Program on Dairy Markets and Policy Information Letter

The Proposed Budget Resolution of the U.S. House Committee on Budget

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What Has Happened?

Actually, nothing. On 20 March 2012, the Chair of the House Budget Committee, Paul Ryan, made a proposal that his committee will consider on 21 March 2012. It is possible that there will be some changes to this proposal during the Committee "Mark-up". They could throw it all out and start over, but don't bet on any changes. This proposal is very similar to one the House Budget committee approved on a party line vote last year, and it is hard to imagine that the House leadership hasn't approved its basic content and design. Expect the House to approve this proposal. If this occurs, it will then go to the entire House of Representatives for a vote. It will formally be known as the House Budget Resolution for FY2013. Mr. Ryan calls his plan "Path to Prosperity".[1]

The legislative form of a budget plan is more like a promise the Congress makes to itself than the law of the land. The House or the Senate passes a budget in a form called a Resolution. If they agree to the same plan, it is called a Concurrent Resolution. That is the end of the process. Concurrent Resolutions are not law, per se, and as such they are not sent to the President for his approval. Hence, the President cannot veto a Concurrent Resolution.

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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.

[1] *Additional information about Path to Prosperity and other budget related information and issues is provided at the Committee website: http://budget.house.gov/fy2013Prosperity/ The corresponding website for the U.S. Senate is http://www.budget.senate.gov/democratic/. You will note that both committees have separate websites for the majority and minority parties. The President's budget proposal can be found at the website of the Office of Management and Budget: http://www.whitehouse.gov/omb/budget. Although the President is constitutionally obliged to prepare a budget and present it to Congress, Congress has no obligation to pay any attention to the President's proposal.*

In this case, it is clear that the Senate will ignore it. Senate Majority Leader Harry Reid had previously announced that the U.S. Senate would not pass a Budget Resolution because he considers the Budget Control Act passed in 2011 to be sufficient. The Chair of the Senate Budget Committee, Kent Conrad, has already stated his strong opposition to the proposal by his House counterpart. There will be much ranting about how horrible it is by one set of folks and how necessary it is by another set of folks. It will not become a Concurrent Resolution; nor will something else become a Concurrent Resolution.

Even though a House Budget Resolution has zero chance of becoming the guiding budget agreement for the U.S. Congress, it will (most likely) become the guiding budget agreement for the House. And, the importance of this should not be underestimated. It sets in place a situation similar to a married couple in which the wife decides to trim back on eating out and buying new clothes and to start working some extra hours of over time while the husband decides to only buy beans and rice, turn the thermostat to 55 in the winter and 80 in the summer, and sell the car and take the bus to work. Our hypothetical couple and Members of Congress are going to need some serious counseling down the road.

Once (we assume) this becomes an approved Budget Resolution in the House, it becomes a rock solid guide for all the authorizing committees and any actions taken by the House. Thus, if the Budget Resolution specifies cuts for programs under the jurisdiction of the Agriculture Committee, then Agriculture cannot endorse legislation that is estimated to violate the Budget Resolution.

<u>Didn't Congress and the President Agree to a Budget Plan Last Fall?</u>

As Senate Majority Leader Harry Reid has stated, the Budget Control Act of 2011 does provide a budget plan that specifies certain annual cuts over a period of years. Specifically, the Act required certain caps in Discretionary Spending for FY2012. Those caps determined Appropriations for the current fiscal year.

Beyond FY2012, the Act authorized a Joint Select Committee on Deficit Reduction to come up with a plan that would trim the federal deficit by certain amounts. The so-called Super Committee failed. This set the stage for more difficult cuts that are more or less made across the board. The third piece of the Act kicks in for FY2013. It is for this fiscal year that Mr. Ryan's proposal pertains.

The requirements of the Budget Control Act are the law of the land. It is generally understood that a new Budget Resolution could direct Congress to do as much or more as is required under the law, but it cannot do less in total. Even a Concurrent Resolution could not do less than the law requires, but it could rearrange how the total is achieved.

The motivation for a Budget Resolution is two-fold. Many fiscal conservatives and small government advocates simply want to shrink the budget more aggressively than was agreed to in 2011. Besides that, there are Members who have reconsidered how cuts are specified in the law and wish to change the distribution of cuts. Proponents of rebalancing are chiefly led by Members who believe the law puts too much burden on cuts in Defense. Part of this desire for rebalancing also derives from the fact that the Budget Control Act requirements focus on Discretionary Spending, but the far larger bulk of federal expenditures are on Mandatory Spending. Thus, rebalancing is not about how much to spend on new planes for the Air Force vs. new computers for USDA; it is about how much to spend on Medicare or Social Security vs. national defense.

If the Act's provisions are not over-ridden by a new plan that achieves at least as much deficit reduction, then a different kind of process takes place. This process is called sequestration. Sequestration is something like a parent telling a child that she will get a $10 a week allowance, but then somewhere along the way telling the daughter she has to give $2 back for a few weeks. The daughter can rearrange her spending plans in whatever way she wants but she will have $8 a week to spend. In theory, her allowance is still $10, but in practice she only gets to keep and spend $8. Under the sequestration process of the Budget Control Act, Congress would tell the President that he has to spend a lot less money and that certain areas of the budget have to contribute certain amounts in total. It would be up to the Office of Management and Budget to assign specific cuts within those totals.

What Does this Have to Do with the Committee on Agriculture?

As is customary in the Congress, a budget plan is generally developed and approved for a 10-year planning horizon. Authorizing committees must pass legislation that conforms to the 10-year plan. But, these plans and legislation also generally are passed with the understanding that after the first year or so everything is subject to review and change. As such, one can take that first few years seriously but the out years less so. Farm Bills are planned on a 10-year basis but have generally authorized programs only for the first five years, with the expectation that another Bill will take effect in year 6.

