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Title:	Budgeting the Farm Bill: Understanding the spending in the House Agriculture Committee's Proposal (H.R. 2)
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Abstract: In this brief, we examine the rules that control federal spending legislation and the potential impacts on replacing the 2014 Farm Bill. Congress (via the House Agriculture Committee) has released a draft 2018 Farm Bill that provides some insight into the limits that budgetary rules place on changing the system of farm and food programs in the U.S.

Introduction

In February, the Trump administration published its annual budget document outlining a spending plan for the federal government. Budget documents produced by presidential administrations indicate priorities for the coming year, especially which spending programs are targets for deficit reduction. The fiscal 2019 spending plan of the Trump administration included a 25% reduction to Farm Bill related spending (see the previous brief in this series, PAEPB-2018_2).

Reaction to the proposed cuts to Farm Bill spending was immediate and dismissive of reducing total spending on major farm and food support. Two months after the president's budget release, the House Agriculture Committee has produced its first draft Farm Bill and voted to move it to the full membership. The Congressional Budget Office (CBO) estimates that the 2018 Farm Bill draft (formally titled H.R. 2, Agriculture and Nutrition Act of 2018) will have no net effect on spending compared to a continuation of the 2014 Farm Bill. In the sections that follow, we discuss the specific budget rules that limit Congress in drafting legislation and how H.R. 2 reallocates spending across Farm Bill initiatives.

The Budget Process

The "power of the purse" is a phrase often attributed to Congressional powers (specifically to the House) on raising revenues and spending. In effect, regardless of budget initiatives outlined by the executive branch, Congress will have the lead in federal spending issues. However, two separate laws impose restrictions on how Congress may use their budget authority on discretionary and mandatory spending programs.

Discretionary spending programs are those that require annual appropriations by Congress. When reference is made to 'budget' in Congressional activity, it's typically an allusion to the package of programs (e.g. national defense spending) that must be annually approved by Congress. The limit on these annual spending programs between 2011 and 2021 was set in in the Budget Control Act (2011) that allowed an increase in the U.S. debt ceiling in exchange for categorical spending caps. Congress may exceed such limits by rewriting the law as was done (for fiscal '18 & '19) in the process of passing the $1.3 trillion appropriation package for the current fiscal year.

The second type of spending is on mandatory programs. These programs have triggers or formulas that determine the level of spending (or revenue collection). Commodity, nutrition assistance and several other farm bill programs that have eligibility criteria are mandatory spending programs. Mandatory programs tend to be longer term legislation that have variable spending levels as economic conditions adjust and change the government's financial obligation. Mandatory program spending is limited by the "Pay as you go" (PAYGO) budget scoring process.

After dismissing the 1990s era PAYGO rules for some tax reform and stimulus bills between 2001 and 2009 the requirement on mandatory spending was reintroduced in a 2010 spending compromise. The PAYGO rule requires that legislative changes to the Farm Bill can only be introduced if the net effect on the deficit is estimated to be zero. Any spending increase within the Farm Bill package requires an equivalent reduction in spending or increase in revenue in the same legislation. This means that e.g. increased spending on Farm Bill trade initiatives must have equivalent reductions elsewhere in the Farm Bill. The nature of mandatory programs is that the spending levels can't be known in advance so the CBO must evaluate the ten-year forecast for the economy and determine the expected cost of continuation of current programs which establishes the 'baseline' spending.

The 2018 Farm Bill baseline for commodity and other programs

Table 1. April 2018 CBO Baseline spending (million dollars) allowance based on 2014 Farm Bill commodity programs, 2019-28

Year	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
PLC	2,727	2,653	5,742	5,006	4,574	4,639	4,603	4,554	4,558	4,566
ARC-Cty	2,604	2,137	448	413	461	413	446	464	487	473
Total	5,331	4,790	6,190	5,419	5,035	5,052	5,049	5,018	5,045	5,039
PLC %	51%	55%	93%	92%	91%	92%	91%	91%	90%	91%
ARC-Cty %	49%	45%	7%	8%	9%	8%	9%	9%	10%	9%
Baseline Price Assumptions										
Corn	**$ 3.52**	**$ 3.66**	$ 3.76	$ 3.72	$ 3.72	**$ 3.69**	$ 3.73	$ 3.72	$ 3.70	$ 3.70
Soybeans	$ 9.67	$ 9.81	$ 9.67	$ 9.69	$ 9.70	$ 9.79	$ 9.73	$ 9.74	$ 9.75	$ 9.79
Wheat	**$ 5.10**	**$ 5.11**	**$ 5.11**	**$ 5.11**	**$ 5.10**	**$ 5.10**	**$ 5.10**	**$ 5.10**	**$ 5.11**	**$ 5.11**

Notes: Bold baseline prices indicate a projected price below the PLC reference price ($3.70 for corn, $8.40 for soybeans, $5.50 for wheat). PLC is the price loss coverage program that pays farmers on the basis of the difference in market prices and reference prices. ARC-Cty is the Agricultural Risk Coverage, county option program that uses county revenue benchmarks as the basis for payments.

