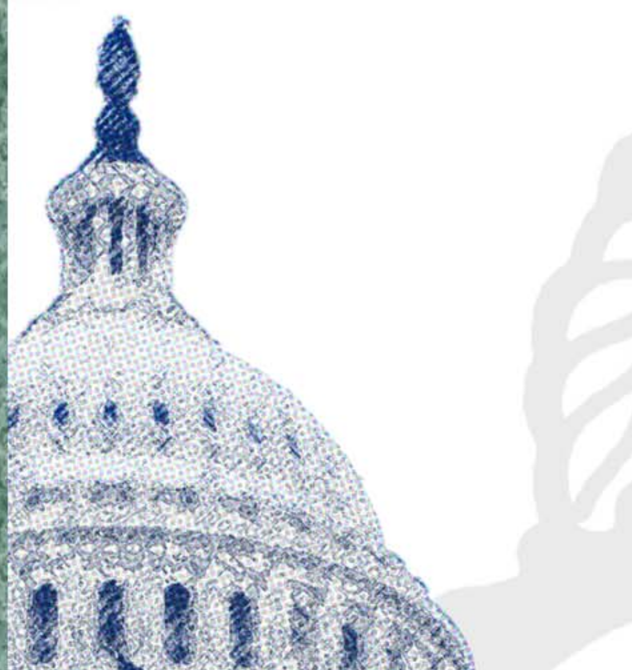
110th Congress
1st Session

# Senate Budget Committee Thanksgiving Recess Packet



November 15, 2007
Prepared by the
U. S. Senate Budget Committee
Republican Staff
http://budget.senate.gov/republican

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November 15, 2007

Dear Republican Colleague:

As we wrap up our legislative business to return home for the Thanksgiving recess, I would like to pass along some important information about the budget impact of the 2007 Farm Bill, which is currently under consideration in the Senate.

Despite a strong agricultural economy, the bill spends $603 billion over ten years, includes bad fiscal policy, and new and expanded spending on special interest programs. Equally problematic is the $34 billion in budget gimmicks and mechanisms to avoid Pay-Go budget discipline, as well as $15 billion in tax increases.

However, the Farm Bill is just one example of the fiscal mismanagement exemplified by the Democratic leadership. Despite their campaign promises about fiscal discipline, Democrats this year passed a tax-and-spend budget that allocated $23 billion more for discretionary spending than the President requested. That one-time increase will grow to $133 billion over five years and $313 billion over ten years once inflation and interest is factored in. They also have allowed $143 billion in spending to escape scrutiny, via real Pay-Go violations or gimmicks used to get around the Pay-Go offset requirements.

So as you can see, all of this spending will have very serious long-term consequences on our budget and the deficit. Now is the time to restrain spending and lower the deficit, not add to existing long-term challenges posed by our aging population and related entitlement programs.

Please contact my staff at 202-224-6011 if you have any questions or need additional information.

Sincerely,

Judd

Judd Gregg

Judd Gregg, Ranking Member
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# Budget Gimmicks And Pay-Go Avoidance, All Used to "Pay for" Farm Bill's Excessive Spending
## *A Budget Perspective*

The U.S. Senate is currently considering the 2007 Farm Bill, which consists of the *Food and Energy Security Act* as reported by the Senate Agriculture Committee, combined with the *Heartland, Habitat, Harvest and Horticulture Act* as reported by the Senate Finance Committee. Despite a strong agricultural economy, spending under this bill totals $603 billion over ten years. **Even more egregious is the fact that the bill includes $34 billion in budget gimmicks and mechanisms to avoid pay-go budget discipline as well as $15 billion in tax increases,** all of which will have long-term budgetary consequences.

- **Overall Cost of Bill is High, Despite Strong Farm Economy**
  - **Total spending under this bill is $286 billion over five years, $603 billion over ten years, according to CBO.**
  - However, **the farm economy has never been stronger** – real net farm income is forecasted to increase from $51 billion in 2006 to $73 billion this year, an increase of $23 billion or 44%. In addition, farm debt-to-asset ratio is the lowest it has been in more than 45 years.

