

# The 2007 Farm Bill and the Budget: A House Perspective

---

A Presentation by

Craig Jagger

Chief Economist  
House Committee on Agriculture

For the General Session:

The Public Policy Development Process and the Next Farm Bill

at the

The Farm Foundation's

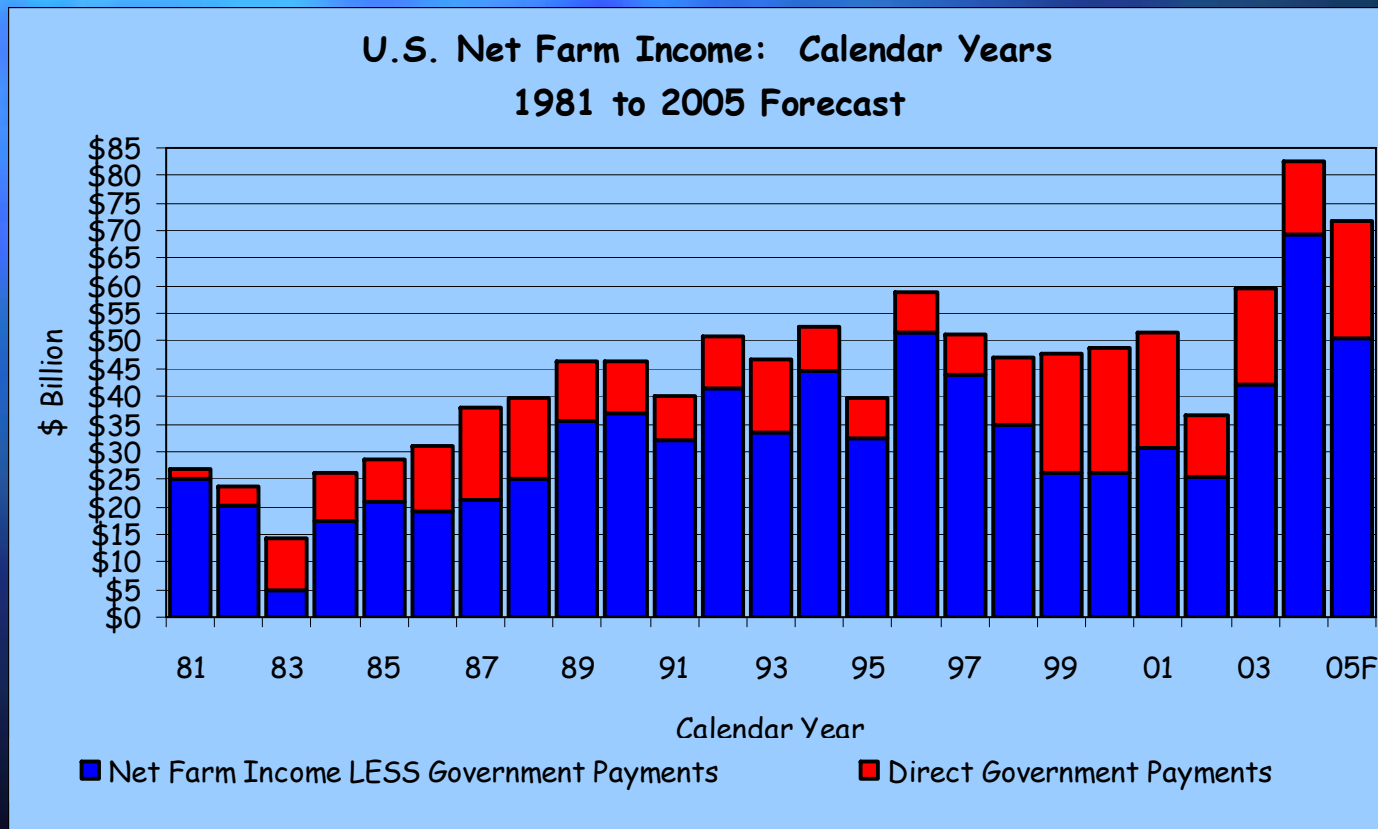
National Public Policy Education Conference

September 18-21, 2005

Arlington, Virginia

# Reminder: Government Payments Continue to Be a Major Contributor to U.S. Net Farm Income (and to Land Values)

Government payments averaged 28% of net farm income over the prior 10 years, 25% over the prior 3 years, and 30% (forecast) for 2005



