Farm Foundation Forum-
"Budget Implications for the Next Farm Bill"
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Mr. Neil Conklin: Good morning. Welcome to the Farm Foundation Forum for September, the first of this season after a summer off. We'll be having another one in November. And it's a real great thing to see such a fantastic turnout today. It's a good thing we have some slippage because based on our reservations, if we didn't have any slippage, we would have people lined up outside the door with no room to get in.

So there must be a lot of enthusiasm for a topic that I thought was maybe a little arcane and boring. As a past chief of the agriculture branch at OMB, I used to think I knew a little bit about the budget and budget process, as well as about the substance of policy, but process and substance in the world of budget are very difficult to separate, and so that's going to be much of the thrust of our discussion here today, is how what's going on in the budget world may affect what goes on in the next farm bill.

As a part of my welcome, I want to let you all know that – some of you picked up the information out at the table – Farm Foundation is sponsoring next week a symposium on zoonoses. For those of you who don't work in the world of animal science or veterinary medicine or epidemiology, those are the diseases that go back and forth between humans and animals. Some of them are the sort of current headline ones from a year or so ago, like H1N1, and others are old standards like brucellosis. But they are diseases that have a very unique relationship between public health, animal health, and agricultural animal production systems, and as we at Farm Foundation watched what went on during the H1N1 pandemic a year, year and a half ago, we were concerned that there was a lack of good, systematic information about the relationship between production systems and these diseases and their management.

There's a lot of good science out there, but my analogy was like the blind men and the elephant. The epidemiologist had a leg, the veterinarian had the trunk, and the virologist had an ear, and I'm an economist, and economics has something to do with behavior, so we probably had a hold of the tail. But we all collectively had some difficulty seeing the whole set of relationships in the whole system, so we've organized a multidisciplinary international symposium to bring the best people in the business together to try to get a better picture of the relationships between zoonoses and animal production systems.

We think this is important for policymakers and for the public and media as well as for agriculture. We still have a few remaining seats available for that symposium here in Washington at the Hyatt next week, so we're offering a special discount promotion today for those of you who are our loyal forum attendees. The regular registration is 350. If you fill out the form and hand it to Sheldon Jones – Sheldon? He's still at the front desk, I guess. To Sheldon Jones or myself, we will see that you get registered, and then you can either call our office with a credit card number or get a check there and you'll get our special forum attendee rate. Hopefully we've got most of the folks in the room now so I'll introduce today's presenters, and then I will turn it over to them.

First a reminder, and Charlie Stenholm, who will be moderating, will remind you again. We do record these proceedings, and so when it's time for the Q&A and discussion, please be sure to go to the microphone, identify yourself and get your question on the record along with the responses from the panel. Today's presenters.

Craig Jagger. Craig is the chief economist for the U.S. House Committee on Agriculture, a position he's held since February 2001, first working for Republican Chairmen Larry Combest and Bob Goodlatte, and then since January 2007 for Democratic Chairman Collin Peterson. At the Ag Committee and in previous positions at Congressional Budget Office and USDA's Farm Service Agency, Craig has worked on a number of bills, including four farm bills, two crop insurance bills, and four budget reconciliation bills, so he knows a little bit about budget and budget process. Craig will be offering us a Budget 101 perspective, so he'll give us an overview of the budget process and how it relates to agriculture.

Pat Westhoff is a program director for the Food and Agricultural Policy Research Institute and a research associate professor in the Department of Agricultural Economics at the University of Missouri. Prior to joining FAPRI, he served for four years as the chief economist for the Democratic staff of the U.S. Senate Committee on Agriculture, Nutrition and Forestry. From 1983 to 1992 he worked at Iowa State University's Center for Agricultural and Rural Development. Pat is perhaps the only researcher in academia who really understands the budget accounting for agriculture.

Finally, our third presenter and discussant to give us a stakeholder perspective, Ferd Hoefner, is policy director for the National Sustainable Agriculture Coalition, which includes more than 60 grassroots organizations from across the U.S. Ferd has worked on nearly every federal agricultural appropriations bill for the last several decades, so you can see he knows something about the budget process, too. He's also worked on each of the omnibus farm bills from 1977 to 2008. I can't match that record. At NSAC, Ferd has part of such federal agricultural programs as Sustainable Agricultural Research and Education program, the Integrated Farm Management program, and many more, so we'll look forward to hearing from Ferd as well.

And when it comes time for Q&A, Congressman Charlie Stenholm will be leading the Q&A for us and moderating. We only have one discussant after the two budget presenters today, so we're counting on the audience, and looking out there, I don't think we'll have any shortage of different perspectives on the issues that will be put on the floor today. With that, let me turn it over to Craig.

Mr. Craig Jagger: I know there's a presentation here somewhere. Let's see… This is especially embarrassing because I used to be a theatre technician in a previous life. But I did lighting. Thank you very much for the kind introduction, Neil, and I really appreciate the invitation to be here.

I was amused when you talked about always having considered budget issues to be arcane and boring. Of course arcane and boring is what employs most of the people in this room. And so I don't disagree with that characterization, but I also appreciate the merits of having things be that way. I've given scores of presentations on the budget, and I've tried – please give me credit for trying – but I have yet to figure out a way to make it really interesting. But anyway, I've got a number of slides here, some of which I'm going to kind of whip through, some I'm going to skip, and we'll just kind of see how things go here.

Just a reminder of what a farm bill does. First, it authorizes the Ag Committee programs, provides the USDA the authority to operate programs using the provisions specified in the farm bill. For most programs the authority is temporary, often lasting five years, as with the most recent 2008 Farm Bill. Authorizations and budgeting may be on a fiscal year basis or they may be on a crop basis here.

The second thing a farm bill does, it funds the Ag Committee's mandatory programs. The Ag Committee fully pays for all the farm bill's multiyear costs at the time the farm bill is passed. That's based on CBO estimates. And I know everyone here knows that CBO stands for Congressional Budget Office, and you're going to be hearing those three initials in sequence a lot today. I was over one time at the CBO building and there was a news crew coming through, and one person said, "CBO, what does that stand for? Congressional Budget Agency?" And anyway.

Also what a farm bill does, it authorizes appropriation funds for Ag Appropriation Committee programs. In legislation, why, will put together program provisions, will authorize funding levels, and the appropriations committee can do what they want. They can fund the program or not, they can modify it, whatever. They can even – as we all know, they can put together programs that have never been authorized and run those, but… And of course on appropriations, why, their funding needs to be renewed every year, where of course on the farm bill, as I mentioned, the funding is multiyear.

And finally, I think a thing that's important to remember is that we have a guarantee that we will get a farm bill. That guarantee is the permanent law provisions, the Agricultural Act of 1949, which includes acreage allotments for commodity programs, it includes acreage allotments, marketing quotas based on 1950s farm level production, parity based donates. And if we didn't get a farm bill, why, temporarily suspending the permanent law provisions and inserting whatever 2008 Farm Bill provisions, whatever, why then we'd revert to the permanent law, and no one wants that to happen.

When I was studying ag policy as an ag economist, I never once heard the word "jurisdiction" in any of the classes I took. And it wasn't until I really started working on the Hill that I realized jurisdiction is very, very important as many, if not most of you know here. So basically the committee jurisdiction – I took this from a Senate definition – subjects and functions assigned to a committee by rule, resolution, precedent, practice, including legislative matters, oversight and investigations. And I apologize. I just didn't take the time to translate that into House language, which would be much simpler and straightforward here.

So anyway, on jurisdiction, the bottom line, just because it's in the farm bill doesn't mean that the ag committees have jurisdiction. If you want to change a provision, it has to go through the committee with jurisdiction, and generally the committee with jurisdiction controls the budget for that issue. So looking at House Ag Committee jurisdiction, the committee has primary jurisdiction for commodity and crop insurance programs, conservation, SNAP or food stamps, selected other nutrition programs, ag trade programs – shared with another committee – rural development programs, ag research – most of which is funded through appropriations – forestry, horticultural and organic programs, selected energy programs, commodity futures and CFTC.