- **$34 Billion of Budget Gimmicks Used to Mask Spending, Avoid Pay-Go**
  - **Timing shifts for payments under commodity and crop insurance programs cause $10 billion to be pushed outside the ten-year budget window,** exempting this spending from Pay-Go rules. **This $10 billion is double the $5 billion of pay-go avoidance tactics contained in the House-passed farm bill.**
  - In addition, increases in certain programs are sun-setted after five years to make the bill look like it costs less and to make it easier to comply with Pay-Go rules, while other programs aren't subject to this type of cut-off. If these programmatic increases were continued for the full ten years, the cost of this bill would increase by $18 billion. **The largest of these hidden future costs is the increase to nutrition programs, which is only provided for five years – leaving out almost $9 billion in costs that would occur in the second five years.**
  - The bill also reflects **$2.4 billion in costs that were incurred "for free"** to cover extension of the Milk Income Loss Compensation (MILC) Program. A one-month extension was included in the FY07 supp for this sole purpose – increasing the program's costs (and therefore the baseline) by $2.4 billion over 10 years. No committee was charged with this increase – a giant loophole in budget enforcement.
  - Finally, **the bill shifts corporate estimated tax payments**, requiring corporations to make $4.3 billion in higher estimated tax payments in 2012 and correspondingly lower tax payments in 2013. This type of shift has become a popular "offset," being used in 3 conference reports passed by the Senate this year.

- **Bad Fiscal Policy**
  - **Permanent Disaster Aid** – Establishes a new $5.1 billion mandatory agriculture disaster assistance trust fund, a benefit not provided for any other industry or, for that matter, anyone else in America. The bill pretends to earmark 3.34% of existing tariffs for this "fund," meaning we are simply increasing federal spending on disaster assistance - no new revenues are collected. In addition, the total amount that can be spent is unlimited - authority is included to borrow from the Treasury to cover unlimited disaster payments, even if they exceed balances in the fund. Most of this $5 billion would go to **Texas, North Dakota, Minnesota, South Dakota, Kansas, Iowa, and Georgia**, states that have received the majority of ad hoc disaster aid and where these "emergencies" occur year after year. Furthermore, federally subsidized crop insurance was significantly expanded in 2000, purportedly to help alleviate the need for future disaster aid. Yet Congress has continued to pass ad hoc disaster aid bills, the most recent example being $3.7 billion enacted as part of the FY07 supp.
  - **Little Real Reform for Income Limits –** Permits **millionaires with adjusted gross incomes over $1 million per year** who derive the majority of their income from farming, ranching or forestry to receive commodity payments.
  - **Program Expansion Through The Tax Code –** Includes an option to take a tax credit instead of a direct payment under the Conservation Reserve Program (CRP), which replaces $3 billion in outlays over 5 years with a revenue loss of $3.8 billion over 5 years. **Simply put, the federal government will be spending more to provide both these tax benefits and direct payments, expanding and complicating a program that was working fine before.**

- **Contains <u>New</u> Programs For Targeted Special Interests**
  - **Asparagus Payments** - $15 million for asparagus producers in only three states - California, Michigan, and Washington.
  - **Chickpea and Camelina Subsidies** - Establishes new subsidies for large chickpeas and camelina (an experimental oilseed for biofuel production), which largely benefit only 4 states, Idaho, Washington, California, and Montana.
  - **National Sheep and Goat Industry Improvement Center –** Provides $1 million for this center, the first time mandatory funds have been directed to this purpose.
  - **Frivolous New Spending Earmarks** –
    - Creates a **Farm and Ranch Stress Assistance Network** to provide behavioral health programs to farmers
    - Establishes **artisanal cheese centers** to provide educational and technical assistance for the manufacture and marketing of these cheeses
    - Provides for **construction of a Chinese Garden** at the National Arboretum.