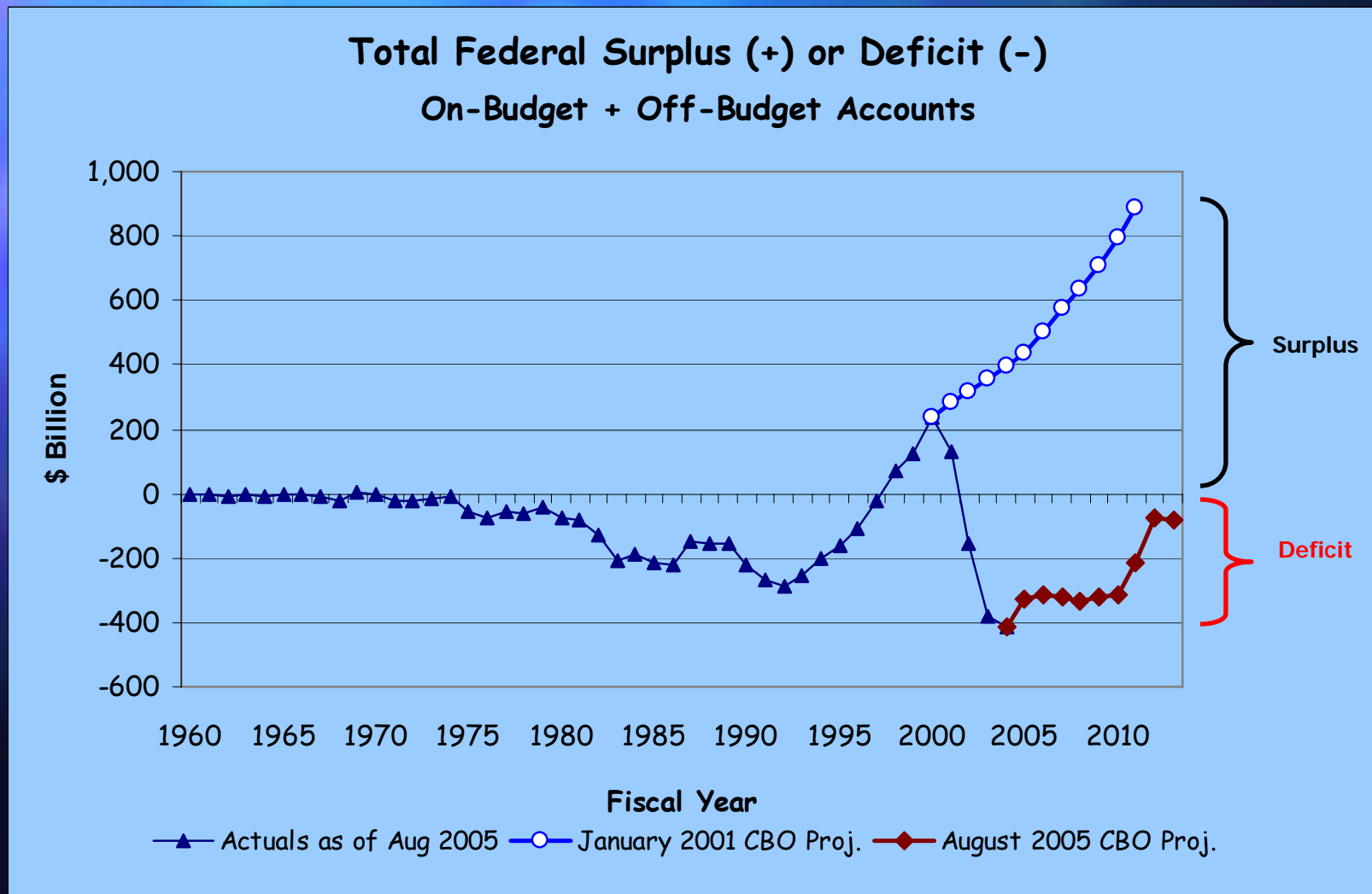
**Slide 2**

---

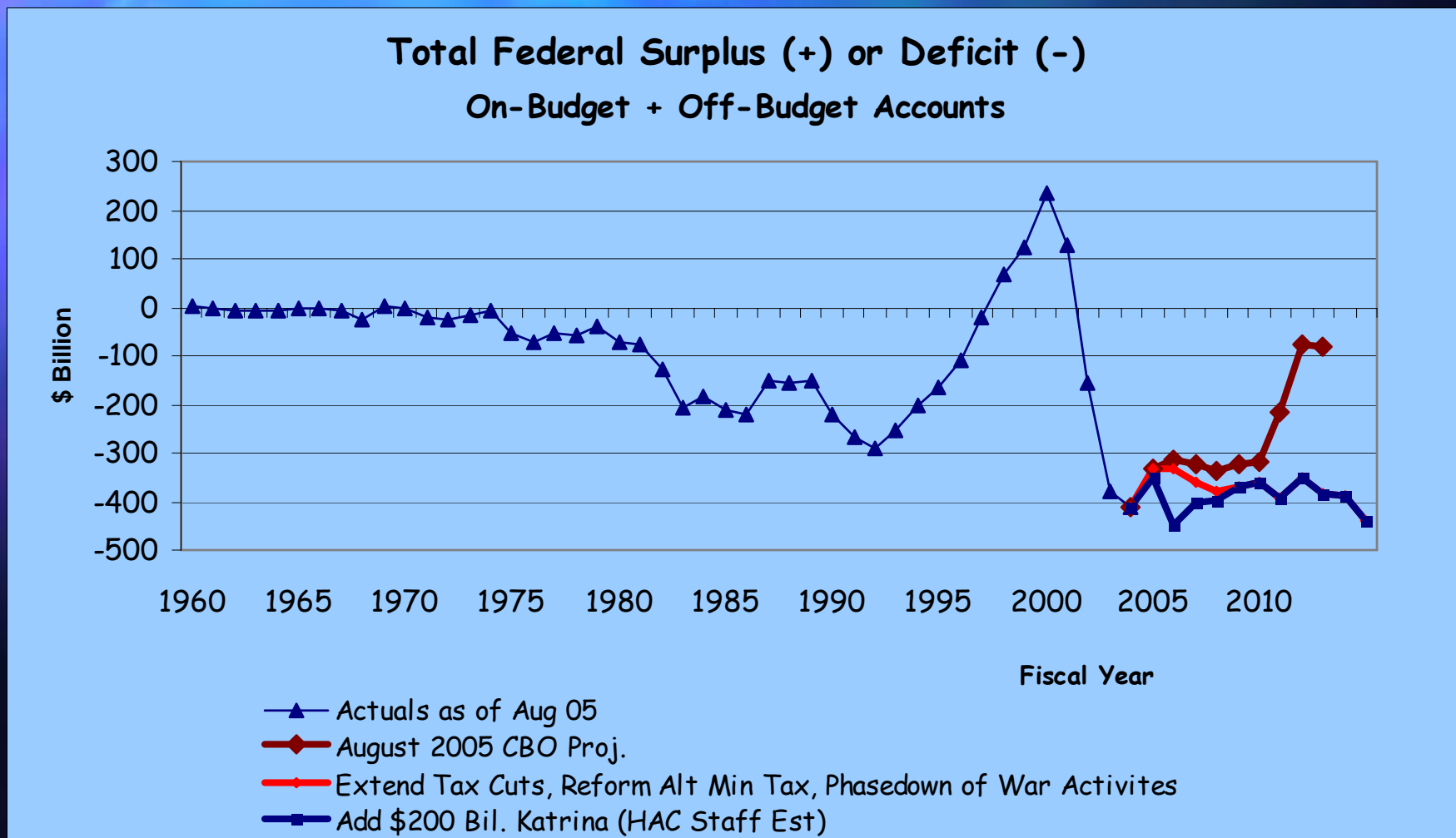
**cj3**

Craig Jagger, 1/8/2004

# Projected surpluses that facilitated extra funding for the 2002 farm bill have disappeared

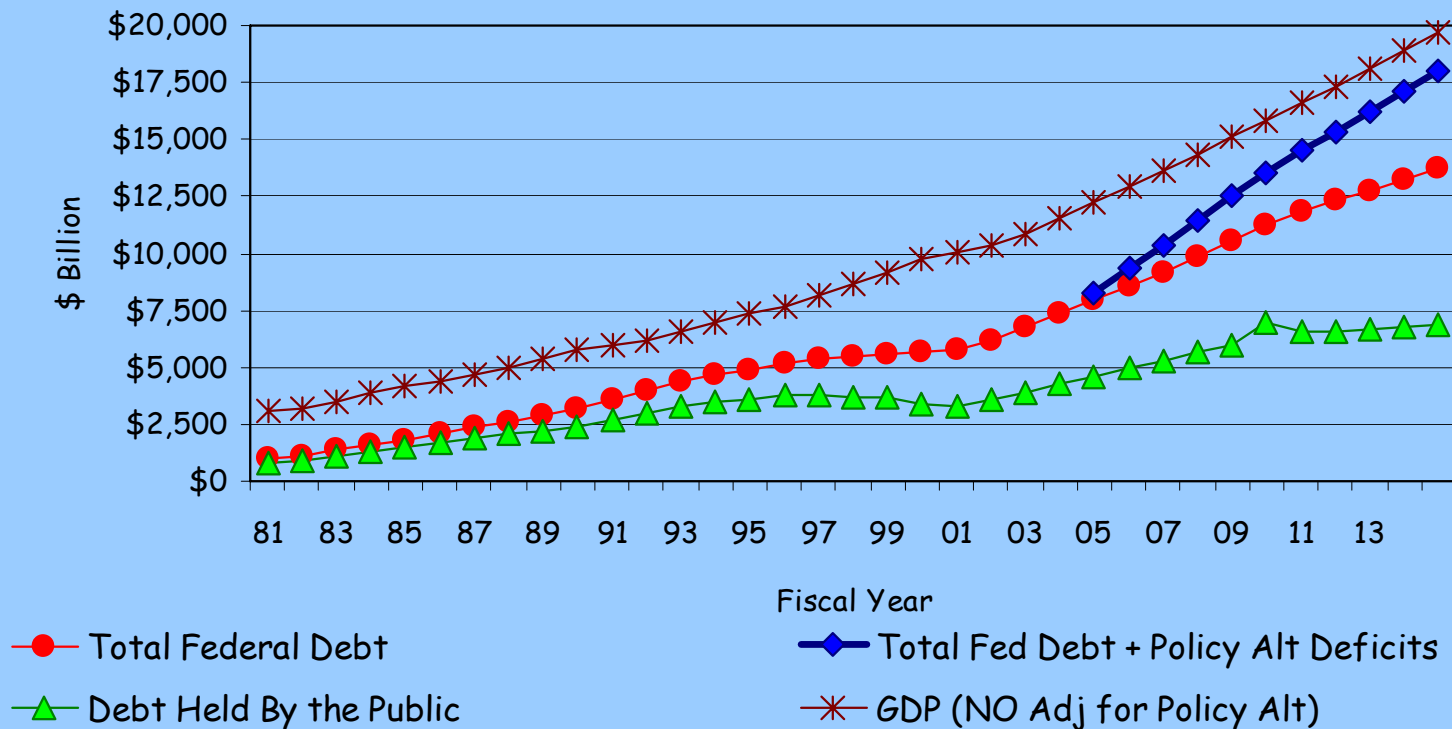


The CBO Baseline is NOT a Forecast. It is a projection of government costs if current laws and policies continue (or are stopped) under strict rules established in budget laws.



# Federal Debt Is the Sum of Annual Deficits and Surpluses: As a % of GDP, the CBO Baseline Debt is Declining

Total Federal Debt, Debt Held by the Public, & Total Federal Debt + Policy Alternative Deficits, GDP (NO Adj for Policy Alt). Actuals: 81-03; CBO Aug '05 Baseline: 05+



# Impacts of Total Federal Budget Conditions on the 2007 Farm Bill: Conclusions

- No Funding Increase
- Maintaining Current Levels May be Difficult
  - Significant Probability of Doing Budget Reconciliation and the 2007 Farm Bill at the Same Time
  - Budget Reconciliation for Ag & Most Other committees: share the pain of reducing deficit by changing their mandatory programs to reduce spending. (Some committees (Not Ag) can be instructed to decrease or increase taxes and other revenues.)
  - The FY 2006 Budget resolutions establishes a sense of Congress that reconciliation be done every two years.
  - Some Prior (and Current) Budget Reconciliations Affecting Agriculture: 2005, 1995, 1993, 1990, 1989, 1987
  - The 1990 and 1995 farm bills were done in tandem with budget reconciliation.

