BUDGET BULLETIN
A WEEKLY BULLETIN PRODUCED WHEN THE SENATE IS IN SESSION.
COMMITTEE ON THE BUDGET Republican Staff
Judd Gregg, Ranking Member
202/224-0642 http://budget.senate.gov/republican

110th Congress, 2nd Session: No.2 February 15, 2008

INFORMED BUDGETEER

FARM BILL STATUS

- One year ago in his 2008 Budget submitted to Congress, the President outlined his proposal for the reauthorization of agriculture programs (aka the farm bill) for 2008-2012. Since then, the House has passed a farm bill (H.R. 2419, on July 27, 2007), and the Senate has passed its version of the farm bill (on December 14, 2007). Last week, the Senate appointed conferees, but the House has not done so yet. Nonetheless, the press is full of reports of negotiations underway and offers being exchanged.

- To make sense of conference negotiations and any eventual conference agreement, budgeteers find it useful to understand the position of the three players going in to conference. This is especially important given the amount of misinformation last fall about the cost of some of the proposals and whether they were paid for under pay-go.

- **Bad Information**. For example, in early November, Congress Daily reported that Senate Budget Committee Chairman Conrad "released a chart of CBO's analysis of [the President and the Senate's farm] bills showing the Senate bill would increase outlays over the current baseline by $5.1 billion [over 2008-2012], while the Bush proposal that was released Jan. 31 would increase outlays by $6.9 billion [over 2008-2012]."

- The story quoted Chairman Conrad:
  "We compared their farm bill proposal to ours on a CBO score. They've [the Administration] gotten caught with their hand in the cookie jar so now they are scrambling around trying to position themselves. Their credibility is in sharp decline. If they think this is the way to influence sharp discussion on farm policy, when we had a strong bipartisan majority to bring the bill out of committee, they are just digging a hole deeper for themselves."

- To top it all off, the Chairman's conclusion became the story's lede: "Senate Budget Chairman Conrad says CBO estimates the Bush administration's farm bill proposal would cost more than the Senate farm bill that the president has threatened to veto."

- Skeptical budgeteers would have done well to read that and ask themselves: How much sense does that make? Could the President really threaten to veto a farm bill that costs less than his own by saying it costs too much? But budgeteers needn't have bothered asking, because it wasn't true.

- Very early on (March 2007), CBO did in fact do a preliminary estimate of the President's farm bill that amounted to $6.9 billion over five years. But by November, that estimate was well out of date. It had been rendered meaningless by enactment of subsequent legislation and by the Administration's summertime submission of legislative language for its farm bill proposal.

- In fact, since enactment last May of the 2007 supplemental appropriations bill (which included an extension of the Milk Income Loss Contract program – MILC), CBO was no longer estimating the Administration's farm bill at $6.9 billion (enactment of MILC alone dropped the 5-year cost to $5.7 billion). More recent and relevant CBO estimates of the Administration's farm bill proposal were available for the asking by anyone who wanted to be analytically correct, but the Chairman deliberately chose to continue to use old, misleading information that had no credibility.

- **Good Information**. So what does CBO really estimate as the cost of the President's farm bill proposal (from his 2008 budget request), and how does that compare to CBO's latest estimates of the House- and Senate-passed farm bills? The table below summarizes CBO's estimates.

Comparison of CBO's Estimates of 3 Farm Bills

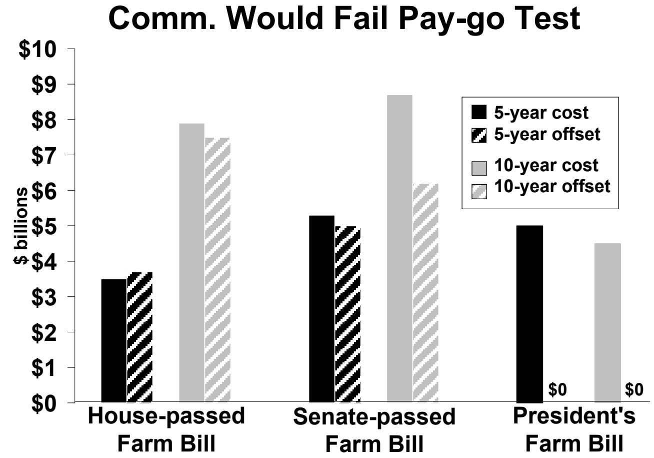
($ billions)	2008-2012	2008-2017
CBO Farm Bill Baseline (March 2007)	280.5	596.6
Increases Proposed by:		
President	5.0	4.5
House-passed Farm Bill	3.5	7.9
Memo: Revenue Offsets	*3.7*	*7.5*
Senate-passed Farm Bill	5.3	8.7
Memo: Revenue Offsets	*5.0*	*6.2*
Total Farm Bill Spending Proposed By:		
President	285.5	601.1
House-passed Farm Bill	284.0	604.5
Senate-passed Farm Bill	285.8	605.3

- The table summarizes the cost of the three competing farm bills over a five-year period (2008-2012) and a 10-year period (2008-2017) because those are the relevant periods for current enforcement of the pay-go point of order in the Senate. (With the start of the 2nd session of the 110th Congress in January, the House is now enforcing the 2008-2013 and 2008-2018 time periods for its pay-go point of order. But this table still compares the three bills for the same periods in order to evaluate which costs more over comparable periods. Also, CBO has yet to release a cost estimate of the House bill that includes 2018 with underlying baseline assumptions consistent with the March 2007 baseline.)