- **<u>Expands</u> Existing Programs for Targeted Special Interests**
  - **More Peanut Payments –** Under current law, peanut producers who also raise other crops are able to get two payment limits (i.e. annually, up to $360,000 for their peanut crop as well as up to **another** $360,000 for their other crops). The bill continues the practice of double payment limits. **No other crop receives the same treatment.**
  - **More Subsidies for dried peas, lentils, small chickpeas –** The 2002 Farm Bill added these crops (aka "pulse crops") to the list of subsidized crops, but only made them eligible for one of three subsidy programs. This bill opens another subsidy (counter-cyclical payments) to pulse drops. **Almost 80% of pulse crops are grown in only 5 states, North Dakota, Michigan, Washington, Idaho, and Montana.**
  - **Extends Spending Authorization To Preserve Barns –** Includes an authorization that extends authority **to preserve, rehabilitate or repair historic barns**.

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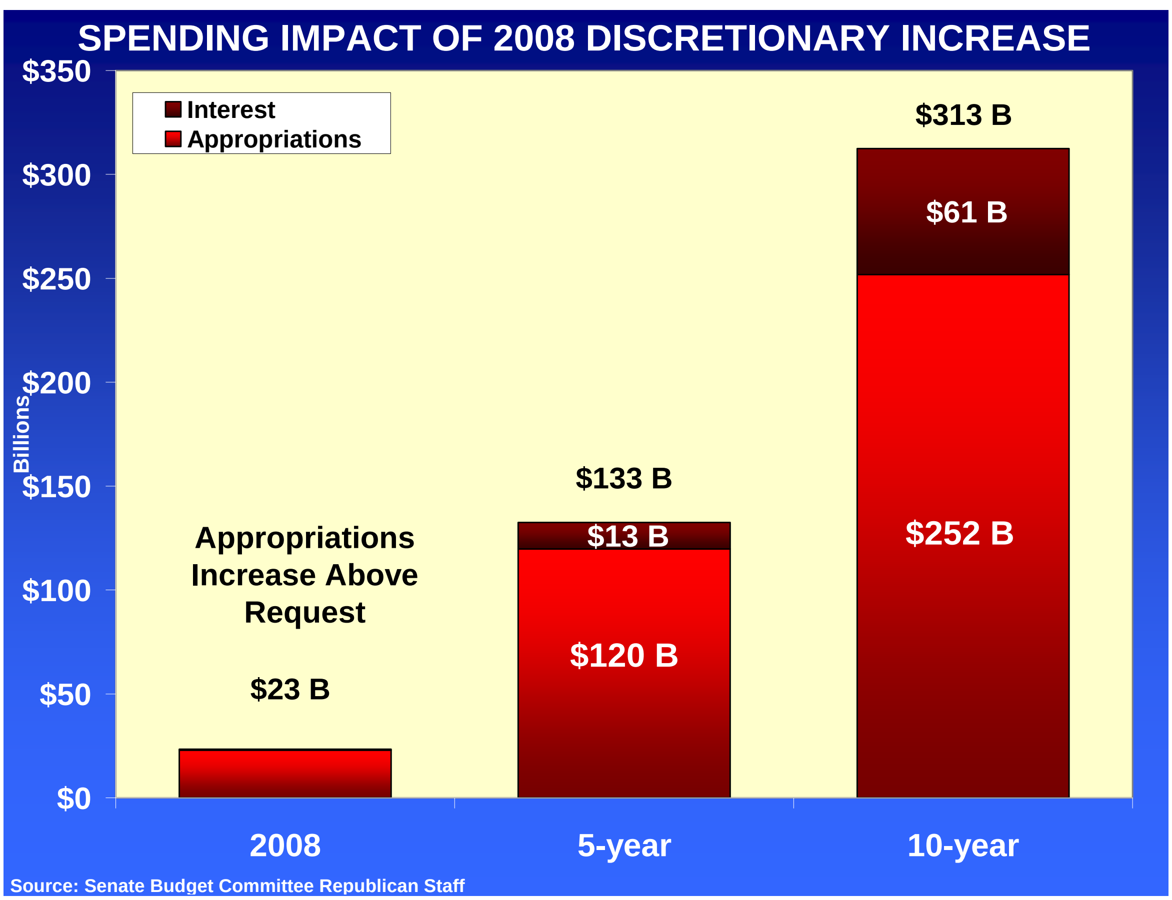
# Democrats' Fiscal Mismanagement Would Lead to Massive New Spending; Long-Term Impact is Staggering

