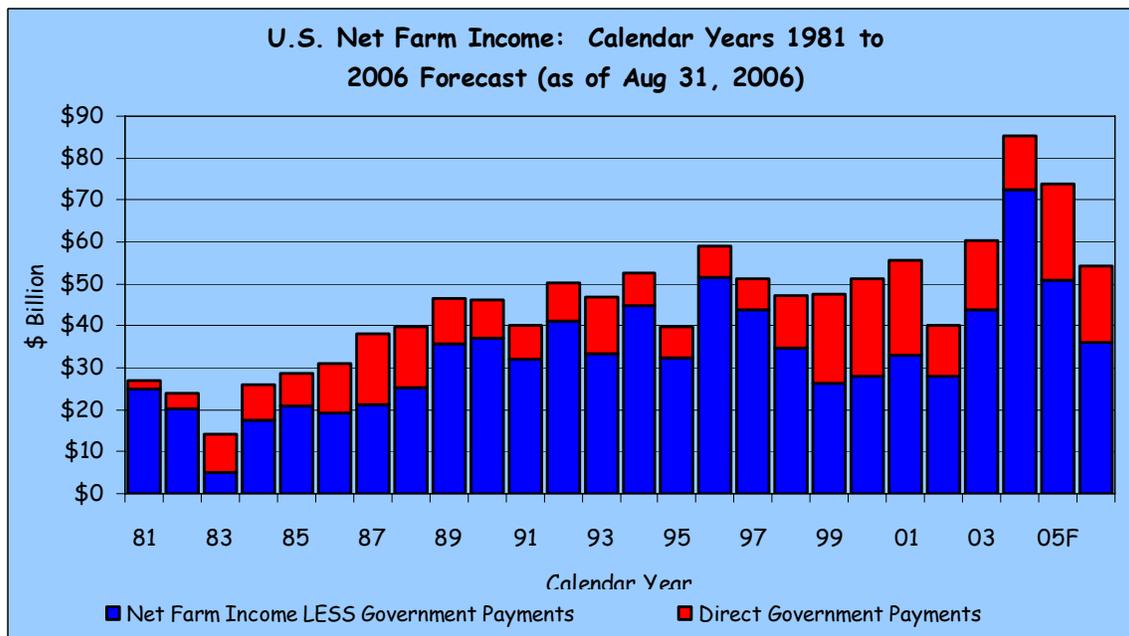


Show me the money--Budget issues will shape the size of future farm subsidies

By Sara Wyant, Editor, Agri-Pulse

One of the key challenges in writing the next farm bill will be finding the money to pay for what seems to be an ever expanding “wish list” of new programs, as well as higher funding level for some existing programs. So far, there is no shortage of requests. The National Association of Wheat Growers is asking for higher levels of price supports. The fruit and vegetable industry wants more federal dollars for research, promotion, and marketing. Some states want more money for animal identification. And don’t forget the requests for a permanent disaster bill. The list goes on and on.

At the heart of the battle will be the federal budget baseline, which is used to “score” or establish a benchmark for the amount of funding available. No one knows for sure what the Congressional Budget Office (CBO) will project agricultural spending to be over the next ten years, but there is growing concern that the baseline number they come up with will be considerably lower than what was available for the 2002 Farm Bill. Why? Farm program spending is trending downward again. Commodity prices are setting new records, lowering the amount of expected government outlays. See Net Farm Income projections, below.



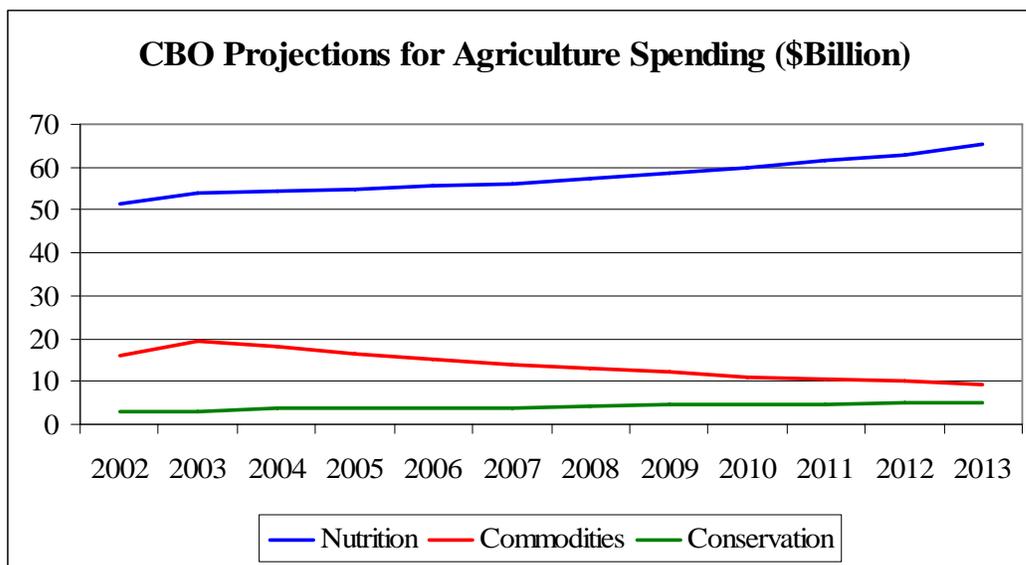
The American Farm Bureau Federation (AFBF) recently asked Congress and the Bush administration to fund the upcoming Farm Bill at the same levels as those authorized in