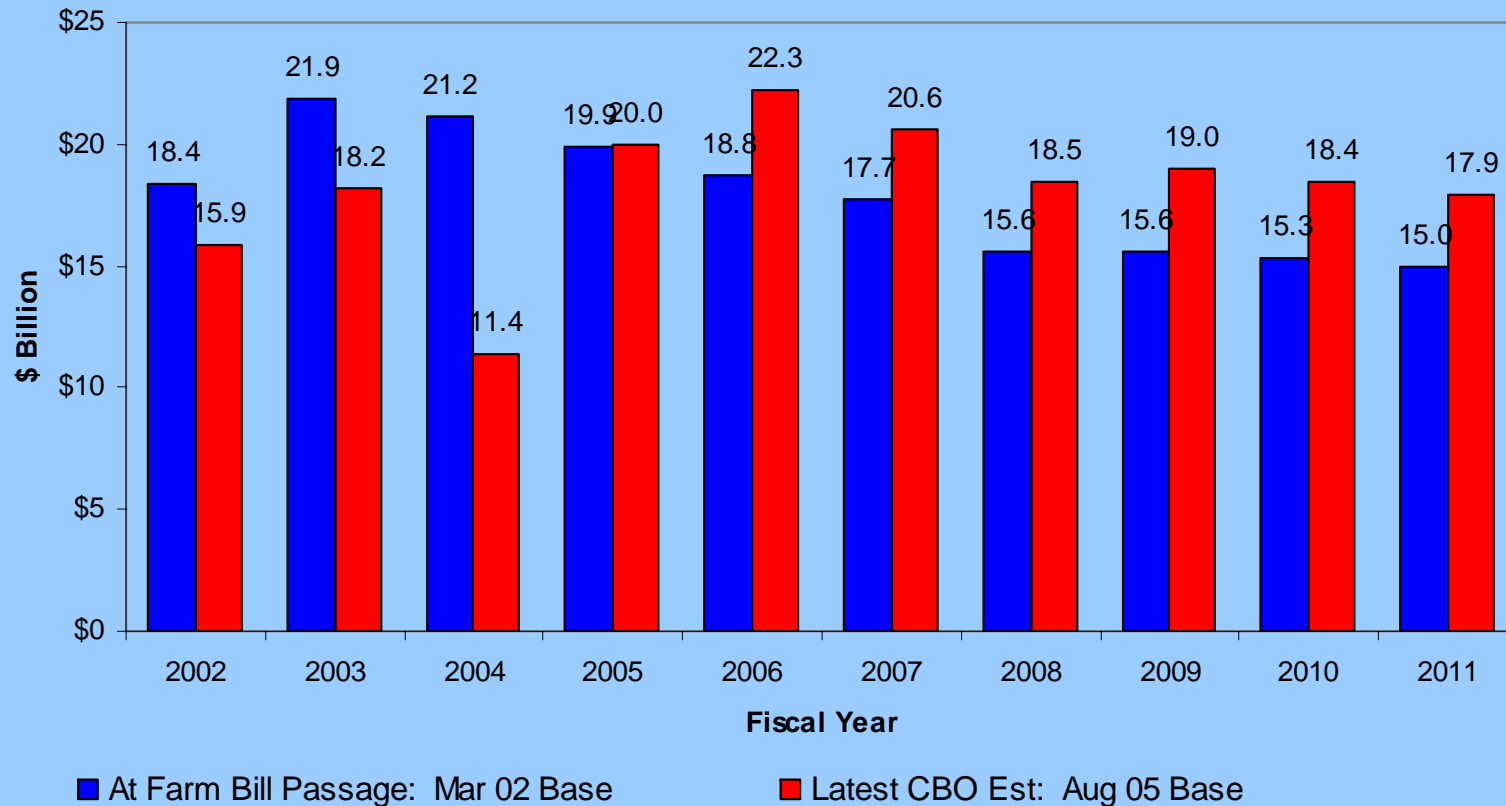
## CBO's Baseline and CBO Scoring Determines the Funds Available and the Costs or Savings from Changing Ag Committee Programs

- By law, CBO Budget baseline projections are right (unless the Budget Committees disagree)
- Baseline projections are put together according to budget law guidelines (including the \$50 million rule for extending funding for expiring programs)
- Given the variability of agricultural markets, analysts know that any 10-year baseline (CBO, USDA, FAPRI) is wrong even before it is released to the public.
- Potential Adjustments affecting the CBO March, 2007 baseline that will be used for the 2007 farm bill:
  - New Legislation (e.g. Fy 2006 reconciliation, appropriations, trade agreements)
  - New funding for some programs stops before or in 2007
  - New Perspectives on Market Conditions.
  - Sometimes CBO changes the treatment of costs of different programs