In addition to mapping out a general budget guideline, the proposed Budget Resolution explicitly directs 6 committees of the House to create new legislative plans that result in expected expenditures consistent with the plan. Agriculture is one of those six.

This directive to the 6 authorizing committees[2] takes the form of yet another Congressional tool known as budget Reconciliation. Rather literally, this is a process that tells a committee that it has in place laws that are expected to exceed the new plan, the Budget Resolution. Thus, it instructs the Committee to "reconcile" the laws within their jurisdiction to the new budget. In effect, it requires the authorizing committee to rewrite its bundle of laws in whatever way they deem best to meet the new 10-year plan.

The proposed Budget Resolution instructs the six committees to prepare their recommendations for a Reconciliation Bill by 27 April 2012. It specifically instructs the House Committee on Agriculture to

> *…submit changes in laws within its jurisdiction sufficient to reduce the deficit by $8,200,000,000 for the period of fiscal years 2012 and 2013; by $19,700,000,000 for the period of fiscal years 2012 through 2017; and by $33,200,000,000 for the period of fiscal years 2012 through 2022.*

Note that the reductions are specified in terms of deficits. This suggests that the Committee could achieve the requirements with increases in income or receipts as well as by a reduction in expenditures or outlays. The extent to which this is programmatically or politically feasible is not clear, although it is not likely to be a major source of the required deficit reduction.

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[2] *The six committees are Agriculture, Energy and Commerce, Financial Services, Judiciary, Oversight and Government Reform, and Ways and Means.*

Although there is much discussion in Mr. Ryan's Path to Prosperity narrative about the SNAP program, there is no language in the draft Resolution that targets SNAP specifically. The $33.2 billion reduction required for the Committee broadly could include cuts to SNAP but there are no additional cuts directed exclusively at SNAP.

The inclusion of the current fiscal year in the first round of cuts suggests that part of the required initial $8.2 billion reduction could come from savings in the year that ends 30 September 2012. While there might be some reductions that could be implemented that quickly, this doesn't seem especially likely or even feasible. Either way, it certainly seems that the reduction requirements are heavily loaded to the first year. As a percentage of the total reduction required, 25% is scheduled by the end of FY2013.

The annual average reductions required in the three time periods are $8.2 billion (FY2013 only), $2.875 billion (FY2014-17), and $2.7 billion (FY2018-22). Of course, how hard any of this is to achieve also depends on what planned expenditures are. If the planned expenditures are unusually large in the beginning and smaller at the end, then maybe this lopsided distribution of cuts isn't as bad as it looks.

It is not entirely straightforward how to assemble and compare these reductions with projected outlays by CBO, but I estimate that the reductions relative to projected outlays for the entire USDA averages approximately 2.7% per year over the 10-year planning period. But, the breakdown of annual averages over the three time periods is 6.8% (if it is all assigned to FY2013), 2.3%, and 2.2%, respectively. Thus, it does seem that the required cuts are indeed quite heavily front-loaded. This seriously increases the challenge facing the Agriculture Committee. It has to come up with a significant pile of savings and do it very fast. This is very different from the more typical, albeit unrealistic, strategy of back loading savings.

<u>What Does This Mean for the Next Farm Bill?</u>

What seems fairly clear is the following:

1. Last Fall, House and Senate Agriculture Committee leaders had agreed to hold themselves to a 10-year spending reduction of $23 billion. The Ryan plan increases that by 44%
2. The House Committee as a whole formally endorsed that level earlier this month.
3. The Senate Committee continues to operate under that assumption.
4. The Senate Committee is in the process of preparing a new Farm Bill for a vote before the summer recess. Whether or not it can accomplish that goal has been subject to debate before. Whether the wrench thrown in the works by the House impacts the Senate process is unknown but doubtful.
5. The Chair of the House Agriculture Committee had clearly been hoping to face a smaller cut, but he will do his best to craft a bill that meets the goals of his Republican colleagues. The Ranking Minority member of the Agriculture Committee had been working closely and amicably with the Chair. The Democrats on the Agriculture Committee are now likely to be less cooperative. It will be much harder to pass a plausibly bi-partisan bill just within the committee, much less the House.

6. The Agriculture Committee must submit its plan to "reconcile" their programs with the House Budget Resolution. The current draft of the Resolution sets that deadline at 27 April. That date could change but it suggests a very hurried deadline for some very hard decisions. Failure to meet the 27 April deadline (or whatever is finally decided) would put the ball in the Budget Committee's court, leaving them the option of writing their own plan for a Farm Bill.
7. It is hardly a given that either chamber will prepare a new Farm Bill in 2012, either before or after the election, but it seems clear that even if they do it will be all that much harder to achieve a consensus in a conference committee.
8. Resolutions or not, if a Farm Bill (and other spending plans) cannot be reconciled between House and Senate versions, USDA programs will expire or revert to permanent authority. This would be very ugly.
9. While not quite a proper Farm Bill, the Congress could agree to extend the current provisions of the Farm Bill beyond their current expiration dates. This isn't much easier to do than passing a new Farm Bill and probably all the more so if the House and Senate are operating under different budget rules. Even an extension has to go through a Conference Committee and emerge as one plan that both chambers approve and send to the President, who also approves it.
10. The Budget Control Act remains in effect. That means sequestration remains in effect. That means that OMB would have to instruct USDA to save a significant amount of money in 2013. Without a new plan of some type by Congress, it would have to do so without the benefit of changes to policy or underlying authorizations, and SNAP would NOT be included in any cuts.