The committee doesn't have jurisdiction for school lunch and other child nutrition. The Senate Ag does have jurisdiction, but in the House it's Ed & Labor. It doesn't have jurisdiction for immigration, for taxes, including ethanol and biodiesel tax credits, trade laws, climate change or environmental programs. Now, even if you don't have jurisdiction, if you have votes that other committees with jurisdiction need, such as happened in the climate change bill, why you can still have influence. We spent about a month working with Energy & Commerce, what was this, two summers ago, and it was like doing another farm bill, but working with people who don't understand each other, so that makes it even worse.

Just quickly, two types of funding in the federal budget. Discretionary funds controlled by the Appropriations Committee. Costs are paid for one year at a time in annual appropriations bills. Appropriations bills, as we all know, are must pass bills. And it looks like we're heading for a continuing resolution at the end of the month that will fund the programs until after the election.

And then the type of funding that we're concerned with here for the Ag Committee is mandatory funding, also known as direct spending. This is controlled by authorizing committees such as the House Ag Committee. As I said, multiyear costs are fully paid for at the time a bill is passed, based on CBO estimates. And anyone who does forecasting or estimating knows that you're always wrong. The only real question is you don't know, you can't predict where you're wrong in advance, or usually you can't.

So if the actual costs come in higher than estimated when the farm bill is passed, the Ag Committee doesn't need to find more funding. If the actual costs come in lower than expected, ag committees don't get to spend the extra money elsewhere, even though you'll hear a number of members argue this at various times, that, well, commodity programs didn't spend as much as was projected, so we ought to be able to move that over here and use that. But it's got to be two sided here.

I'm just going to point out a committee's budget consists of two related funding pools, budget authority and outlays. Budget authority is like when you sign the contract for goods or services. Outlays is when you write the check for delivered goods or completed services. Outlays may stretch over a number of years. Outlays are important in various aspects here in terms of determining compliance with PAYGO, which we'll talk more about later, or reconciliation, and also in helping determine if a program has a baseline for the next farm bill. For some programs, such as commodity programs or CRP, CBO has long made the assumption that budget authority equals outlay, simplifying assumption.

I'm going to do some comparisons in this presentation. I'm basing these comparisons – I've got a bunch of charts and stuff here that we'll kind of whip through here – on the original CBO March 2010 baseline. That's the scoring baseline that CBO is currently using. It will be the scoring baseline generally until the CBO March 2011 baseline comes through. So the numbers you see here on the screen, why those will be different numbers by the time we get to next year's…I misspoke. I said next year's farm bill. What I've been saying is the next farm bill. Who knows when it's going to be? Also CBO will adjust this March 2010 baseline for enacted legislation. The changes cause significant administrative actions like the SRA, for crop insurance.

I see a lot of expertise in this room. I do have about 20 handouts here that can be passed along. Neil has them there. If anyone hasn't seen a baseline or hasn't seen a cost estimate, I've got three pages here. The first two pages is CBO baseline for the Commodity Credit Corporation. It only shows outlays because they assume budget authority equals outlays. That's for March 2010. And then the third page of this handout is just the first page of the 2008 Farm Bill final cost estimate or score back up there. And so this is from the perspective of outlays. So if something in the estimate shows positive, that means it's spending, if something shows negative, it means it's a revenue or a savings of some kind.

I'd like to talk a little bit about the current financial condition of the federal budget. I probably don't need to have all these charts. We all know that it's really, really bad. And pardon me for being somewhat impolite, but we all know that when it comes to the budget stuff and programs and stuff, we're all screwed here on this. But anyway, let me whip through some of these.

A few key budget terms. Annual deficit during a fiscal year, federal spending is greater than federal receipts. Federal debt is just cumulative funds borrowed to cover current and prior year deficits, less any debt reduction from annual surpluses. Those are key budget terms. A non-key budget term is annual surplus. Not going to happen before I retire, probably not in my lifetime. But anyway, we did see several years, back in the early 2000s, where we actually had two or three years of surpluses. Bottom line, an annual deficit increases the federal debt, annual surplus reduces it.

So one of the key questions is how big a financial mess are we creating for our children and grandchildren? Just looking – again this is operating off the original CBO March 2010 baseline. There's been an August update. It's not a scoring baseline. Probably not significantly different here. So FY2010 was projected at $1.4 trillion, the second largest nominal dollar deficit. If we look at that in terms of percent of GDP, projected second largest percent of GDP since World War II.

And when I was working for the Republicans on the committee, and it was during the Bush Administration, why, the Republican numbers were percent of GDP, the Democratic numbers criticizing the administration were nominal dollar deficits. And that reverses from time to time, depending on who's in office here. I've used OMB projections here for total federal debt, partly because the CBO baseline has to reflect current law, and so when you have things like expiring tax cuts, why CBO has to assume, in their baseline, that those tax cuts actually expire, so you get to some kind of strange situations where you have policy things that you're fairly confident are going to happen, but they can't be reflected in the baseline.

So this is OMB's President's budget looking at total federal debt. I used total federal debt because we know that the Social Security Trust Funds consist of IOUs that are going to have to be paid for some way, either by increased taxes, whatever. So anyway, looking at getting, in nominal dollars, not unexpected to historical levels, but I think even more important than the dollar amounts is the trend lines here, which are not good. Percent of GDP, OMB projections was that it would be over 100% of GDP in terms of the federal debt by the time we got to fiscal year 2015.

I'd like to talk a little bit about CBO's Ag Committee baseline and cost estimates here. CBO's baselines and cost estimates are the only ones that count on the Hill. FAPRI does good work, does baselines. Don't count. OMB does good work and USDA does good work. They don't count in the legislative process. It's just CBO's estimates that count. And this cartoon from *The New Yorker* came out when I was working at CBO, and I never thought I'd be working someplace that made it into *The New Yorker*, so I was really proud when that happened.

A little background on the Congressional Budget Office. One of three congressional support agencies. The other two are the Congressional Research Service and the Government Accountability Office. I see people here from all three agencies. About 70 of CBO's 220 employees are analysts in the Budget Analysis Division, so you have 70 people basically setting the baseline budgets and doing the cost estimates for all the legislation that comes through. Now, obviously they're talking to other people and get good help from various people. FAPRI is terrific help to me now in my current job and was a terrific help before. Good people at USDA, Ag & Food Policy Center at Texas A&M, a variety of places. Good extension people at the land grants, whatever. But when it comes to the point where you have to put one number down that represents what the impact is, it's the 70 people there at CBO doing it.

Analysts at CBO have two major responsibilities – doing baselines, developing three times a year ten-year baseline projections for the cost of government programs if current laws were to continue unchanged. And their other major responsibility is cost estimates, also known as scoring. So using the baseline as a benchmark, which reflects current policy, estimate whether proposed legislation would increase, decrease, or have no effect on the federal deficit or surplus over the next ten years if the legislation were enacted. These are really difficult jobs.

I'd like to talk a little bit about the CBO baseline, what is it. I kind of tend to think of the CBO baseline as the Ag Committee's major source of funding for new legislation, such as the next farm bill. As I mentioned, it's a ten year projection of future program costs under the assumption that most laws continue indefinitely. It's used as the benchmark for scoring, estimating the costs of proposed legislation. Generally, if CBO scores a provision as increasing costs, a budget offset must be found. We're going to talk about PAYGO a little bit later on. And an offset is an equivalent cost reduction in another program or an increase in revenues here.

So not only the costs, but also the impact on the baseline is a very important consideration. When we're doing legislation, why, one of the things that my colleagues and I are always looking at is not only how is it affecting the years that a farm bill is authorized, but how is it affecting the baseline. And a lot of people say that the 1996 Farm Bill was intended to really phase out agricultural subsidies, but Dave and I remember the calls we got from the Ag Committee wanting to make sure that those direct, or those AMTA payments had a baseline so there were funds to continue them in the next farm bill.

Why the baseline matters. If an existing program has a baseline, there is no cost – in other words, you don't need an offset – to continue the program in the next farm bill, as long as its provisions and funding levels haven't changed. The baseline reflects current law. So if you just continue current law, why, there shouldn't be any costs associated to that. But if an existing program doesn't have a baseline – and I'm going to talk later about a number of programs that don't – there's a cost to continue the program and you need to find an offset from somewhere. If you want to initiate a new program, there's also a cost and you need an offset.

