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The Balanced Budget Amendment: How It May Impact Farm Programs
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Most farmers support the concept of a balanced federal budget. However, the Balanced Budget Amendment (BBA) already passed by the U.S. House of Representatives and recently rejected by the Senate, could have far more impact on farmers than the Farm Bill itself. If the Senate reconsiders and approves the BBA later this year, the Congress ostensibly will be looking for up to $700 billion in budget cuts over the next five years. This magnitude of reduction would be required to pay for proposed tax cuts of $200 billion while putting the budget on track to be in balance by 2002. Farmers and other agribusiness interests need to watch both tax cuts and budget cuts to discern the net impact on their bottom line.

This is not the first time that farm program decisions have been driven by budget pressures. In fact, the last two significant changes in commodity program provisions were not enacted in farm legislation but were made to cut expenditures as part of the Omnibus Budget Reconciliation Act of 1990 (OBRA-90) and the OBRA-93. For example, in 1990 the flex acres provision was introduced to cut the payment base by 15 percent and the calculation of deficiency payments for wheat and feed grains was changed to use the annual average rather than the first seven-month average price.

In 1995, however, the intensified focus on the budget deficit, and the balanced budget amendment (BBA) in particular, are certain to increase the pressure to cut discretionary and entitlement programs, including those directly affecting farmers. President Clinton's February 6 budget message focused on preventing increases in the deficit rather than on reductions. It proposed only $144 billion in spending cuts over five years, included no significant changes in farm programs (though projected costs declined slightly), and increased domestic food assistance spending. Cuts proposed by the House and Senate are likely to be much larger, especially if the BBA is also passed by the Senate.

To get a sense for the size of the projected cuts, compare the $700 billion total that could be proposed by the House in 1995 to spending cuts of $192.2 billion in the OBRA-93. This legislation cut agricultural spending by $2.5 billion and increased domestic food programs by $2.5 billion over five years. The reported House goal in the first budget-cutting installment of $200 billion is to cut $10 billion ($2 billion per year) out of farm and food programs combined. But it's not yet known how the cuts would be split or what the contribution of these programs would be to the second budget-cutting installment of up to $500 billion. By comparison, farm and conservation programs are projected by the Congressional Budget Office to cost about $57 billion and food programs about $196 billion over the next five years.

Another consideration that may affect the debate is the high variability of farm program costs. Current programs are designed so that payments and storage program costs are higher when prices fall and vice versa. If the budget cutting includes efforts to make farm program costs more predictable, or even completely predetermined by a fixed budget allocation, Congress may consider several alternatives available to achieve such a goal. Whether or not any of these options would be politically viable remains to be seen, but a few are listed here as examples and without offering judgment on their efficacy.

First, the continuation of current loan and farmer-owned reserve programs could provide price risk reduction at minimal cost. This basic set of loan and stock programs would not incur significant costs. These programs cost only $4.15 billion over the last five years compared with $58.4 billion for all farm programs. While there may be some groups that also would want to change the loan and stock programs, anything more than tinkering at the edges would jeopardize the benefits of carrying on a familiar and well-understood program as a low-cost price risk reduction mechanism. If the loan rates were raised too much, it could increase the potential for higher and more variable costs and may interfere with market prices and export competitiveness. If the loan rates were lowered or changed from nonrecourse to recourse loans, it could decrease the price risk reduction provided to producers.

There are a number of alternative forms of income support or income stabilization that have been suggested and could be layered on top of these basic loan and storage programs. Their design and magnitude would be heavily influenced by the budget monies available to fund them. A common element of these programs is the complete elimination of the target price, deficiency payment, and set-aside programs.
This would present a trade-off of cost and benefits to producers. On one hand, they would lose the income protection that deficiency payments provide, but they would gain complete flexibility in allocation decisions regarding the use of their land and other inputs. The government risk sharing in this case would come in the form of a payments scheme such as one of those described below and continuing current loan and farmer-owned reserve programs in roughly the same form in which they currently exist. Here is a sample, though not exhaustive, list of such alternatives:

1. **Compensation payment guarantee.** Perhaps the most simple and easily implemented program would consist of fixed payments allocated to producers proportional to their current payments eligibility. The proportions could be based on a formula such as the average of the last five years of payments. The advantage of this approach in terms of budget is that there would be no uncertainty about budget outlays from one year to the next. These payments would be based on historical production and benefit patterns and would not in any way be influenced by what would be planted in the future. Since these payments would be proportional to some recent historical period, this compensation plan would not significantly change the distribution of benefits.

2. **Revenue assurance.** The Iowa Plan, proposed by a task force of Iowa crop and livestock producers and farm organizations, combines the continuation of current loan and stock programs with an expanded insurance program that would be designed to provide a revenue safety net in lieu of the yield coverage available under the current crop insurance program. The protection level of the safety features again depends upon the budget available for the program. As an example, a 70 percent revenue protection plan would trigger payments if revenue in one year fell below 70 percent of the moving average over the last five years. If revenue assurance were designed in such a way that it would be actuarially sound, the government could make a fixed contribution toward the cost of the insurance and thereby also maintain certainty about government outlays. In this case, there would be variability in the insurance payments from year to year, but the government contribution would be fixed.

3. **Targeted payments.** A targeted payment scheme could be based on a number of different criteria.

Some have suggested targeted payments based on means testing, which would presumably provide little or no support for large commercial farms, and support for middle-sized and smaller farms would hinge on some means-based criteria. Although arguments can certainly be mounted in support of various targeting schemes, it is unlikely that a debate over targeting a shrinking revenue pie could be easily resolved. While some members of Congress may support the idea of means testing, others may view any kind of targeting as a type of social engineering.

4. **Green payments.** Using this approach, programs related to conservation and environmental concerns could be treated independently. Under option one above, where payments are constant and continuous, there could be some kind of conservation compliance conditionality. The other schemes do not lend themselves well to this kind of linkage, especially the targeted program, which may not include a large part of the U.S. land in production. The wetlands reserve program is a freestanding example. A targeted and reformed CRP program could be designed in a similar manner, where payments are made in return for meeting specific land use requirements. However, a linkage between commodity and “green” programs may occur on the budget side. That is, if more funds were used for environmental programs such as a targeted CRP less would be available for the income support or stabilization programs.

In this environment, Iowa farmers and their organizations should be comparing the potential benefits of deficit reductions and tax cuts to the potential losses in farm program benefits. With regard to farm program reform, it seems likely that reduced monetary benefits would be offset by increased decision making flexibility in land use. Depending on the size of the required spending cut, changes could involve a wide range of options such as increasing flex acres from 15 percent to some higher level, reducing target prices, eliminating the export enhancement program, or replacing current programs with some combination of safety net provisions as discussed. There is no doubt that deficit reduction is a higher priority this year than it has been before, and that this priority will be of increased importance if the Balanced Budget Amendment passes the Senate as well as the House.