## The Dems' 2008 Budget Contains a Huge Increase in Discretionary Spending

- **Immediate Spending Impact:** In 2008, the Dems allocated $23 billion more for discretionary programs than the President requested, including $2 billion in advance appropriations.
- **Long-Term Spending Impact:** Over 5 years, that one-time increase of $23 billion grows to $133 billion, including inflation increases each year and interest effects. Over 10 years, it grows to $313 billion.
- **Deficit Impact:** Compared to the President's request, the Dems' 2008 budget would add $123 billion to the deficit over 5 years and $301 billion over 10 years as a result of the increase in discretionary spending and increased interest costs.



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# Democratic Pay-Go:
# Like a Slice of Swiss Cheese, This Policy is Full of Holes

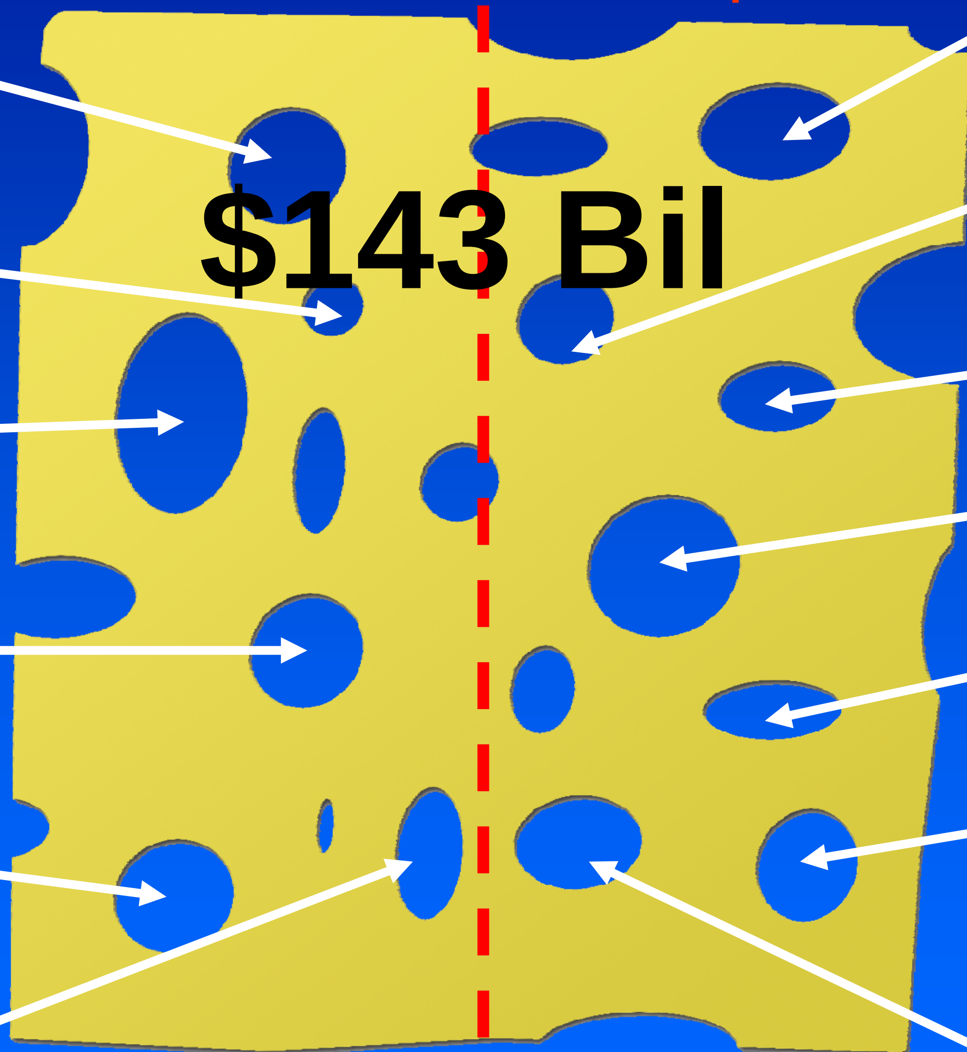
- **The Democrats' Pay-Go Policy is a Fraud; Violates Spirit of True Pay-Go** - Instead of paying for new spending, Democrats have violated or gimmicked their own rules, or declared spending an emergency, all in order to avoid finding offsets for their massive expansion of government. Examples include shifting costs outside 10-year budget window, early sunsets or program reductions, and hiding mandatory spending in appropriations bills.
- **Democrats Have NOT Returned to "Tough" Pay-Go** - Despite insisting they've returned to the fiscal discipline of tough, old-fashioned Pay-Go, Democrats' Pay-Go is half-hearted, at best. They've dropped the first year test for deficit neutrality (which existed in all previous versions of the Pay-Go point of order), and use a 5- and 10-year time frame that encourages timing shifts and allows them to "Spend now, pay later."
- **$143 Billion in New Spending Has Not Been Offset** - Instead of reining in federal spending with Pay-Go, Democrats have allowed $143 billion in spending to escape scrutiny, via real Pay-Go violations or gimmicks used to get around the Pay-Go offset requirements.
- **Democrats Will Stick To Pay-Go Only to Raise Taxes** - Despite ignoring Pay-Go when it comes to spending they like, Democrats are sure to use Pay-Go as a means to raise taxes when the existing pro-growth tax policies are set to expire.
- **American Taxpayers Will Foot the Bill** – American families and businesses will ultimately pay for the spending being implemented. Without offsets, the deficit will increase, leaving future generations stuck with the bill.