And in years past it's been different. I'll talk a little bit about that. But generally, this year the only real obvious source of offsets is robbing Peter to pay Paul. Now, there are other things you can do. Over the years we've had various budget gimmicks which gradually have been closed down over time that have also helped. But this is…I'm guessing if this farm bill tries to do a whole lot different from what the 2008 Farm Bill is, why, I'm guessing this is probably going to be the worst farm bill from a budget perspective that we've seen in quite a while.

Baselines do change over time. I've got a March '07 farm bill baseline and a March '09 baseline. And looking at just the different areas, you can see the total down here changed by $248 billion. This represents ten year estimates. But the distribution was very different. Food stamps were up significantly, crop insurance was up, in percentage terms, quite significantly. Commodities didn't change at all. But baselines do change over time. So if you don't like this year's baseline, maybe you'll like next year's baseline better. Who knows.

CBO baseline covers all federal government spending. CBO analysts incorporate current and projected market conditions, economic trends, USDA implementation decisions. Market conditions change. Baseline levels change, too. And of the three baselines for each year, January, March and September, or December, March and August, depending. The March baseline is the scoring and continues to be that for the year.

Here is the farm bill. Has ag law in it. I don't know how many of you know that there is significant budget law, too. A bit thinner. But this a compilation of statutes for the budget laws here. And so when you're looking at doing baselines, you have to comply with certain conditions. If you're setting budget law, you also have conventions and other things. It's not easy to do, and when I got away from having to do a baseline three times a year, even though I missed my colleagues, I didn't miss doing baselines. It's a big exercise here.

One of the things is what's called the $50 million rule. Basically it says a program in its last year of authorization – because we're doing ten year baselines.

This farm bill, for example, is going five years. Last year's authorization, to get a baseline, it needs to have $50 million in that year, and the funding has to be available on the last day of authorization. So when you're looking at legislation and deciding whether you want a baseline or not, there are cases where you don't want a baseline. There are tradeoffs here.

Your baseline provides the funding to reauthorize a program when its current authorization ends. It provides the funding to continue that program in the next farm bill. But even though it may be a five year farm bill, you've got to pay for all ten years of the scoring period here, so it's a tradeoff. Do we want to pay now for all ten years and have a baseline or do we want to just let things stop and not have to pay for it in this farm bill, but then find additional funding in the next one?

CBO cost estimates. Basically a cost estimate or 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. Remember the score shows a change in spending, not total spending. A number of years ago, why, I got a call from a very distinguished ag economist who had a very good career, and picked up the phone and he said, "You know, CBO on this certain program provision, they really screwed this up. They always screw this up. You screwed things up when you were at CBO. I just don't understand it." And so we chatted a little bit, and all of a sudden it became very clear to me, and a few seconds later, to him, that he had forgotten that the score is the difference, and not the total spending. So anyway.

While CBO does all these estimates, technically the budget committees are the official scorekeepers. They can override a CBO cost estimate. I can count probably on a couple fingers the times I've known that to happen. CBO only scores savings from legislative changes. For example, if market conditions change, as I mentioned before, you can't use those as savings. I think that's enough here.

I mentioned before the main source of funding for the next farm bill is probably going to be taking it from other programs. Of course that can cause some problems. Some of the problems…well, some of the things that happen are that when you're having to cut other programs, it may make policy proposals that save money much more attractive than they otherwise would be. There are a number of different positions on payment limitations in this room, I know, but I've always thought there are some people who think there should be tight payment limitations, some people who think there should be no payment limitations, and some people who think if it saves us some money that we can use elsewhere, I'm all for payment limitations, but I otherwise don't care here.

Sometimes policies are designed to capture quirks in baselines or estimating assumptions, but basically the cost tradeoffs and saving opportunities are really heavily dependent on CBO baselines and scoring. And reductions in the costs of price dependent commodity programs have reduced the funds somewhat to [tie] for offsets, and I've got some charts here to show that in a minute or two. In 1996 CBO introduced probability scoring stochastic analysis. And I'm not going to go into details, but that reduced the number of policy proposals that rely on budget gimmicks.

Why has meeting farm bill funding needs become more difficult? One of the main reasons – there are a variety of reasons, but to me one of the main reasons is when House PAYGO rules came into effect when the Democrats took back the majority in 2007, why, part of those provisions said that you had to score against the CBO baseline, and you could not increase…you could not add extra funds in the budget resolution to the baseline to help you get a farm bill passed.

So everything is now scored from an unmodified CBO baseline. In the 2002 Farm Bill we had $73 and a half billion over ten years added to the CBO baseline for scoring purposes. So there was a CBO baseline, then over ten years there was another $73 and a half billion. That's a big chunk of money to work with, and a lot of things happened in the farm bill because of that. Two Thousand and Two Crop Insurance Reform Bill, $8.2 billion over five years was added to the CBO baseline for scoring purposes.

So now I'd like to just kind of put this CBO March baseline into perspective. There have been a few adjustments since it was released for legislation and administrative actions, but basically all the spending, both mandatory and discretionary funding, CBO projected for the federal government over ten years was $42.9 trillion. The House Ag Committee total was $924 billion, of which nutrition was about 75%. Crop insurance was about $83 billion. Conservation was ahead of commodity programs. That's just happened recently. And others were smaller amounts. In percentage terms, other federal government is about 98% and the programs under House Ag Committee jurisdiction are about 2%, of which nutrition is by far the largest percent there.

Looking at just the House Ag Committee's baseline in isolation, why, there's $924 billion projected over ten years, of which $696 billion is nutrition. Food stamps is 683, and Section 32 is a little bit smaller. Commodity totals are $64 billion over those ten years, of which direct payments are whatever that percentage is, 80%. ACRE is…I couldn't get the program to put that on. It's about, I think, about 3 billion over ten years. Counter-cyclical payments and marketing loan benefits about 7 and other commodity about 5. Crop insurance was at 83 after the SRA renegotiation between responding agency and crop insurance companies. That dropped $6 billion by CBO's scoring, $4 by OMB's scoring. And here are percentages again. Anyway. The Senate Ag Committee has jurisdiction over child nutrition. That adds another $204 billion to their budget, and so 80% of the Senate's ten year budget is for nutrition programs.

Budget reconciliation. Not if, but when. I'd like to talk about a few budget reconciliation basics. Basically budget reconciliation, committees are sharing the pain of reducing the federal deficit by requiring all authorizing committees, including Agriculture, to change their mandatory spending programs to reduce federal spending. Reconciliation doesn't apply to discretionary spending under the appropriations committees, but of course something separately can be done there. You initiate it by including instructions in the budget resolution. And the budget reconciliation instructions tell each committee the dollar amount that the program spending has to be cut by and what length of time that has to be over. The last reconciliation bill that Agriculture was involved in was in 2006, and that was a five year reconciliation bill.

Each authorizing committee determines what cuts will be made. If the authorizing committee says I'm not going to participate, the budget committee says, well, that's fine, but we'll figure out what we're going to cut from your programs and stick it in the bill here. When all the committees have reported their changes, why, they're bundled together in an omnibus bill and it goes to the floor.

Reconciliation is attractive in the Senate, various aspects, because it can't be filibustered. You only need a majority of votes rather than the 60 votes that you need for almost anything that you're trying to do in the Senate these days. Debate is limited to 20 hours, but amendments are not limited, and after the 20 hours, why, they go in to vote what they call votorama, which sometimes can last a week, where people bring an amendment to the floor, it's ten minutes debate, and vote on it up or down. At that point the Senate is even more efficient than the House in terms of getting legislation going.

One thing that makes reconciliation problematic, if you're trying to do policy changes, is the Byrd Rule that says everything has to be budget related. We had budget reconciliation for Agriculture in 2006, in '95, '93, '90, '89, '87. If we look at annual reconciliation instructions in terms of cuts that went back to 1990, they varied from 74 million to 6.9 billion. That's annual. The annual average was 1.9 billion. We did the 1990, 1995, '96 farm bills in tandem with budget reconciliation. And, you know, given the budget problems, it might be good to do the next farm bill in tandem with reconciliation.

