Program on Dairy Markets and Policy Information Letter

The President's Budget Proposal for Fiscal Year 2013

Information Letter 12-01

15 February 2012

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Introduction

It's that time of year when many folks are looking over the seed catalogs and thinking about whether to add to the garden or cut it back, to stick with that tried and true tomato or try something new, to look for something better than that snap pea variety that just didn't satisfy last year, or maybe to add another row of sweet corn and cut back on those darn zucchinis.

Similarly, Washington is doing its own garden planning - talking about how much money to spend, where to spend it, and how to get it in the first place. This week the news is full of the just announced U.S. Budget proposed by President Obama. http://www.whitehouse.gov/omb/budget/Overview In a curious Washington ritual, the President is required to present a budget proposal to the U.S. Congress at this time of year. It not only specifies a spending and taxation plan, it reflects the values and vision of the President by identifying what he wants to support and what he wants to trim. The President is advancing a plan that rests firmly in the rather populist vision he has recently put forth.

What makes it curious is that, for all its pomp and apparent purpose, Congress has no obligation to pay any attention to it and is currently in a frame of mind to ignore it altogether, other than as a straw man opponents can kick at. Each year I am asked to comment on the President's plan for agriculture. My comments always remind folks that it is Congress' plan that will rule the day in the end.

This notwithstanding, let's review where we are in the season's budget-making process and what the indications might be for developing a new Farm Bill.

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The Information Letter series is intended to provide timely information and an interpretation of current events or policy development for Extension educators, industry members and other interested parties.

Whose Budget Plan?

With some luck, there will ultimately be one U.S. budget plan, but in point of fact there are several steps in developing a federal budget and a few odd twists this year. There are four road markers worth noting at this point: 1) the implied budget guideline contained in the 2011 Budget Control Act, 2) the President's Budget for FY2013, 3) the [expected] budget resolution of the House Budget committee, and 4) the [not expected] budget resolution of the Senate. For agriculture, it is also worth noting the budget target put forward by the bipartisan leadership of the two Congressional agriculture committees.

Keep in mind that the budget being discussed now is the one that applies to the fiscal year ending in 2013 - FY2013 - which spans 1 October 2012 to 30 September 2013. Prior to that, it is quite possible that actions will be taken to reduce spending in FY2012, but that is a different process from the current budget debate. Although budgets are effected one year at a time, they are typically formulated over a 10-year planning horizon. Impacts of a budget plan are typically summarized in terms of cumulative 10-year effects. Thus, when it is announced that a plan "saves" $10 billion this should be understood to mean that the plan is projected to cost $10 billion less than the total expenditures expected over the next 10 years if we stay with existing programs.

Budget #1: The Budget Control Act

The legislation which gave us the failed Super Committee used two devices to give that committee some motivation to succeed. One was a cap on expenditures for the current fiscal year. Another was a series of budget targets for future years which is built on a process of sequestration.

Sequestration is a blunt tool for making across-the-board kind of cuts. The Act requires cuts to be allocated across Security (Defense and a few smaller items) and non-Security categories, and it holds harmless a few particular programs. For USDA, SNAP (food stamps) is held harmless. Furthermore, it is generally agreed that formal contracts cannot be broken. In agriculture that suggests that CRP payments would also likely be held harmless. There has been much speculation about what overall cut would be required if the sequestration process went into effect for lack of a more purposeful plan that saved as much or more money for the overall US budget. This is a hard number to predict with any kind of certainty, as it will vary to some extent with the economic conditions at the time as well as with other legal maneuverings and interpretations. A ballpark estimate places the reduction of overall USDA expenditures at about $16 billion over 10 years. Where those cuts would occur is not itemized, but they would not be on SNAP or CRP. This magnitude is the lowest number on the table, but it puts all the burden on the 40% of the USDA budget that isn't protected.

Budget #2: The President's Budget Proposal

The President has proposed a $23 billion cut in "discretionary" expenditures, which represent about 15% of total USDA Outlays projected for FY2013. The bigger cuts are in the Mandatory expenditures that are made as legislated programs kick in and ebb over time. The President's plan thus requires that changes be made to farm programs in order to achieve savings. He has proposed a set of changes that include the elimination of direct payments for major program crops (not dairy) and reducing subsidies paid to private insurers who provide crop insurance to farmers under USDA programs, among other things. His Office of

Management and Budget (OMB) projects that this will result in savings of $32 billion over 10 years. Congress, no doubt, would be happy to spend $32 billion less but they are likely to have some different ideas about what to cut, what to save, and what to grow. In his budget presentation, the President highlights the following goals or vision.

