>
</table>
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)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Title I - Commodity Programs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repeal Direct Payments</td>
<td>0</td>
<td>-4,538</td>
<td>-4,538</td>
<td>-4,538</td>
<td>-4,538</td>
<td>-4,538</td>
<td>-4,538</td>
<td>-4,538</td>
<td>-4,538</td>
<td>-4,538</td>
<td>-18,153</td>
<td>-40,845</td>
</tr>
<tr>
<td>Repeal Countercyclical Payments</td>
<td>0</td>
<td>0</td>
<td>-117</td>
<td>-182</td>
<td>-190</td>
<td>-215</td>
<td>-217</td>
<td>-207</td>
<td>-197</td>
<td>-194</td>
<td>-489</td>
<td>-1,519</td>
</tr>
<tr>
<td>Repeal Average Crop Revenue Election Payments</td>
<td>0</td>
<td>0</td>
<td>-1,336</td>
<td>-696</td>
<td>-462</td>
<td>-424</td>
<td>-413</td>
<td>-454</td>
<td>-429</td>
<td>-505</td>
<td>-2,494</td>
<td>-4,718</td>
</tr>
<tr>
<td>Price Loss Coverage</td>
<td>0</td>
<td>0</td>
<td>1,678</td>
<td>1,755</td>
<td>1,708</td>
<td>1,633</td>
<td>1,622</td>
<td>1,585</td>
<td>1,589</td>
<td>1,580</td>
<td>5,115</td>
<td>13,124</td>
</tr>
<tr>
<td>Agriculture Risk Coverage</td>
<td>0</td>
<td>0</td>
<td>2,115</td>
<td>2,227</td>
<td>2,086</td>
<td>1,628</td>
<td>1,396</td>
<td>1,577</td>
<td>1,416</td>
<td>1,583</td>
<td>6,528</td>
<td>14,108</td>
</tr>
<tr>
<td>Transition Payments for Producers of Upland Cotton</td>
<td>0</td>
<td>0</td>
<td>556</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>558</td>
<td>558</td>
</tr>
<tr>
<td>Nonrecourse Marketing Assistance Loans</td>
<td>0</td>
<td>0</td>
<td>6</td>
<td>7</td>
<td>5</td>
<td>5</td>
<td>4</td>
<td>4</td>
<td>6</td>
<td>6</td>
<td>5</td>
<td>23</td>
</tr>
<tr>
<td>Sugar Program</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Dairy Program</td>
<td>81</td>
<td>-51</td>
<td>59</td>
<td>23</td>
<td>130</td>
<td>83</td>
<td>175</td>
<td>143</td>
<td>142</td>
<td>130</td>
<td>241</td>
<td>912</td>
</tr>
<tr>
<td>Supplemental Agriculture Disaster Assistance</td>
<td>897</td>
<td>364</td>
<td>314</td>
<td>296</td>
<td>295</td>
<td>297</td>
<td>300</td>
<td>302</td>
<td>303</td>
<td>306</td>
<td>2,166</td>
<td>3,674</td>
</tr>
<tr>
<td>Implementation</td>
<td>95</td>
<td>15</td>
<td>10</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>120</td>
<td>120</td>
</tr>
<tr>
<td>Loan Implementation</td>
<td>0</td>
<td>5</td>
<td>6</td>
<td>15</td>
<td>28</td>
<td>30</td>
<td>36</td>
<td>36</td>
<td>37</td>
<td>37</td>
<td>54</td>
<td>230</td>
</tr>
<tr>
<td><strong>Subtotal, Title I</strong></td>
<td>1,073</td>
<td>-3,644</td>
<td>-1,826</td>
<td>-997</td>
<td>-939</td>
<td>-1,502</td>
<td>-1,636</td>
<td>-1,570</td>
<td>-1,671</td>
<td>-1,596</td>
<td>-6,332</td>
<td>-14,307</td>
</tr>
<tr>
<td><strong>Title II - Conservation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environmental Quality Incentives Program</td>
<td>0</td>
<td>5</td>
<td>2</td>
<td>10</td>
<td>37</td>
<td>62</td>
<td>76</td>
<td>91</td>
<td>107</td>
<td>117</td>
<td>44</td>
<td>497</td>
</tr>
<tr>
<td>Agricultural Conservation Easement Program</td>
<td>20</td>
<td>131</td>
<td>229</td>
<td>270</td>
<td>202</td>
<td>117</td>
<td>81</td>
<td>67</td>
<td>57</td>
<td>57</td>
<td>852</td>
<td>1,231</td>
</tr>
<tr>
<td>Regional Conservation Partnership Program</td>
<td>0</td>
<td>-3</td>
<td>-3</td>
<td>-3</td>
<td>-3</td>
<td>-3</td>
<td>-3</td>
<td>-3</td>
<td>-3</td>
<td>-3</td>
<td>-8</td>
<td>-28</td>
</tr>
<tr>
<td>Other Conservation Programs</td>
<td>199</td>
<td>102</td>
<td>85</td>
<td>47</td>
<td>16</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>116</td>
<td>449</td>
</tr>
<tr>
<td>Funding and Administration</td>
<td>12</td>
<td>12</td>
<td>12</td>
<td>10</td>
<td>9</td>
<td>5</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>55</td>
<td>68</td>
</tr>
<tr>
<td><strong>Subtotal, Title II</strong></td>
<td>227</td>
<td>178</td>
<td>-6</td>
<td>-218</td>
<td>-389</td>
<td>-603</td>
<td>-676</td>
<td>-741</td>
<td>-818</td>
<td>-921</td>
<td>-208</td>
<td>-3,967</td>
</tr>
</tbody>
</table>
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.

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


- **NUTRITION, TOTAL**: $694
- **Food Stamps (SNAP)**: $679
- **Sec. 32 Purch + Oth**: $15
- **COMMODITY. TOTAL**: $62
- **Commodity: ARC/PLC**: $51
- **Commodity: Disaster**: $3
- **Commodity: Exports**: $3
- **Commodity: Other**: $4
- **CROP INSURANCE**: $79
- **CONSERVATION**: $61
- **OTHER HAC**: $8
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.

<table>
<thead>
<tr>
<th>TOTAL GOV. SPENDING</th>
<th>41,855</th>
</tr>
</thead>
<tbody>
<tr>
<td>NUTRITION, TOTAL</td>
<td>694</td>
</tr>
<tr>
<td>Food Stamps (SNAP)</td>
<td>679</td>
</tr>
<tr>
<td>Sec. 32 Purch + Oth</td>
<td>15</td>
</tr>
<tr>
<td>COMMODITY. TOTAL</td>
<td>62</td>
</tr>
<tr>
<td>Commodity: ARC/PLC</td>
<td>51</td>
</tr>
<tr>
<td>Commodity: Disaster</td>
<td>3</td>
</tr>
<tr>
<td>Commodity: Exports</td>
<td>3</td>
</tr>
<tr>
<td>Commodity: Other</td>
<td>4</td>
</tr>
<tr>
<td>CROP INSURANCE</td>
<td>79</td>
</tr>
<tr>
<td>CONSERVATION</td>
<td>61</td>
</tr>
<tr>
<td>OTHER HAC</td>
<td>8</td>
</tr>
</tbody>
</table>

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%

• **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*

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

Craig Jagger

6450 Offutt Road
Chevy Chase, MD  20815

301 775-1012
craigjagger1@gmail.com
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.