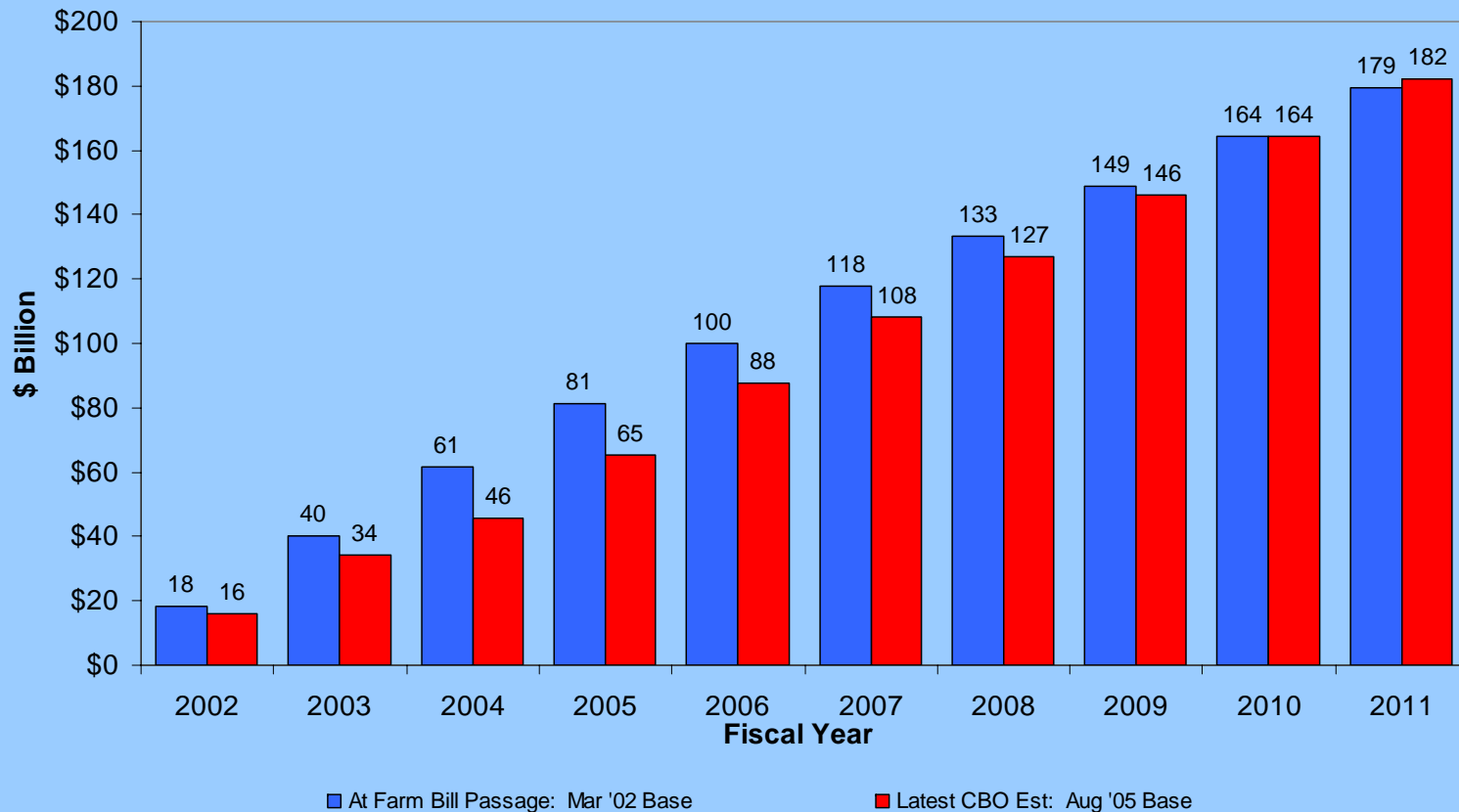
CCC Outlays for the first 3 years of the 2002 farm bill were \$15 billion Lower than CBO Projected When the Farm Bill Was Passed. ("Savings" cannot be used to offset cost increases elsewhere)