I like this headline in *Politico*, "PAYGO Provisions Could Mean No Go for Farm Bill." The Congress has three types of what's called legislative PAYGO, and each of them provide sanctions that can be applied to a bill that's estimated to increase the federal deficit relative to the baseline. House and Senate PAYGO rules are triggered by the raising of a budget point of order. If no member raises a point of order, why then it's home free. In the House, PAYGO violation can stop consideration of a bill unless the PAYGO rule is waived in advance. In the Senate a PAYGO violation can stop consideration unless the PAYGO rule is waived during consideration by 60 votes, super majority in the Senate.

Statutory PAYGO is a little bit different. Rather than looking at one bill at a time to see whether it increases the deficit or not, it looks at all bills passed during a session of Congress. And if it's determined that all the bills passed during that session has increased the deficit, why then sequestration kicks in, which is uniform reductions across the board, with many programs exempted. And if sequestration hit, why, Ag has fewer exemptions, and so it would be hit much harder than many other committees there.

I told Susan [Liegma] I was going to talk about administrative PAYGO, about OMB's administrative PAYGO. How many of you have heard of administrative PAYGO? A few people here. Jim Monk and Cliff [Bass] have a very nice CRS report on administrative PAYGO. The chairman is kind of up in arms about it. We've got our committee investigator looking at it, we've got GAO looking at it. CRS has done this report and may do others. Basically, administrative PAYGO is an internal administration budget enforcement deficit reduction system that OMB applies during the implementation process after a bill has been enacted.

Now, what it says is USDA has to offset the costs of implementing a provision that USDA is allowed, by law, to implement, but it not required by law to implement. Committees give a lot of administrative discretion to USDA because, for one, we aren't smart enough to get everything right, although we all know no one is smart enough to get everything right. We're working under pressure. There's a lot of expertise at USDA and they have the time to figure things out and figure out how to do things correctly. So we give them a lot of administrative discretion here. And that's a good thing. But if OMB is saying, well, you can't do a CRP signup unless you offset it by cutting another program that also they're allowed by law to implement, but not required to implement, and that's in the OMB baseline, and that's what's held up CRP signup, until the savings from the crop insurance SRA negotiations provided some savings that could be used.

So if OMB is going to say you can't do this, if OMB is going to say this is how we are going to treat the administrative discretion that you've given us, why, we're jut not going to give them as much administrative discretion and we're all going to be hurt by that, and in some cases, through screw-ups or whatever inevitably happens, things could end up costing more with administrative PAYGO than without so. So the chairman has been very vocal in the past couple months about this.

I haven't gone into a whole lot of details here because I've spoken long enough already. A few extra slides here. Prior farm bills and the budget. Going back, looking at whether funds were added in the budget resolution, 2002 I mentioned significant additions. Were reconciliation savings required? In 1990 yes, 1995 yes, but then that got vetoed and so the final '96 Farm Bill got done outside of reconciliation. Were other savings required? Nineteen Ninety-Six, why the target was, I believe, about $2 billion in savings over seven years the Ag Committee was required to hit. And were there funds from other committees? In 2008 we got about $10 billion from Ways & Means and Finance Committee, almost all of which was, in effect, dedicated to nutrition programs.

Going to quickly go through eight challenges to doing a baseline bill and then I'll sit down and be quiet. A baseline bill is one that uses only the Ag Committee baseline as a funding source. No additional funding is sought from other committees, as with the 2008 Farm Bill. It took us 16 months of working with leadership and other committees to figure out how much money we had to write the 2008 Farm Bill, and a major reason for that was because we were trying to get other committees to contribute their scarce baseline funds to the Ag Committee so we could use them to write the farm bill. And other committees were just as enthusiastic about doing that as we would have been if the situation had been reversed, which of course is not very enthusiastic.

Chairman Peterson has talked quite a bit about doing a baseline bill. After the 2008 experience, human nature being what it is, why, a baseline bill would be very attractive. One of the problems is that there are 38 current program provisions that have no baseline after 2012. I looked at this maybe four or five months ago and I asked Jim Monk over at CRS and others at CRS to look at this to see if they agreed with my assessment on baselines, and we were pretty close. I think we agreed on all but three, and I accepted their position as being right here. I used to say 37, but now it's up to 38.

There's no baseline for these 38 programs. They cut across a number of farm commodity programs, conservation, trade, nutrition, rural development. None of the energy programs except the feed stock flexibility program, sugar to ethanol program, have baselines to continue the programs if they want to be continued. Research, forestry, horticulture and organic agriculture, and even miscellaneous, so it cuts across a large number of programs in the farm bill.

Estimates I earlier did to try and come up with a ball park figure as to how much it would cost to provide funding similar to the 2008 Farm Bill for these programs through 2017, which meant six years of the SURE program rather than five, because it stops in 2011, and I came up with probably about $9 billion, of which about half of that was SURE. Biofuel tax credits don't have a baseline. Neither do the Brazil cotton payments of $147 million per year. They're currently being done under the CCC Charter Act. And a number of programs, over the years, have been started under the CCC Charter Act, but funding has been shifted to legislative deals.

I talked about administrative decisions under OMB's administrative PAYGO as a challenge to doing a baseline bill. When we lost…well, there are two ways of looking at the money, the $6 billion that was in the crop insurance baseline that's no longer there. One is we lost $6 billion over ten years of baseline. Another is the Agriculture Committee is the only committee that has contributed to deficit reduction. And when we get to reconciliation, I don't know if that will be recognized, but you can be very sure that that argument will be made.

This is a little bit even more arcane than most of this budget stuff, but we used four and a half billion dollars in savings from timing shifts in the 2008 Farm Bill.

Think of a timing shift as…our costs are scored against a fixed date period, and so if you have a cost that's in the baseline that is inside the scoring period and you move it outside the scoring period, why then that traditionally has been scored as savings. That's a timing shift. If you have a revenue that's outside the scoring period and you move it inside the scoring period, why then that's been scored as additional revenue. So that's what a timing shift is. We used four and a half billion for the 2008 Farm Bill. We used 1.5 billion for budget reconciliation in 2006 and 2.6 billion for the 2002 Farm Bill in timing shifts. Recently enacted statutory PAYGO rules say you can't use timing shifts as savings. And it's not just the Ag Committee. All committees who happen to think of it when they're doing legislation, and most of them do, have used timing shifts, too.

A fourth challenge is using the Ag Committee baseline to offset costs of current needs. And we saw…I just recently here for the [FMF] program Education Jobs bill, why, about $12 billion from food stamps were used as an offset for House PAYGO. Reconciliation is going to be a challenge. Then of course we have demands from interest groups. Some people have talked about reforms in various areas. It's always easier to do reform if you've just got a little bit of extra money to make it more attractive. And I'm not going to talk about CHIMPS, but anyway, the Appropriations Committee, because of scoring guidelines, can reduce spending on our programs and use it for their programs.

Conclusions. On a baseline bill it's a tough but worthwhile objective we found out in 2008. It's not easy. And people need to be aware of farm bill funding problems so they can, but probably won't, adjust their expectations. We're all human. So just quickly to summarize. The federal budget has significant short run and long run problems, significant pressure for all committees to reduce spending. Budget reconciliation is on the horizon. There's budget rules that have been tightened and opportunities to add extra funding beyond the baselines funds have diminished. Thirty-eight farm bill programs by CRS count, which I agree with, have no baseline after 2012. To reauthorize these programs, funding needs to come from other Ag programs and non-Ag sources. And of course in reality, we can all think of some of those programs that we think probably don't need to be continued, but someone certainly thinks they do.

Ag Committee baselines used as offsets for current legislation. Less funding is available for the next farm bill. It's hard to get others to give up money, whether it's on Capitol Hill or just your neighbor next door. Administrative PAYGO has caused significant problems for USDA, and we hope that somehow that can be addressed so we don't have to make bad legislative decisions there. Thank you very much. [*Applause.*]

Congressman Charlie Stenholm: Pat, before you start, we have a major problem that needs to be solved and can be solved in the next few seconds. The agriculture community has got a reputation of being reasonably intelligent, and therefore when we run out of standing room before we do seating when there are seats available, it says something. Now, looking at the audience, most of the men are gentlemen, and therefore I'm giving all the ladies a five second – hold up a hand if there's a seat next to you. There's two up here, four out here. Takes those seats and do it immediately. Ladies first, and you got five seconds. Five, four, three, two, one. Now everybody's on their own.