| | |
|---|---|
| **Used Gimmicks to Avoid Pay-Go** | |
| SCHIP Reauthorization (passed by House & Sen.) | $45.000 billion |
| Farm Bill hidden future costs (proposed) | $17.700 billion |
| Student loan interest rates (in HELP reconciliation) | $17.000 billion |
| Farm Bill spending after 2017 (proposed) | $09.800 billion |
| New Mandatory Pell Grant spending (in HELP reconciliation) | $09.000 billion |
| County Payments/PILT (in 2007 supplemental) | $04.100 billion |
| Mandatory spending for MILC (in 2007 supplemental) | $02.400 billion |
| **Real Pay-Go Violations** | |
| Immigration Reform (Senate consideration) | $30.300 billion |
| Energy Act of 2007 (Senate consideration) | $04.200 billion |
| Mental Health Parity (passed Senate) | $02.800 billion |
| Prescription Drug User Fee Act Amendments (passed Senate) | $00.171 billion |
| Minimum Wage Increase (in 2007 supplemental) | $00.050 billion |
| Water Resources Development Act (passed Senate) | $00.004 billion |
| **TOTAL** | **$143 billion** |

# ~~Pay-Go~~ Swiss-Cheese-Go

**Real pay-go violations**

**Gimmicks to get around pay-go offset requirements**




Minimum Wage Increase
**$50 mil**

Water Resources Development Act
**$4 mil**

PDUFA
**$171 mil**

Immigration Reform
**$30.3 bil**

Energy Bill
**$4.2 bil**

Mental Health Parity
**$2.8 bil**

**$38 bil**

**$105 bil**

Spending for MILC
**$2.4 bil**

Farm Bill Hidden Future Costs
**$17.7 bil**

Farm Bill Spending after 2017
**$9.8 bil**

County Payments/PILT
**$4.1 bil**

SCHIP Reauthorization
**$45 bil**

New Mandatory Pell Grant Spending
**$9 bil**

Student Loan Interest Rate Switch-a-roo
**$17 bil**

**Source: SBC Republican Staff**