the 2002 Farm Bill---along with an inflation adjustment. “The 2002 farm bill was carefully constructed to provide predictable support for commodity, conservation and nutrition programs,” AFBF President Bob Stallman said. “Congress struck a balance in funding each of those programs. More importantly, Congress determined the tax dollars they were willing to spend on those programs over the life of the farm bill.”

According to AFBF, the CBO’s March 2006 baseline projects spending on key farm bill programs for 2008-2013 (potentially the six-year life of the next farm bill) is at \$488 billion. However, the division of those funds for the next six years shifts substantially from that approved in the 2002 Farm Bill. Nutrition outlays are expected to grow to \$366 billion, conservation outlays rise to \$29 billion and “other” outlays increase \$700 million. Program outlays for wheat, corn, soybeans, cotton, rice and other core commodities are projected to drop from \$99 billion to \$66 billion.

AFBF expects the increase in ethanol and biofuels production -- and the impact on corn and soybean prices -- to reduce the commodity baseline to about \$57 billion over six years. “This is barely more than half of the \$99 billion Congress was willing to spend on commodity programs over the last six years. In turn, this reduces the commodity title portion to only 12% of total spending,” they emphasized

If our assumptions for the March 2007 baseline are correct, AFBF notes, outlays for the commodity title would decrease from \$99 billion approved in 2002 to \$57 billion for the 2008-2013 fiscal years – a 42% decrease. Nutrition spending would increase 15% and conservation spending would increase 35%. **See chart below from AFBF.**



Baseline ‘math’

The CBO does three baselines per year: in January, March, and August. In constructing Ag Committee baselines, CBO analysts incorporate not only current laws but also current

and projected market conditions, structural changes, economic trends, USDA policies and expected implementation decisions. According to House Agriculture Committee, the first indication of revisions in the CBO baseline won't likely be released until the last week of January. Another revision will be offered after the President's budget is released in early February. The March, 2007 CBO Baseline (with adjustments, if any, from the budget resolution) will be used to score the 2007 farm bill.

Keep in mind that President George Bush can recommend funding levels. But it's up to the Budget Committees to pass budget resolutions that will start the process in Congress. Those Committees could provide funding over and above the CBO baseline or cut it even more. Historically, agricultural interests scored very well, especially when you consider that fewer and fewer people farm the land. Several times in the past, lawmakers have been successful in boosting farm spending, as you can see from the summary below.

Funds Added in the Congressional Budget Resolution: Historical Precedents

- 1994: Added \$1 billion per year for crop insurance reform.
- 1999: Added \$6 billion over 4 years for new risk management.
- 2000: Increased 1999 funding to \$8.2 billion over 5 years.
- 2001: Added \$79 billion over 11 years for the ag safety net. \$5.5 billion used for 2001 Market-Loss Assistance. \$73.5 billion left for Farm Bill which was not completed in 2001.
- 2002: Continued 2001 funding consistent with 2001 levels.
- 2005: Added \$1 billion over 10 years to provide mandatory funding for CRP and WRP Technical Assistance

Tough sledding?

But this year could be much different than 2001, when lawmakers were dealing with surpluses and able to add over \$70 billion to the farm bill "pie." Given the large federal deficit and the competition for dollars, finding several billion new dollars could be tough sledding in 2007. Several Democrats who now control the majority in both the House and Senate campaigned on themes like fiscal responsibility and spending accountability.

Still, Democrats are counting on leaders like Sen. Kent Conrad, who will chair the Senate Budget Committee, to make a major push for increased agricultural funding in the budget resolution. If he's successful, writing the next farm bill will be considerably easier. If not, farm and commodity organizations will all be competing for a smaller slice of the same farm bill "pie." At that point, the biggest challenge may be to avoid forming a circular firing line.

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