Mr. Patrick Westhoff: All right, thanks everybody, as we're all getting seated here. You'll be pleased to know that I don't have quite as many slides as Craig today. I know that we have lots of questions probably in the audience, so I'm going to get through a couple major points and then make room for Ferd and for some questions down the road here. I want to talk basically about three points: where does the money go in the farm bill, and Craig's covered a lot of that already, so I'll do that very, very quickly; what's changed and what's changing I think is probably something we need to just focus on for a second, and then talk very briefly about the role of different programs for different crops.

So again, now this is a similar set of numbers to what Craig showed you just a few seconds ago. The difference is this is off of the August 2010 baseline from CBO, so the numbers will be marginally different than the numbers he was showing you from the March 2010 baseline. We'll of course see where things go as the year evolves. This is not a baseline that will be used for scoring purposes. We'll have a new baseline next year. That will be the one that's actually used for scoring any activity that occurs in Fiscal Year 2011.

But just to reiterate a couple points that are very important here. If you look at the overall spending on commodity programs over the next ten years in CBO's baseline, it's about $63 billion, a little over $6 billion per year over the next ten years. That's the direct payment program, the marketing loans, counter-cyclical payments, ACRE program, dairy price support program, all those basic commodity programs that people have known about and worked with for many years. What I think is a surprise to a lot of people, perhaps – it was a surprise to me – was the next line here, crop insurance. Mandatory spending on the crop insurance program over the next ten years in CBO's baseline, even after the SRA has been revised, is still $77 billion. So mandatory spending on crop insurance over the next decade is expected to be greater than mandatory spending on all the commodity programs put together, okay? That's an important point.

Conservation programs – this is including the Conservation Reserve program, which is part of CCC spending, but then also including all the conservation programs that are mandatory programs operated by the Natural Resources Conservation Service, those total about $64 billion, about the same as the commodity programs in aggregate. Then again, just for comparison, throwing in the SNAP spending of $685 billion over the next ten years and the child nutrition program, some of which are under House Ag jurisdiction, some of which are not, they're under the Senate Ag jurisdiction, $222 billion over the next decade.

The Commodity Credit Corporation spending is another term that people have heard and used a lot over the years. It includes the commodity programs. Also includes the Conservation Reserve program. It includes some export programs and a variety of other miscellaneous programs. Total spending under the CCC over the next decade, $102 billion, or about $10.2 billion per year over the next decade.

But that's, you know, again, the fact that crop insurance overtakes commodity programs is an interesting story, I think. And it might be good to look a little bit where we've been and tell the story just real briefly about where have we been and where we think we're going. I've got two lines here. The top line is the Commodity Credit Corporation spending over the last about 13 years and the bottom line is FCIC crop insurance program spending over the last 13 years, mandatory spending in each of those.

And again, the CCC line includes not commodity program stuff like conservation reserve, but it's primarily commodity program spending, especially in the peak years there. So you see the very high levels of spending in '99, 2000, 2001 when we had low prices for many major agricultural commodities. A lot of the automatic stabilizers in the old farm bill were kicking in. We had a lot of spending on marketing loans and the like, but we also had additional federal spending that was occurring because of additional congressional action through the market loss payments and the like. Then in the 2002 Farm Bill, we came in and tried to automate some of that through the counter-cyclical payment program, but prices were a bit higher in the period than they were previously, so we never got to the kind of levels of spending we'd seen at the peak.

However, if you look at Fiscal Years 2005 and 2006, we did get back up to the $20 billion range for a couple years in CCC spending. Those were two years after we had the very low corn prices of the 2004, 2005 market years, resulting in very large marketing loan expenditures for corn and large expenditures for a variety of other commodities as well. Since 2007, with the big run up in prices that's occurred, we've pretty much wiped out spending on marketing loans, counter-cyclical payments, and other price based policies that we have out there, at least for the major crops. So that's sharply reduced overall CCC spending from the levels it was once at. So now we're averaging on the order of $10 to $11 billion a year, in recent years, for CCC spending.

Crop insurance, on the other hand, has generally tended to increase over time in terms of its mandatory outlays. And again, we saw a big run up in 2009. If you wanted to think about how spending relates to prices, all the [else equal], our Commodity Credit Corporation spending is going to go up when prices go down. But if you talk about crop insurance spending, that's not necessarily the case. In fact, over the long haul, higher crop prices will tend to translate into higher crop insurance expenditures.

So why is that? Well, you're insuring your crop. If the value of your crop is going up, on average, over time because of higher prices, higher quantities, and the premiums you pay are roughly proportionate to the value of the crop, and yes, by the way, the average premium subsidy is more or less about 60%, if the value of the crop goes up, the premium subsidies go up, and if on the long run we have loss ratios of about one, that means that the average indemnities paid are roughly equal to the premiums paid by the farmer and by the taxpayer. Then we're talking about increasing government spending when we have higher prices. With crop insurance becoming a larger share of total federal spending now, that means that we can actually have a situation where higher prices translate into more government spending on agriculture, not less.

We're looking at some particular farm program benefits. Now I'm switching to some estimates that we have made at FAPRI, so these are not USDA or CBO projections, they're FAPRI estimates of these things. The actual numbers for 2000 to 2009, those are crop years, and those should be more or less correct based on our reading of all the available statistics. So during that ten year period, average direct payments were about $5 billion per year. Average marketing loan net outlays were about $3 billion per year. Very, very high in the first part of the decade, almost nothing the last several years of the decade.

Counter-cyclical payments averaged $1.5 billion per year over that ten year period. Again, didn't exist in 2000 and 2001, were high in 2004 and 2005, for example, and much less in recent years. ACRE program, of course, only started with the 2009 crop. We don't even know for sure what final spending will prove to be on the 2009 crop. We think about $300 million. Divided by ten, a grand total of $30 per year over the ten year period. And then finally, back in 2000, 2001 we had market loss assistance payments that were tied to previous legislation. When you average those across the ten year period they average about $1 billion. So adding all those things up, about $10.8 billion in basic commodity programs that deal with crop producers.

Then if you look at the same results for that same period of time for crop insurance, the average indemnities paid to farmers under the crop insurance program during that particular period of time were about 3.9 billion per year. Much higher some years than others. Almost nothing some years and very, very high other years, with 3.9 billion the average over the decade.

Producers paid an average of $2.1 billion in premiums over the decade. Again, much less in the first part of the decade, much higher the latter part of the decades. So the net indemnities received by producers – now this is the indemnities that they got back as payments for losses they had experienced relative to the premiums they paid as producers for those policies was a net benefit from those indemnities of $1.8 billion per year on average over the decade. So that's the last decade.

Now look at the next column for what we expect to be over the next decade in our own estimates. Again, direct payments, about $5 billion a year. We have a little bit less than five just because the ACRE program, if you participated in that, you have to take at least a small cut in your direct payments. We'll see what actual final participation ends up being. It will be very small, obviously, again [we round to that].

Marketing loan net outlays, we have only $460 million on average over the next decade. Okay, now that can – in some years it will be almost zero, and a year like this, where prices are as high as they are, we'll make very few marketing loan payments this year. And if prices stay as high as they are, that number could be almost zero. But our baseline is an average of 500 different things that could happen over the next decade. And at least in some of those 500 possible futures, we do have prices low enough for some commodities that they actually trigger some of these payments.

Likewise for counter-cyclical payment. Average about $500 billion per year. This year it will probably be almost zero. May be zero, in fact. But in other years, if we have lower prices just randomly, because of good weather, bad demand, whatever, we might have an average of half a billion dollars in those payments. Likewise the ACRE program. If we have at least a little more participation than we have right now – we'll see about that, of course – maybe an average of about half a billion dollars a year on that program as well. No crop market loss since that program is long since gone. So adding those pieces together you have $6.36 billion per year, on average, over the next decade, the vast majority of which is from the direct payment program, if you continue current policies indefinitely into the future.

Now, what's interesting is the bottom three numbers there. Crop insurance indemnities – $9.9 billion per year on average over the next decade. Why is that so much greater than we saw the last decade? Well, two things. First of all, indemnities already are higher now than they were in the early 2000s. So in 2000, 2006 they were much, much lower – 3.9 was the average for the decade. But in the last several years then, they have been quite a bit higher, and we peaked out at levels far in excess of the record – I mean, we had record levels in 2008, 2009 market year, as I showed you a second ago.

