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GRAMM-RUDMAN-HOLLINGS
The Storm Has Just Begun

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Few events of recent history have the potential to change the relationship between Americans and their government as much as the budget balancing provision known as Gramm-Rudman-Hollings (GRH). Attached to legislation which raised the Federal debt ceiling to $2.079 trillion, GRH carries its sponsors' names: Senators Phil Gramm of Texas, Warren Rudman of Vermont - Republicans, and Ernest Hollings of South Carolina - Democrat. This article examines GRH and its potential immediate and long term impact on agriculture.

GRH

GRH is a comprehensive revision of budget procedures, which requires elimination of the federal deficit using conventional legislative means or, failing that, through automatic spending cuts. The time table for deficit reduction is: Fiscal Year (FY) 86: - $172 billion (B), FY87 - $144 B, FY88 -$108 B, FY89 - $72 B, FY90 - $36 B, and FY91 - $0.

Unless Congress and the President agree on a budget with a deficit of $172 B in FY86 or one that is within $10 B of the target for FY87 and later, a uniform across the board percentage cut in programs, projects, and activities is required to meet the target. Half the cuts are in defense spending and half in domestic spending. Because FY86 had begun before GRH became law, FY86 cuts were limited to no more than $11.7 B.

Certain programs are exempted from the automatic cuts: social security, interest on federal debt, veterans' compensation, veterans' pension, Medicaid, Aid to Families with Dependent Children, Women-Infant-Children food program, Supplemental Security Income, food stamps, and child nutrition. In addition,

medicare, veterans' health, Indian health, and community and migrant health centers can be cut no more than 1% in FY86 and no more than 2% thereafter. About half the budget is exempted from automatic cuts and 25 - 30% is in the limited cuts category.

Under GRH, the White House's Office of Budget and Management and the Congressional Budget Office submit budget estimates to the Comptroller General, who heads the General Accounting Office. If the budget target has not been met, the two agencies also submit the estimated cuts required to meet the deficit target set by GRH. The Comptroller General verifies the budget estimates and cuts. The President then must issue a sequester order which implements the automatic cuts reported by the Comptroller General.

CONSTITUTIONALITY

Congress realized GRH raised several constitutional questions. Members of Congress were authorized to challenge GRH's constitutionality and procedures for expedited judicial review were established. A special three judge district court was impaneled in Washington, D.C., with its decision directly appealed to the Supreme Court. The major constitutional questions are whether Congress delegated legislative powers to the Comptroller General that only Congress can exercise and whether GRH conferred on the Comptroller General executive powers that may not constitutionally be given to an official not removable by the President. The latter involves the "separation of power" doctrine.

The district court heard arguments January 10 and ruled February 7 that the power of the Comptroller General to order automatic cuts by the President was unconstitutional. The Court specifically ruled that, while Congress could constitutionally delegate broad powers to cut federal spending to the President, it could not delegate them to the Comptroller General because the

Comptroller General can not be removed by the President. No other provision in GRH was affected by the court ruling. Thus, the deficit targets must still be met.

The Court's ruling did not invalidate an alternative mechanism specified by GRH for implementing the automatic cuts. Under this alternative, the automatic cuts required by GRH to meet the deficit target would go to a special committee comprised of House and Senate budget committee members. It would report the sequester order as a joint resolution, which must pass the Senate and House and be signed by the President (or passed over the veto). Congress could also comply with the special court's objection by amending the 1921 law that established the Comptroller General to make the office subject to removal by the President. The Comptroller General would than be an official of the executive branch. Lastly, the special court's ruling hinted that the constitutional foundations for many of the powers exercised by various independent agencies created by Congress may be questionable. These agencies, such as the Federal Reserve Board, Federal Trade Commission, and Federal Communication Commission, have substantial influence and power. Such a broad judicial interpretation would have significant implications for the way government currently works.

The Supreme Court may or may not agree with the special court's ruling. The Supreme Court may also agree with the special court's ruling, but reject the special court's basis for reaching its decision and/or the broader language in its opinion.

The special court postponed invalidation of the automatic cuts, pending appeal to the Supreme Court. Thus, until the Supreme Court decides otherwise, the sequester order will become effective March 1. Most experts do not expect the Supreme Court to rule until after March 1. Assuming the sequester

order is implemented March 1, that the Supreme Court rules after March 1, and that the rest of GRH is not affected by the Supreme Court's opinion, cuts of $11.7 B will still have to be made for FY86. If the already implemented sequester order is not reconfirmed by Congress through the alternative mechanism, substitute cuts would have to be devised. Such cuts would be difficult to achieve and cause havoc with budgets of individual agencies. Thus, the potential impact of the constitutional questions on FY86 cuts appears minimal at present.

