PolicyPennings by Dr. Daryll E. Ray

Will agriculture's funding be slashed to reduce the budget deficit?

Recently, we have been on the road making presentations to a wide variety of groups concerned about agricultural policy. One of the questions that is garnering quite a bit of attention – sometimes in quiet conversations and other times in open discussion – is the issue of the large federal deficit and its potential impact on farm program funding. Everyone remembers the 1980s and the Gramm-Rudman-Hollings Act and the squeeze it put on farm program spending.

The current projected deficit of $368 billion does not include the cost of military operations in Afghanistan and Iraq, which will add $80-$110 billion to the national overdraft. To date, no specific proposals have been made for dealing with the continual flow of red ink, but those we talk to agree that it is an issue that farmers, farm organizations, and agricultural policy analysts cannot ignore.

If the past is any measure, there are a number of budgetary items that will be off the table. Certainly we are not looking at any cuts in the budgets of the military and homeland security. Realistically, we can expect increased funding for them. Entitlement programs like social security will be untouchable. Agriculture has no such exemption.

So what are the ways that farm program expenditures can be cut? In asking that question, one of the common assumptions is that the 2002 Farm Bill will not be reopened for a rewrite until it is up for renewal.

One of the options is for the USDA to impose across-the-board cuts on all programs. Certainly, that is easier than trying to pick winners and losers among the programs. It could be implemented by taking a percentage cut off everyone's check, whether it be the contract payment, LDPs, or EQIP cost sharing. The pain would be felt by all.

A second way to deal with reduced appropriations would be to establish a firm payment limitations cap on the amount that any one operator could receive. This type of cut would not affect all operators in the same way. For instance, payment limitations would affect cotton and rice farmers more than wheat and barley farmers.

Another alternative would be to make deep cuts in conservation and environmental programs. Given the response of the current administration to the Conservation Security Program, we would not be surprised to see further cuts in that program. Other conservation and environmental programs might be put on the chopping block as well.

We would not expect to see the loan rates and target prices affected, because that would seem to suggest the opening up of the farm bill ahead of its expiration. On the other hand that is possible. We have recently read articles by an analyst with connections in the USDA and he has begun to suggest that reopening the 2002 Farm Bill is not out of the question and might be one way to deal with the budget crisis.

Another factor that might shape the administration's strategy in dealing with possible budget cuts in agriculture is the ongoing trade negotiating process. This could work for or against making fundamental changes in farm policy before the expiration of the 2002 Farm Bill. By making changes in WTO-favored directions, some of the international pressure could be lessened. Others would say that any US policy changes should not be made until the changes can be used as bargaining chips in international negotiations.

One thing seems clear, cuts are likely to be made in farm program expenditures before the expiration of current farm legislation. That would still be true even if there is a freeze in overall federal spending. The increases given to some federal agencies will have to be paid for by others. And, agriculture is likely in the latter group.

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