If we have prices staying roughly at current levels forever, and very critically, if the average loss ratio over the next decade is about one, that is to say if on average over the next decade the premiums that people pay plus the government subsidized premiums equal the indemnities that they get back, in other words if the program is properly rated and actuarially sound, etc., that's what should happen, you'd expect, then we're talking about indemnities of $9.9 billion per year. Now, mind you, we have not had a loss ratio as great as one for the last seven years. We've had seven straight years of loss ratios less than one.

Now, is that a string of uncommonly good luck? Maybe. But maybe there's some other factors at play, too. Lots of questions about that as to whether we've got all the parts in that program exactly where they ought to be. But in CBO's baseline, in our own baseline, we assume an average loss ratio in front of us of about one. Producers, again, pay about 40%, roughly, of the cost of those premiums, so it's about $3.9 billion per year. So therefore the net indemnities, that is the indemnities paid to farmers minus the premiums they pay, average about $6 billion per year over the next decade.

Now again, in any given year, that's not what will happen. We could have years where these are actually negative, where farmers are paying lots of premiums, there can be almost no loss, and you can have a negative indemnity. That happened way back in 1994 the last time. But you could also have a year, if we have very bad losses nationwide, and then indemnities for crop insurance could be much, much larger than even these figures. In fact, when we do our stochastic analysis of 500 possible outcomes for the future, we find that crop insurance spending is actually more variable than commodity spending over the next decade, so there's more ups and downs in crop insurance spending we expect over the next decade than we see on the basic commodity programs.

A point I want to make is how important these various programs are differs dramatically across commodities. Now, all these numbers depend on our projections for the future prices, and so if our price projections are wrong, these numbers will also be wrong. The direct payments we more or less know. So if you take…well, let's stop at the top. The crop insurance net indemnities, again, are showing you, again, the total indemnities minus producer paid premiums. If the average loss ratio over the next decade is about one, those range from as little as about $15 an acre for both wheat and for rice to about $31 per acre for corn and $34 per acre for cotton. So that's what farmers would get back in indemnities, on average, over the next decade, minus what they've paid in premiums, if we have a loss ratio of one.

Marketing loan benefits, on the other hand, if market prices stay anywhere close to the kind of levels we've experienced recently for grains and [oil] seeds, and we think that's a fairly likely outcome over the next decade, the chances of there being marketing loan benefits for at least the grains and oil seeds are very slim. It could happen if we have a huge downturn in the economy or a huge crop, whatever. It's not totally impossible, but at least to us it appears very unlikely at this point.

So the average marketing loan benefit over the next decade is very, very small for corn, for soybeans, for wheat. For cotton we were assuming a larger probability of prices falling back to levels that would actually trigger marketing loan expenditures. That would not be true if current prices for cotton were kept over the next decade. But if we went back to the kind of levels we've experienced recently, you could marketing loan expenditures both for cotton and for rice. The ACRE program, again, participation has been very low. We don't expect any huge increase in ACRE program participation. But that could net a couple bucks an acre for the crops that have higher levels of participation. Almost nothing for cotton and rice because almost no cotton and rice producers have signed up for the program.

Direct payments, on a per base acre basis, so not per planted acre, not per harvested acre, but per base acre that a farmer has, range from about $11 for soybeans to about $96 for rice. So it's on a per base acre basis, again stressing the point that an individual's base acres can be very different than the number of acres he or she plants, and there are systematic differences across the crops in that regard.

Counter-cyclical payments are like marketing loan benefits. If prices remain as high as they've been for grains and oil seeds, the possibility of there being very large benefits, on average, seems pretty slim for grains and oil seeds. However, if prices were to dip back down again for cotton, dip back down again for rice at some point in the future, we have some possibility of there being noticeable expenditures on those programs in the future.

So if you add all those things up – and again, this is not an easy thing to do, and I'm going to have to cheat a little bit here, because I'm going to be adding two different things. I'm adding dollars per acre, dollars per planted or harvested acre in the case of marketing loan benefits, ACRE program payments, and crop insurance indemnities, I'm going to add that to per base acre payments for the crops. And again, that's not quite fair. But assume for a second that you're a producer who has exactly one acre of base for every acre you happen to harvest in a particular commodity, your total benefits per acre are the numbers on the bottom there, ranging from $31 per acre for wheat, $33 per acre for soybeans, $57 for corn, $124 for cotton, and about $170 per acre for rice.

And then finally, just a comparison at the bottom showing how much crop insurance is of that total piece of the puzzle, and perhaps illuminating some of the possible discussions we might have as we work into the farm bill debate here. Crop insurance is actually a majority of the expected outlays on these programs in the case of corn and the case of soybeans. It's about half in the case of wheat, about 28% in the case of cotton, and only 9% in the case of rice. So different commodities are much more dependent on different pieces of the overall puzzle in terms of supports that are available.

And again, another way of showing the same kind of numbers again, just putting it in a larger context now. Let's compare those various types of payments to what farmers expect to get from the marketplace over the next decade. Again, the numbers here are averages of ten years across 500 outcomes, so an average of 5,000 numbers in each case of these slides here. But again, seeing in the case of corn, soybeans and wheat the overall benefits in terms of subsidies paid to farmers and crop insurance indemnities are a relatively small proportion of overall net income for producers of those commodities over the next decade, if our projections are right. For cotton and for rice the proportion that comes from government payments and government subsidies of different types is significantly larger.

So thanks, and I'll get off the stage here now. And as my publisher, of course I have to hold up my book at least for a second. Okay, I've done that now. Thank you all very much. [*Applause.*]

Mr. Ferd Hoefner: Well, good morning. Great to be here. When I heard this morning that Chuck wasn't going to be able to attend, I thought for a brief moment that I might try to see if I could do a dialogue, as if I could do Chuck, but I decided my theatrical skills aren't really up to par, especially adlibbing. But if anybody, during the comment and Q&A session wants to try that, feel free. Just a few comments. There's very little to add after those two presentations. I really think it sets the context for a really good discussion. But I was asked to speak just a little bit about the non-commodity crop insurance and food stamp titles, and will just toss in some comments on those.

There clearly have been historic shifts in recent farm bills on some of those other titles other than the big ones, none more dramatic than the conservation title. Just going back four farm bills, if you take the average expenditure per year over the life cycle of that particular farm bill, we've gone from less than 2 billion in the 1990 Farm Bill per year to three and a half billion during the 2002 Farm Bill cycle, all the way up to very close to 5 billion over the current farm bill cycle, so that's a rather dramatic shift in the course of four farm bills.

It's a little bit harder to summarize all the other kinds of direct spending in the farm bill that aren't one of the big three or conservation, which now has, per Pat's slide, you really have to talk about the big four now. But if you sort of make an amalgam of all the other direct spending that's out there, it's very interesting. You go back four farm bills and it was zero, and then after '96 it was 300 million. Short-lived, but it was there. And now you're up to about 2 billion. That's not per year, that's over the whole course of the bill, so I changed my nomenclature there between the two comparisons, just to make sure I put that in reference, which does show you how relatively small, relative to the bill as a whole, some of those other things are.

Nonetheless, I think it's very easy to argue that they've become more and more central, whether it's specialty crops or energy or organic or beginning and minority farmers or research. These things are important. And I think when you look at the fill in the blank game that ultimately is going to happen with the 38 programs, not all of them maybe deserve to continue, maybe not all of them will continue, but it's a big chunk of change to begin to fill in those zeros that are currently baseline zeros that need to be filled in if we're going to re-up any of those programs that are part of that count of 38.

Many of those programs, I would argue, are going to be key to the political coalition that can pass the next farm bill, particularly in this fiscal climate. So that's just a shorthand way of saying it's going to really take coalition building that's above and beyond anything we've seen before, and we've seen a lot of coalition building around the farm bill. But to get, in this fiscal climate, it's just going to take everybody working extra hard on that score.

Within those, let's call them, miscellaneous direct spending items, there have been shifts within those that I think are important to note. On a net basis, rural development and research direct spending has gone down in this farm bill cycle, and specialty crop, energy, organic and a variety of other things have gone up. Again, these are relatively small potatoes relative to the bigger titles, but not unimportant.