- The table clearly shows that over 10 years, the President's farm bill, at $4.5 billion, costs less than both the House-passed bill ($7.9 billion) and the Senate-passed bill ($8.7 billion). Over five years, there is no question that the new spending in the President's farm bill ($5 billion) is less than the level in the Senate bill ($5.3 billion), though it does exceed the cost of the House bill ($3.5 billion) for that period.

- The table also displays the offsets for the new spending, which may be more clearly seen in the graph below.

All 3 Farm Bills Considered by Conference Comm. Would Fail Pay-go Test



Source: CBO, Senate Budget Committee Republican Staff

- Because both the House and Senate enforce pay-go points of order, both bodies tried to come up with sufficient increases in revenue to offset the increased spending in their respective bills.

- At the time of consideration (July and November/December, respectively), the House and Senate bills appeared to have sufficient offsets to escape a pay-go point of order. Since then, however, other legislation has been enacted that affects the scoring of the three farm bills (the energy bill, P.L. 110-142, and the Omnibus appropriations bill, P.L. 110-161).

- As currently scored by CBO, the Senate bill (if it were adopted in its entirety by the farm bill conferees) would fail to fully offset its costs over both the 5- and 10-year time periods. Therefore, that bill would be subject to a pay-go point of order. In contrast, the graph shows that the House farm bill more than covers its costs over five years with increased revenues of $3.7 billion. But if the House version were adopted by the conferees, that bill would still face a pay-go point of order because it comes up $0.4 billion short in covering its costs over 10 years.

- **Missing Information**. What about the President? The Administration has said that its senior advisors would recommend that the President veto the farm bill if it increased taxes to offset increased spending.

- Because it submits its proposals for the farm bill (along with other changes in spending or taxes) as part of the entire budget submission, the Administration likes to say that it does not have to match any of its spending increases with specific reductions. The Administration argues that if Congress only followed everything in the President's budget, we would arrive at the deficit numbers in that budget's bottom line.

- But pay-go is a point of order that applies in both bodies of Congress and is something that any farm bill conference agreement will have to address. Therefore, House and Senate negotiators have challenged the Administration to specify how to pay for the President's farm bill. This is a reasonable request, especially in light of the President's budget for 2009 (as well as for 2008 and budget submissions before that), which demands reinstatement of a version of pay-go enforcement for mandatory spending, enforced by sequestration. Specifically, the 2009 budget states:

  The Administration proposes to require that all legislation that changes mandatory spending, in total, does not increase the deficit. The five-year impact of any proposals affecting mandatory spending would continue to be scored. Legislation that increases the current year and the budget year deficit would trigger a sequester of direct spending programs. The proposal does not apply to changes in taxes and does not permit mandatory spending increases to be offset by tax increases. This proposal effectively applies a pay-as-you-go requirement to mandatory spending.

- Is the Administration sincere about its own pay-go proposal? If so, then shouldn't its farm bill negotiators bring to the table some ideas for reducing mandatory spending that could offset the increases in farm bill spending?

- **Worrisome Information: Early Warning on Farm Bill Conference Pay-go Gimmick.** Recently the press has reported on a proposal from the House (with the Administration's backing) to the Senate on a conference agreement that includes several options to reduce spending in the farm bill to meet the Administration's concerns that the House- and Senate-passed bills are too expensive. (Supposedly, the Administration has "charged" the Chairman of the House Agriculture Committee to propose a bill that increased farm bill costs by only $6 billion over 10 years.)

- The largest change in this offer compared to the House-passed bill appears to be a temporary sunsetting of direct payments to farmers in 2016. According to the reports, the sunset would "save" $5.2 billion in that year. In 2017, the proposal would restore direct payments so they could be assumed to continue in the baseline.

- This is more gimmicky than the usual "simple sunset" gimmick because it serves two purposes. First, it would make the bill look like it costs less in order to reduce the need for offsets to satisfy the pay-go point of order in the House and Senate. Second, it would result in a farm bill spending baseline after 2017 such that simply extending the expiring farm bill after that point won't be scored with a cost. No pay-go offset would be needed to extend the farm bill in the future.

- This is the same kind of pay-go-avoidance gimmick that was used to enact H.R. 2669, the College Cost Reduction and Access Act (the 2007 reconciliation bill). After increasing Pell grant spending for a few years, this bill then reduced Pell grants to next to zero for one year, only to increase it again thereafter so that the Chairmen of the House and Senate Budget Committees could direct CBO to include Pell grants in the baseline.

NEW ECONOMIC FORECAST FROM CBO

- Today the Congressional Budget Office released revised economic projections which will underlie CBO's reestimate of the President's Budget as well as CBO's revised baseline, both of which will be published in early March.

- CBO produced the economic projections underlying its January 2008 Economic and Budget Outlook in early December 2007. Usually, CBO uses the same economic projections to produce both the January and March baselines, as well as its reestimate of the President's budget.

- However, since December, new economic data have become available that shows slower economic growth and rising unemployment. In addition, the Federal Reserve Board took action to reduce the discount rate by a total of 125 basis points, and President Bush signed the economic stimulus bill into law. CBO decided that this amount of new information about the economy warranted revised economic projections.

KEY REVISIONS TO CBO ECONOMIC FORECAST

	Real GDP 2008	Real GDP 2009	2008 90-day T-bill	2008 10-year T-note	2008 Unemp. rate
December	1.7%	2.8%	3.2%	4.2%	5.1%
February	1.9%	2.3%	2.1%	3.6%	5.2%

Source:
http://www.cbo.gov/ftpdocs/89xx/doc8979/02-15-EconForecast_ConradLetter.pdf