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Agriculture in the Republican Proposal Presented by Paul Ryan

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On April 5th, Paul Ryan released a Republican proposal that describes broad outlines of Federal spending over the next decade. The document entitled "The Path to Prosperity: Restoring America's Promise" makes little mention of agricultural spending. Agriculture not receiving much focus makes sense given that spending on commodity and crop insurance programs constitutes only .5 percent of Federal outlays, hence the size of agricultural programs have very little impact on total Federal expenditures and Federal deficits.

On page 36 of "The Path to Prosperity", there are four paragraphs dealing with agricultural programs. Two that directly address agricultural programs are:

With crop prices – and deficits – hitting new highs, it is time to adjust support to this industry to reflect economic realities. This budget proposes two major reforms to achieve this: First, reduce the fixed payments that go to farmers irrespective of price levels, to reflect that soaring commodity prices are reducing the need for high levels of farm-income support. Second, reform the open-ended nature of the government's support for crop insurance, so that agricultural producers assume the same kind of responsibility for managing risk that other businesses do.

Recognizing that the Agriculture Committee is responsible for implementing these reductions, and to maintain flexibility for the Agriculture Committee, this proposal assumes that these savings do not take effect until the beginning of the next farm bill. These reforms will save taxpayers nearly $30 billion over the next decade.

A couple of points about the proposal:

1. Given that a new Farm Bill is passed in 2012, the reductions would take effect in 2013. Hence, Ryan's proposal requires $30 billion in cuts over 9 years, or $3.3 billion per year.
2. Federal spending on commodity, crop insurance, and standing assistance programs is projected at $18.0 billion in 2011 and $17.9 billion in 2012. From the 2011 and projected 2012 spending, a $3.3 billion cut would represent about an 18 percent cut. Standing disaster assistance program for programs such as SURE has estimated average costs of $1.6 billion in 2011 and 2012. Taking standing disaster assistance out of estimated commodity and crop insurance spending – because

they do not have Congressional Budget Office baseline – results in 16.2 billion of spending. Considering just commodity programs and crop insurance results in a 20 percent cut ($3.3 billion / $16.2 billion)

3. The focus of cuts is on direct payments and crop insurance. Not mentioned are counter-cyclical or ACRE payments. What this means is difficult to determine. This omission could have occurred because the counter-cyclical and ACRE programs have relatively small Federal outlays compared to direct payments and crop insurance programs.
4. It is likely that reductions would impact both direct payments and crop insurance. The following examples show impacts if the full cut was made to either program. There are illustrative to give a feel for the size of the reductions:
    a. Direct payments average around $5 billion per year. If the total cut of $3.3 billion were applied to direct payments, direct payments would be cut by 66 percent.
    b. Federal outlays on crop insurance average around $6.7 billion. The $6.7 billion varies up or down depending on how many crop insurance payments have to be made. A $3.3 billion cut applied solely to crop insurance programs would average about 50 percent of Federal outlays.
5. The wording of Ryan's proposal dealing with crop insurance is interesting: "reform the open-ended nature of the government's support for crop insurance, so that agricultural producers assume the same kind of responsibility for managing risk that other businesses do." This wording simply could be rhetoric, suggesting a downsizing of Federal subsidies to crop insurance. Reducing subsidies does not directly impact the size of losses the Federal government faces in large crop insurance payment years. To me, the words "the open-ended nature" means something different than lowering subsidies. Whether this is the case likely will become clearer in the future.

Other budget proposals will be put forward as debates continue. The Republican budget outline calls for sizable cuts of about 20 percent to Federal commodity and crop insurance programs.