1. promoting the development of renewable energy and biofuels. This is not a renewal of the so-called blender's credit or anything that blatant. Rather it is a variety of loans and direct assistance to rural electric cooperatives, small businesses, and researchers to promote and use biofuels and other "clean" energy sources. The current administration is very keen on a concept that is called the bio-based economy, involving not only fuels from renewable sources but also other new products based on crops and other renewable resources.
2. increasing funding to the competitive grants program known as the Agriculture and Food Research Initiative (AFRI) and some increase for USDA's internal research in ARS - the Agricultural Research Service. There is much talk in support of reinvigorating agricultural research as a way to spur economic growth as well as feed a rapidly growing planet.
3. reduce hunger and support healthy eating. The President would add more money to WIC and additional eligibility under SNAP. He also wants to build on his initiatives to promote healthier eating in child nutrition programs (school lunch, etc). It is not clear just how friendly this is for dairy products. A major bone of contention concerns chocolate milk. Is it a good thing because it is better than carbonated beverages while still being acceptable to kids? Or, is it a bad thing because it is high in sugar? Do we protect the identity of chocolate milk by saying it can only contain natural ingredients or do we stifle its ability to compete by disallowing non-nutritive sweeteners unless we change the name to chocolate drink?
4. reduce funding for rural housing but target those dollars more towards the most needy families
5. further streamline and reduce the vast and far flung bureaucracy of the department by further reducing staff levels and closing more field offices.
6. reallocate funding in the Forest Service and other conservation and water quality programs

As you can probably tell, the vision tries to hit on a menu of items consistent with the President's generally populist vision, but the big money comes from reducing expenditures on core agricultural safety net type programs.

Budget #3: The House Budget Resolution

Congressman Paul Ryan chairs the House Budget committee. He has not proposed a formal budget for FY2013, but it is widely expected that he will pick up where he left off with the FY2012 budget he devised and which the House approved. http://budget.house.gov/fy2012budget/ This plan targets USDA-based programs for cuts of $177 billion over the 10-year planning horizon, with $30 billion for basic commodity programs. The House plan of last year, like the President's plan, focuses on cutting direct payments and reducing crop insurance premium subsidies and administrative payments to insurers. The House is very likely to pass a budget in the coming months, and it will likely look more similar than different from the 2012 plan. Nevertheless, the details and overall amount remain to be seen.

Budget #4: The Senate Budget Resolution

Of course, Senate Democrats have been feuding with House Republicans furiously and unproductively over the last year. In this environment, lop-sided proposals from either chamber have been DOA when they are sent down the street. With this in mind, the Majority Leader has said that the Senate will not pull together a formal budget resolution for FY2013, arguing that the numbers in the Budget Control Act are sufficient to the task and need. http://thehill.com/blogs/on-the-money/budget/208593-reid-this-years-budget-is-done While this doesn't provide much insight into the Senate's preferences for USDA programs, it is certainly the case that it would support the elimination of direct payments and maintain domestic food assistance programs. Beyond that, it is hard to say.

The Agriculture Committees Leadership Proposed Budget

Last Fall, the ranking Republicans and Democrats on the House and Senate agriculture committees drew a $23 billion line in the sand. They worked towards a new set of programs - a 2012 Farm Bill - that would achieve a $23 billion reduction in spending over the magical 10 years. This was a number of their own invention. It was never formally approved nor endorsed in the Congress. It is not at all clear that it would be. It is also not entirely clear whether the plan they were developing for the failed Super Committee would have even hit that target. It is presumed that they had a plan to do that, but among the many rumors about the "secret" farm bill is one that says they didn't quite make it on budget savings.

We do know that it included the basic architecture of the dairy proposals advanced by the National Milk Producers Federation and presented by Congressman Peterson as the Dairy Security Act last summer. We know that changes were made from that first legislative draft, but we don't know exactly what they were. It is widely believed that this will be the starting point for the Senate Agriculture committee as it begins a two-month hearing process this week. However, at this point there is still no formal bill language on the table.

It is most likely that both Agriculture committees will eliminate direct payments. They are likely to be more generous to crop insurers than other proposals. And, they are inclined to be more supportive of various forms of countercyclical supports for farmers. Nevertheless, they remain a long distance from passing a bill within their own committees, much less getting a single plan passed by both sides of the Congress.

Now What?

So, where does this leave us? It remains the case that there is no specific plan for agriculture yet, either in terms of a solid budget target or specific programs to achieve that number.

- ✓ Direct payments are surely a goner.
- ✓ Crop insurance is popular, but it is not clear whether subsidies will be decreased or new variations will be created or replace other current programs.
- ✓ Something like Mr. Peterson's Dairy Security Act remains the default expectation for dairy.
- ✓ There will be a struggle between a point of view that conservation programs can be cut back to support the immediate priority of supporting economic growth vs. the perspective that there is too much to lose in the long term by slacking off on conservation programs.
- ✓ Domestic food assistance will continue to get the lion's share of the agriculture budget, but there will be a tug and pull between maintaining benefits and improving eligibility and access versus an alternative view that wants to tighten benefits and administration.
- ✓ Biofuels and other aspects of the "bio-economy" will be hotly contested. For some, corn-based ethanol is the poster child for self-defeating policies that try to achieve the right goal in horribly wrong way. For others it is probably not the last step in a greener, self-sustaining economy, but it is a darn good early step. These very, very different views and visions are certainly not easy to reconcile.

Getting a solid number will help to focus the debate, but it will not by itself resolve major conflicts about priorities and programs for agriculture, food, nutrition, rural development, energy, agricultural and food trade, and related research and educational programs.