There is, I would say, a very direct link between mandatory and discretionary spending on these subjects. That's a long topic in and of itself that's often debated, but I guess I would make several points about that. One is argument is frequently heard that using direct spending from the farm bill for, let's just take research or rural development or whatever, is not worth the time and the effort because it's going to be CHIMPed in the appropriations process. I would make two quick points about that.

One, let's look at the evidence of this farm bill cycle, particularly on the House side, where CHIMPs have been very few and far between. Second of all, from a more political aspect, what does get CHIMPed and what doesn't get CHIMPed is totally a matter of political will and how much effort is put into maintaining baselines. So I think the track record is actually very good in this farm bill cycle. It was very bad in the last farm bill cycle. So that's just to say situations can change, and politics can change.

The other point I would make about mandatory discretionary is just looking, you know, I think as you look at funding on, let's just say rural development, for the sake of argument, you have to look at it in the total context. Mandatory has gone down, not that it was ever very big, but discretionary has gone down even more. If you look at the last two decades, there's been a steady erosion of discretionary rural development dollars. For those who want to argue that given disproportional poverty, unemployment and other situations that society might want to try to do something about in rural America, having declining discretionary and declining, almost nonexistent direct spending at this point is something that might want to be looked at in the next farm bill.

In the conservation title, clearly there are two big and several small programs within that count of 38 with no baseline, the biggies being the Wetlands Reserve program, which is not a small program dollar-wise; it's roughly 1.3 billion in the current cycle, and the Grassland Reserve program, which is smaller, but significant, and then several smaller ones like Healthy Forest or the CRP Transition Incentive program. I might be forgetting something in that list, but those are essentially the ones.

The last farm bill, re-upping the WRP and the GRP was really made possible, in large part, because there was a mismatch between baseline for the Conservation

Reserve program and reality for the Conservation Reserve program, such that money could be shifted within the conservation title from one to the other. I would…it probably depended somewhat on this morning's announcement on how the CRP signup went. That same situation may not be around as we work through the bill in the next couple of years, so we're going to have to be extremely creative in trying to retain those incredibly important programs.

I think, given the time and given how many people are in the audience, there were a few other remarks I was thinking of making, but I think I might just end it there so that we can get to Q&A and comments a little bit faster, and I'm sure there's many questions for Craig and Pat. So I'll leave it there and just leave with the thought of the importance of going into the budget resolution, possible budget reconciliation and the farm bill lead up, going into that with the biggest tent possible – a big tent, multi title big tent possible in order to come out with a bill that has the political support to get through both chambers. So with that, I'll turn it over to Charlie. [*Applause.*]

Mr. Stenholm: Okay, everybody knows the rules. Come to the mike to ask your questions. I will recognize you immediately, attempt to fill in with trivia in between. But I have already learned one thing this morning. As Neil was explaining the challenges of zoonoses – I'm proud of me I can pronounce that now, if that's right – but he was describing all of the challenges of the different folks that were looking at it. You noticed that he said economists thought they had hold of the tail? Think about all the numbers that we've seen up here and who's been riding them, and if we're steering, you don't do it from the tail, Craig. Who's got a question?

You know, I think most of us in this room by now really appreciate the foresighted thinking of Chairman Peterson in causing this discussion to start last year for what's going to happen next year. He was very prophetic in seeing what the budget was going to do, and you've heard it from Pat and from Craig this morning. And we're not going to change that. That die is cast. I'm co-chair of one effort to make recommendations to Congress of how to deal with our serious fiscal concerns. I'm paying a lot of attention to at least three others. You'd better be, too. All of you had better be looking at what these various groups are doing and saying, and are going to recommend, because I have not seen a single one of those yet that does not have, somewhere in their lead comments, reducing farm subsidies. Yes, sir. Identify yourself and pose your question.

Mr. Chris Clayton: Chris Clayton with *DTN/The Progressive Farmer*. I just wanted to understand, in terms of the budget hole that we might be looking at in the 2012 Farm Bill, about 9 billion of programs that have not been funded. Then you're looking at 4.5 billion of cuts that were taken off in the reconciliation of 2006 and in 2002, so are we looking at about 13, 13.5 billion essentially in the red at this point, or how do you look at that number?

Mr. Jagger: I'll be honest. I haven't added it up quite that way. One of the things that I've been asked to do from time to time is to compare the amount of baseline money that was available, for example, for the 2002 Farm Bill or the 2008 Farm Bill to the baseline money that's available, that we expect to be available, and I've kind of pushed back on doing that because it's not just the supply of baseline money, it's the demand for baseline money that's driving a lot of this.

So, for example, as Pat was pointing out, why, if we've got commodity program prices pretty high, and we just wanted to continue the 2008 Farm Bill commodity programs, why, we don't need a whole lot of money to do that. And so I've been a little bit reluctant to try and aggregate that up because I'm not…with all due respect, I'm not sure how meaningful that is. But it's clear that on the programs without baselines, why, that's a pretty clear-cut number, although my estimate of about $9 billion through 2017 may be a good number, it may not be. But I…so different people, different reporters, journalists, have added things up in different ways, but the one I feel most solid with is looking at those programs without baselines here.

Mr. Clayton: Thank you.

Mr. Stenholm: The mike is open. You know, one area I would encourage those of us that are interested in the nutrition component of the next budget, and that's most of us in this room, if not all of us, to take a look at some of the management tools that are available to increase the efficiency of the delivery of the product, and take a look at what crop insurance, risk management has been able to do within their little shop, and the billion and a half dollars in savings that have accrued over the last five years, all of which has gone to improving crop insurance. The potential in the nutrition programs is tremendous if we can just get the communities to begin to look at it.

Mr. Chuck Abbott: I haven't seen a crowd this quiet since a Commodity Club luncheon in which I learned, at one time, thanks to [Mary Kay Thatcher], about why they let reporters ask questions at the Commodity Club, which is no one else wants to admit they can't figure out what's going on. [*Laughter.*] I of course prove that every day in print. So perhaps our panelists could, in trying to help us get our arms around the situation, talk about some of the places where spending is guaranteed to grow and it will not be painful.

Perhaps in nutrition programs, where you're going to get the money no matter what. Perhaps you can identify where, you know, to help us understand where the shortages or the squeezes are going to come, you could talk about programs or areas that are going to get money regardless, and it's just automatic the baseline expands to account for it, and areas, which would include those $9 billion of programs that are not funded at all, where it will be more of a challenge.

Mr. Stenholm: Before you leave, you are a very astute reporter that maybe not everybody knows. Identify yourself.

Mr. Abbott: I'm Chuck Abbott with Reuters. Unlike my predecessor, I won't claim I'm progressive. [*Laughter.*]

Mr. Hoefner: Well, I mean, part of it goes back to Craig's slide on baseline. The baseline is assumed unless there's a change in policy, so Chuck I think the basic answer is whether it's food stamps or commodities or crop insurance, those things, absent policy change, are assumed, and there's nothing that needs to be done about it. So it is very much a question of what policy changes you're going to make, but also how are you going to fill in the things that don't have baseline, which ones deserve to get filled in and which ones maybe fall by the wayside, but how do you come up with that money. And if it's an overall baseline bill, then the money has to be raised somehow internally.

And as the other speakers have pointed out, if some of the tried and true methods around timing shifts and other things are more difficult to do now, it just makes the job that much harder. So I think to a very significant extent, trying to figure out how to shoot those gaps is going to be very, very important. And I will add that it's often asked of me, well, why does the Wetlands Reserve or fill in the blank, why wasn't it written with baseline? Well, if it was easy to do, believe me, it would have been done. The fact was to continue it just at a little bit less than current levels the last time, it was only possible to do it for the farm bill cycle and not for the full ten year window. So those are really very real tradeoffs. Obviously, I think everybody, no matter whose particular program and what interest group is interested in it, everybody would prefer to have continuous baseline, but it's not always possible.

Mr. Jagger: I promised my staff director I'd stick to technical questions.