Total CCC Outlays: At Farm Bill Passage and Current Estimate



# But the Current CBO Baseline Shows Higher Cumulative CCC Spending by FY 2011 than Farm Bill Projections

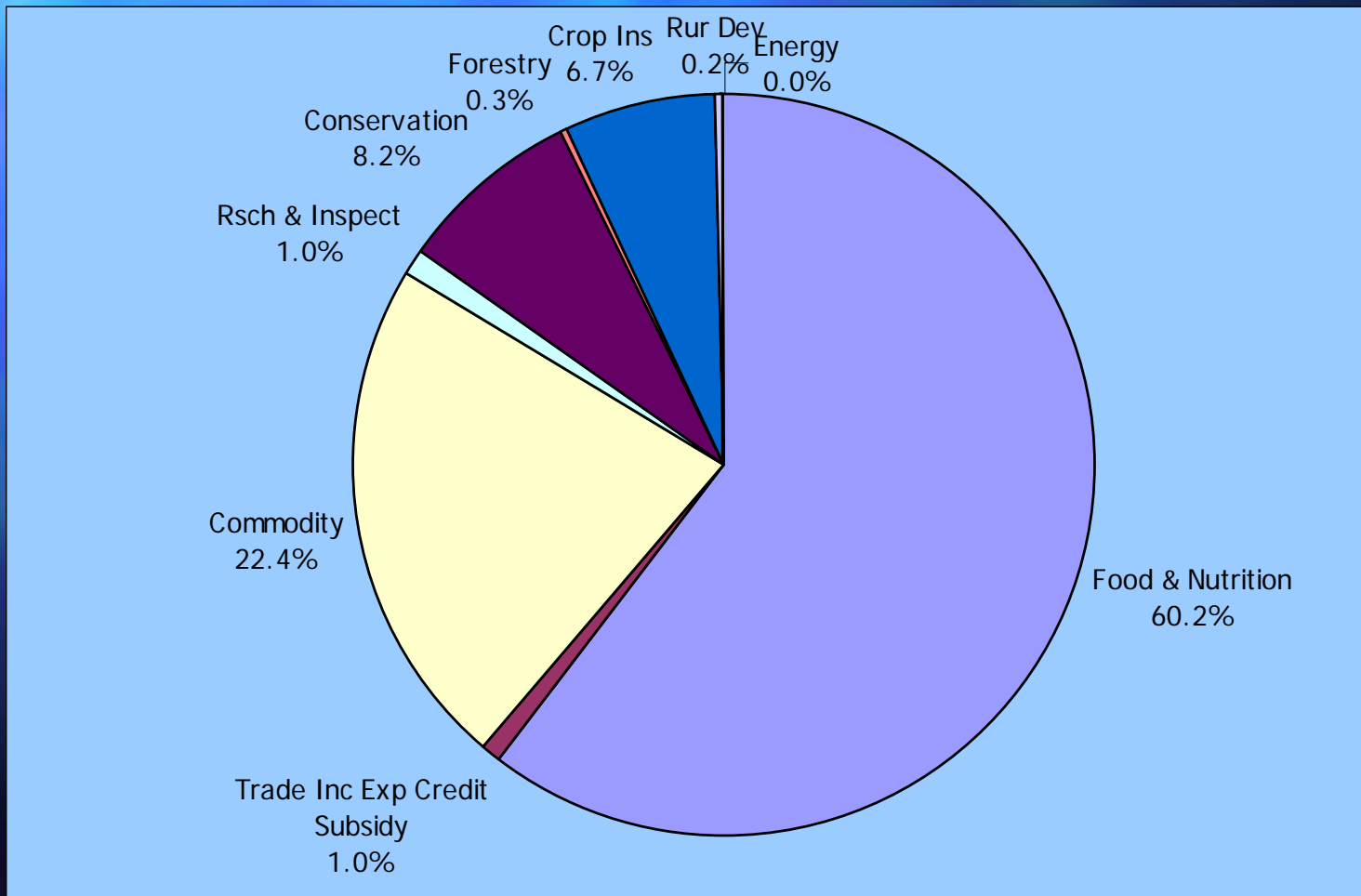
**CBO's Total CCC Costs (& NRCS Conservation), FY 2002 - 2011:  
Cumulative by FY. Latest CBO Estimate vs. Most Likely Estimate at Farm  
Bill Passage (Against the March 2002 CBO Baseline)**



# The House Ag Committee Has Responsibility for More than Farm Programs.

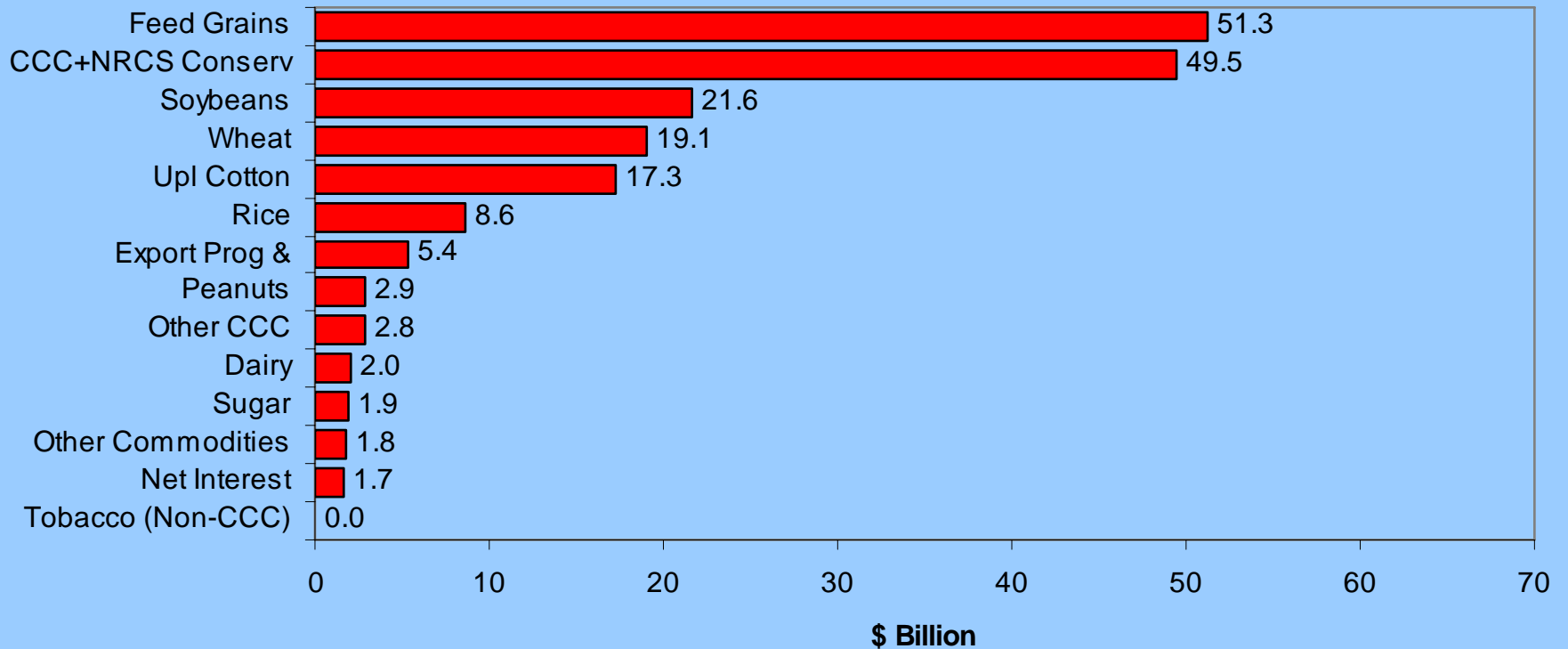
Projected Outlays for Programs Under House AG Jurisdiction  
of **FY 2006 – 2015: \$605 Billion**