On April 9, the CBO produced a new spending baseline that evaluates the continuation of current farm programs as established by the 2014 Farm Bill for the ten years spanning 2019 to 2028. This baseline estimate sets the limit on total spending in a new 2018 Farm Bill under PAYGO requirements. The baseline projections assume commodity markets rebound from current levels with ten-year average prices of $3.69 for corn, $9.73 for soybeans, and $5.11 for wheat (see bottom panel of table 1). Additionally, the baseline calculations assume that farmers reallocate their base acres beginning with the 2019 crop year. The CBO estimates that PLC will dominate acreage enrollments for corn and wheat base (85% and 82% of base acres respectively), up considerably from the 7% (corn) and 43% (wheat) allocation to PLC for 2014 to 2018 crop years. Soybean base acres in PLC similarly increase from the previous 3% to 28%, though the higher expected prices for soybeans are expected to attract the majority of base acres in ARC-Cty.

The average spending on commodity programs in the baseline is $5.1 billion per year, a figure that is in line with historical commodity spending for the past decade. Additional CBO scoring on SNAP and other mandatory programs combine to set a total baseline-spending limit of $786 billion over the ten-year budget window. The new Farm Bill is expected to cover the only a five-year span and the baseline shows the spending allowance contributed by that timeframe to be (2019-2023) $387 billion. That figure is $100 billion less than the 2014 Farm Bill's five-year spending allowance when it was passed in February of 2015.

Budget impact of H.R. 2

The PAYGO process is set up such that the definition of 'deficit neutral' is a continuation of mandatory programs, i.e. PAYGO is a restriction against accelerating growth in the national deficit. It is also an incentive to spend every dollar allowed since any savings in enactment will disappear from future budget authority and may limit options for reform.

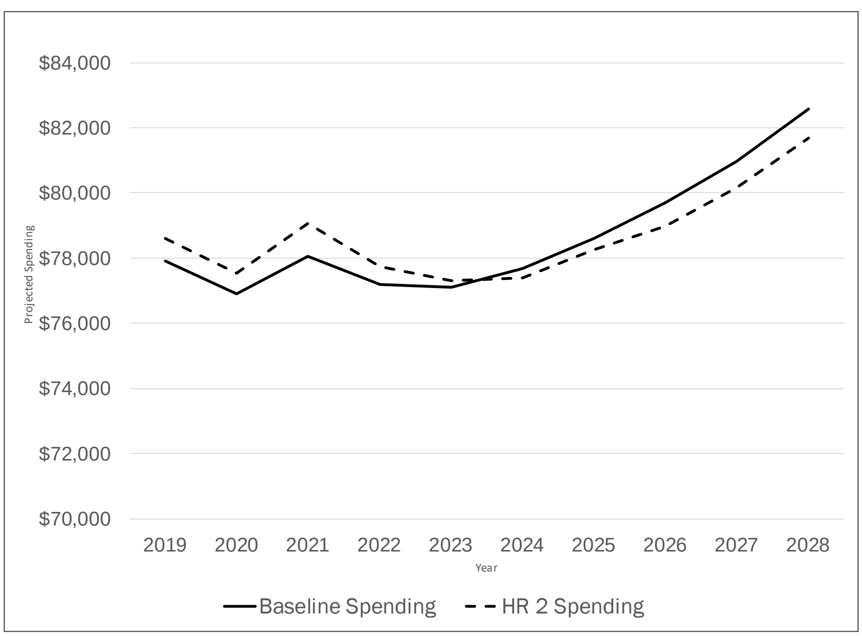

Figure 1. Baseline vs H.R. 2 spending in the ten-year budget window.

On April 13, CBO released its budgetary estimate of H.R. 2 showing that the ten-year projection of all changes in the legislation fit into the $786 billion baseline. Figure 1 shows the year-by-year comparison of H.R. 2 spending versus the baseline and reveals that the balancing of H.R. 2 against the baseline is a front-loading of spending increases in 2019-2023 and reductions in 2024-2028. This means that if the relatively stable conditions predicted in the baseline (see e.g the prices in Table 1) persist the baseline spending in the Farm Bill in 2023 will be further reduced from the lower limits Congress faces this year.

As the Farm Bill debate proceeds, the total spending level is unlikely to fall as both House and Senate committees will want to spend the limited monies they have. The Trump administration has recently alluded to the Farm Bill as a way of helping farmers negatively impacted by ongoing trade disputes. The spending debate then will be over the reallocated funds moved between titles (or within titles) and in particular the 'Workforce Solutions' component of the nutrition title. The CBO estimate shows that implementing this reform saves $150 million per year but reduces food benefits for participants by $900 million per year. The $750 million gap between those two reductions reflects the cost of providing education, training and other support provisions to SNAP recipients as well as the supporting bureaucracy for administering the Workforce Solutions effort.

Outside of the nutrition title, a number of smaller adjustments are proposed in H.R. 2 that will rebalance spending. Among these (all values given as per year averages based on the ten-year CBO spending forecast for H.R. 2):

- Increasing trade promotion programs (+$45 million per year) while reducing rural infrastructure initiatives (-$50 million per year)
- Increased spending in the commodity title (+$20 million per year) due to shifts to PLC programs as well as changes to dairy and cotton spending (restored to covered commodity status)
- Reduction of crop insurance spending and increases in related fee collection (-$16 million). The spending reductions in the crop insurance title focus on research and education programs.
- Reduction in net conservation spending (-$80 million per year)

What can we learn from this? The small reallocations show an extremely tight Farm Bill budget with limited options for adjustments. The House of Representatives' desire to reform the nutrition title is carried over from the 2014 Farm Bill, though the current proposal is less aggressive than some anticipated. The peripheral debates (e.g. trade promotion versus rural infrastructure spending) will have Senate champions on each side, so that when that chamber joins the process we can expect an extended multi-front Farm Bill debate that must move quickly to avoid delays due to mid-term election activities.