Mr. Hoefner: I'll just throw in that there aren't that many programs that have sharply increasing baselines. I don't know all the numbers off the top of my head right now, but unlike the past, food stamps doesn't have a direct upward path on its expenditures in the baseline, as I recall. We actually have higher levels of spending right now on food stamps than we're likely to have in three or four years if the economy improves. So there might be a little bit less spending on that program. In contrast, child nutrition programs, as I recall, have an increase of about a billion dollars per year over the next decade. But again, those are all just to keep current benefit levels in place, current formulas in place. It doesn't mean you get any new benefit from those programs.

Mr. Hoefner: I guess we could also add, on the food stamp side, the current debate, right up to the minute, is whether or not – it depends on how one looks at the stimulus bill's increase in benefits whether that was the prelude to a permanent increase is one way to look at it or it really was just a temporary, but now that it's been cut once for [F map] in the Senate bill, anyway, pending on child nutrition would cut into that stimulus money again. That raises, depending on which of those two ways you look at it, raises the possibility of another much more significant hole than the 38 programs.

Mr. Jagger: I will point out that the stimulus money there on food stamps was emergency money, so I think Ferd's point that there are various ways to look at it, in order to get that money, nothing else in the Ag Committee baseline had to be cut; it was emergency money. Now flip side of that is it counts as an offset for House PAYGO rules, but it doesn't count as an offset for statutory PAYGO rules, so anyway.

Mr. Jon Harsch: Jon Harsch with *Agri-Pulse*. A lot of talk now about getting rid of or downgrading direct payments. How does that fit into budget realities?

Mr. Westhoff: I won't make any policy recommendations here at all but just to point out it is the single largest piece of the traditional commodity program mix. I mean, you can't get huge numbers of savings by making changes to the marketing loan program, for example. There's not many dollars there. So if you're looking for a place to have a lot of dollars in traditional farm programs, it is the one that has 5 billion a year.

Mr. Hoefner: And I guess I would just add that you have the issue of direct payments versus various alternatives or using it as funding for other things. You also have the issue of keeping direct payments, but various reforms. So just as a for instance, the Administration's proposal in the last budget was a decrease in the payment cap from 40,000 to 30,000, and I think they projected, if I remember right, that that was roughly 2.2 billion over ten years, roughly 3% of total payments, I think it was. So I think it doesn't take a genius to figure out that those kinds of debates will be back with us as we enter into the farm bill debate.

Mr. Stenholm: Along this line, there's a little non-controversial issue before the House and the Senate today that concerns tax cuts. And most economists – and you saw it in Craig's charts this morning that show that CBO shows one debt and deficit and OMB shows much higher, and that has to do with what happens if we, in fact, do continue the Bush tax cuts for the next ten years. Will the deficit go up, as some suggest that it will, or will it not? Most economists say that it will, and that has a direct effect on the discussions that we will be in on the farm bill next year and on the budget next year with amount of total debt. You can't escape it. Yes?

Ms. Mary Ahern: Yes, good morning. Mary Ahern from the Economic Research Service. Thank you for an interesting discussion; it was good to hear. I was motivated to come this morning because I wanted to sort of find out what those of you who are in the political policy fray think might be new and innovative that some decision-makers might use some information about that would generate, and I really didn't hear that. It seems like the budget is such an overwhelming issue. It's all about hunkering down on the programs that we do have. But I still kind of find that hard to believe.

The previous question was about the direct payments, so that may be something. But especially the last farm bill seemed to have a lot more innovative in this miscellaneous category programs – the beginning farmer, even restructuring

USDA, that type of thing. So I was just wondering if there's anything that at least is being discussed that might result in greater returns to the American public for this huge investment. Thank you.

Mr. Jagger: My boss, Chairman Peterson, as most of you know, has been talking about the possibility of reform, and his basic premise on the farm income safety net, his basic premise is if we don't do it ourselves, someone else will do it, and someone else won't know how to do it right. But reform is always difficult, and I think it's even more difficult in a tight budget environment. We all know it's easy to see what we're getting out of what we currently have. It's hard to see what we're going to get, especially with all the uncertainties there. I personally think reform in various areas, not just commodity programs, however you define reform, is coming down the path. I'm not sure it's going to be this farm bill.

Mr. Hoefner: Well, it's a good question, Mary. I mean, I think farm bills fundamentally are about fights over money, secondarily policy; that's just the way it is. I would suggest that any time when the fiscal situation is such as it is, and you're basically trying to figure out how to keep what you have, it does lead one to think about policy changes, and not all of those are…you know, I think Craig rightly points out that there is a lot of discussion in Title 1 about various reforms, but it's definitely a worthwhile discussion to have about what to do in other titles. I think the last farm bill made some very substantial changes in the research title, not so much, say, in the rural development title.

One could think of many things that should and could be done in the rural development title to streamline, consolidate, make it more flexible, make it more user friendly. Whether anybody wants to make the time and the effort to do those kinds of things is an open question, but there's certainly…I just use that as an example. I think you could go through each title and say that there are real policy discussions that don't necessarily have to do with money that are very worthwhile discussions. It's just once the battle begins and it's all about money, it's hard to get people to focus on those things, to be totally honest about it.

Mr. Stenholm: You know the old adage fools step in where angels fear to tread. We've got three angels up here today. I'm taking the other role. [*Laughter.*] But I think you can expect that the Farm Foundation will have additional forums here in which some of these policy changes will be discussed. Once it begins to get clear among the competing groups and the different ideas, and as any agricultural entity that is not listening to Chairman Peterson right now, you're going to give me competition for the role I'm playing up here real quick. Although I'm not trying to be a fool, just trying to promote the discussion.

You mentioned USDA reorganization. I think you're going to see that. I would predict that. We always have that in new administrations, and that's what we're going to be…you'll have some of that discussion. And there will be those that are fer it and those there agin' it. You have heard already the beginning in which many groups now are beginning to seriously look at the direct payment issue.

Particularly where we're talking about agriculture's role in the future of fuel production, you're going to see a lot of policy discussions. In fact, you're already seeing them, but they're quiet and they're not ready for public view as yet. But some of them are becoming public.

But that always comes in the category – and again, I commend Collin for this, for making us begin to think. Now whether we think or not is up to us. But if we don't, it will be at our own peril. Those of us concerned about this agricultural industry that still provides the most abundant food supply, best quality, safest, at the lowest cost of any other country in the world. We can screw that up in the budget sense real easily. But I see so many folks in this room that I've still got great confidence in.

The mike is open and I assure you I will not occupy the next 20 minutes if you don't want to, because that's not my role. I thought he was going to the mike. [*Laughter.*] Okay, Neil, do we have any announcements that need to be made? Any additional comments from the panel? Well, let me say is there anything one of you said that the other one disagreed with and would like to have a little fight? [*Laughter.*] Aw, come on.

Mr. Jagger: I do a Tae Kwon Do class with my 10-year-old daughter on Saturday mornings, but she outranks me. She's good, I'm not, so I'm not looking for fights today.

Mr. Stenholm: Neil, let's try not to get harmonious groups up here in the future. See if we can't pick a little fight. Oh, we've got one question, all right.

Mr. Jim Novak: Jim Novak from Auburn University. I won't ask the angels, but I'll ask you. What's your prediction, 11 to 12 or a13 farm bill?

Mr. Stenholm: Twelve because of budget reconciliation. But that's as close as I can come. Neil, I'm going to turn the…you know, we almost got…I almost got to say something today, but some of you stubborn men would refuse to take a seat. But this would have been the first Farm Forum in which we had standing room only. Now, we had standing room, but we had a seat left open. Thank you.

Mr. Conklin: Okay. I think the official tally was 142, which probably breaks all of our records, so I hope we'll continue to see this kind of turnout as we move ahead. And as I guess it was Charlie said, we certainly will be doing more of our forums focusing on the policy issues that are related to the next farm bill, whenever that farm bill comes along. And so I think this was a good way to kick it off with a little better perspective on what some of the challenges we're going to face as we start to talk about those policy issues are.

So with that, I'll call it to a close. If anyone is interested in registering for the zoonoses symposium, if you didn't get the registration form, check with Sheldon at the desk in the front. If you've got one and you filled it out, just drop it on the desk on your way out. Let's give all our presenters a big round of applause.

[*Applause.*] And with that, thank you very much, and we'll look forward to seeing you in November.

[*End of recording.*]