CBO March 2005 Baseline Adjusted for CAFTA & Energy Acts



# CCC Spending by Crop or Program Area

**CCC (+NRCS Conservation) Outlays, CBO 10-Year Projections**  
**FY 06-15 = \$185.9 Billion**  
**CBO Aug 05 Baseline**



## Comments on the available funding and funding tradeoffs for the 2007 Farm Bill:

- A Funding Pie that is no Bigger (i.e. No additional funds) and is Likely to be Smaller.
  - Reconciliation and Residual Payment Envy from Extra 2002 farm bill funding. (Forgetting that funds were to avoid year-by-year ad hoc emergency assistance.)
  - Ag Committee Funding taken by Appropriators (see below)
- Yet Various Groups want additional funding from this likely smaller pie:
  - Fruits and Vegetables
  - Conservation
  - Rural Development
  - Crop Insurance

## Comments on the available funding and funding tradeoffs for the 2007 Farm Bill (cont.):

- New Programs Are Harder to Accurately Score (No experience to draw on.)
- WTO AMS Calculations can be different than Government Cost Calculations (e.g. Sugar and dairy price supports that include consumer costs).
- Budgeteers have increasingly wanted to tighten up on “emergency spending—requiring offsets from existing programs.

## CHIMPS: Mandatory Program Cuts Taken by the Appropriators

- CHIMPS: "Changes In Mandatory Programs" legislated in appropriations bills.
- Appropriators cut House Ag Committee mandatory spending programs by \$1.4 billion for FY 2005. This is up from \$650 million for FY 2004.
- Cuts have come largely from conservation, rural development, research, and energy programs.
- The FY 06 House Ag Appropriations Bill proposes \$1.4 billion in Chimps for FY 2006
- How much Ag Committee money will the Ag Committee want to put in the types of programs that Appropriators have been eliminating by cutting funding?

## Caveats on Offsetting Increased Costs for New Programs by Cutting Costs of Current Programs

---

- Every program has a constituency. Proposed cuts may lead to interest group wars.
- Depending on CBO scoring, may make policy proposals that save money more attractive than they otherwise would be.
- Can lead to “bad” policy if policies are designed to capture quirks in CBO baselines or estimating assumptions.



## Additional Comments (if Time)

- ❑ Ag Committee will spend significant time in trying to meet WTO requirements—as was done for the 2002 farm bill.
  - ❑ “Constructive ambiguity” that allows WTO deals to be signed but that may be interpreted in WTO challenges differently than we thought, is a major problem in writing legislation.
  - ❑ HAC will write the 2007 farm bill to WTO provisions adopted by that time—not to pending proposals.
- ❑ As always, impacts of program changes on land values is a major concern. But impacts of programs on cash rents is gaining more visibility.
- ❑ Because of potential ad hoc emergency assistance in years of low prices , some type of automatic counter-cyclical safety net is desirable (what we learned from the 1996 act).
- ❑ Bottom Line: What are the transition costs of getting from here to there and how can they be minimized.

Districts of Current Members of the House Agriculture Committee  
(Does not yet include Rep. Schmidt of Ohio's 2<sup>nd</sup> District)



# Contact Information

---

Craig Jagger  
Chief Economist  
House Committee on Agriculture  
1301 Longworth HOB  
Washington, DC 20515

202 225-1130 (o)  
202 225-4464 (f)

[craig.jagger@mail.house.gov](mailto:craig.jagger@mail.house.gov)