The impact on FY87 and later budgets is less certain. Many fear invalidation of the Comptroller General's role will remove the "club" from the bill. Congress and the President will face little pressure to achieve a good faith resolution of the deficit problem. On the other hand, a Congress and President faced with the possibility of voting on and signing budget cuts (the alternative mechanism) which affect some programs while not touching others could face intense political pressure to accept an alternative reduction package that meets the GRH target. Furthermore, since the FY87 budget resolution which establishes overall spending priorities and limits must be decided by April 15, much of the debate on the FY87 budget could occur before the Supreme Court rules. Thus, the long run impact of the constitutional questions could be minimal.

In the discussion which follows, it is assumed the Supreme Court's decision will be confined to the Comptroller General's role. The rest of GRH will remain intact. It is also assumed that, even if the Supreme Court invalidates the Comptroller General's role, political pressure will dictate that the budget deficit be addressed.

IMMEDIATE IMPACT

Since FY86's estimated deficit is $220.5 B, the President issued February 1 the $11.7 B sequester order required under GRH. The cuts become effective March 1 unless Congress and the President agree on substitute cuts which equal or exceed $11.7 B. It is possible Congress and the President could agree on substitute cuts, but it is assumed here that the automatic cuts will be implemented.

Under the FY86 sequester order, a 4.3% cut was made in nonexempted domestic programs and 4.9% cut in nonexempted military programs. All commercial agriculture programs - price supports, income supports, research, extension, soil and water conservation, crop reporting statistics, etc. - are nonexempted. USDA's cuts total $1.3 B (second largest of any agency, Defense is first). Commodity Credit Corporation, the financing corporation for price and income supports, will absorb $824 million in cuts.

GRH contains a contract sanctity provision. Once a contract, such as between a producer and Agricultural and Soil Conservation Service, is signed it must be honored. Cuts will be absorbed in the next contract. FY86 funds generally pay for 1985 price and income support programs. Because contracts have been signed for 1985 programs, a cut in FY86 funds is transferred to 1986 crop programs. The dairy program is an exception because no contracts are involved - CCC purchases milk products in the market place to support the price. Thus, except for dairy, the impact on farmers' income from the FY86 automatic cuts will be delayed.

USDA will implement the GRH cuts by maintaining target, loan, and purchase prices already announced for 1986 commodities but establish payment rates equal to 95.7% of these prices. For example, the corn target price of $3.03 would become a target payment price of $2.90 (95.7% of $3.03). Maximum

deficiency payment would be $0.98 ($2.90 -$1.92) instead of $1.11. Using this approach, the corn loan payment rate would be $1.84; wheat target payment price, $4.19; wheat loan payment rate, $2.30; and milk support payment price, $11.10 per hundredweight.

The bottom line for agriculture is fewer government services after March 1 and lower government payments for milk and 1986 crops. Furthermore, given the surplus production capacity, the 4.3% cut in price and income supports will probably translate into a 4.3% reduction in farm receipts for program commodities.

FY87 AND BEYOND

Looking beyond FY86, GRH should be viewed as both a policy statement and a budget reduction mechanism. The policy is that the federal deficit will be reduced, if not eliminated, and spending cuts will achieve part of the reduction. The key questions become how large will the spending cuts be and how will they be made.

REVENUE ENHANCEMENT

Size of the cuts will depend on the growth in revenue from existing sources over the next five years, the imposition of new taxes, and increased revenue from other sources such as an oil import fee or additional user taxes. An example of the latter is President Reagan's proposal in his FY87 budget to increase the share of federal inspection and marketing costs paid by stockyards, grain companies, and others. Specifically, of the proposed federal expenditures of $832 million in FY87, $582 million are proposed to come from user fees. These figures compare with FY86 figures of $142 million in user fees out of $714 million in expenditures.

Another source of increased revenue and/or reduced federal expenditures is "privatization." This involves transferring services now provided by the public sector to the private sector, such as mass transportation, and/or selling government assets to the private sector. Examples of the latter in President Reagan's budget include Washington National Airport, federal transmission and power generation facilities (federal ownership and control of the associated dams are retained), and naval petroleum reserves.

Growth in revenue from existing sources will depend on how fast the economy grows. An important question is what will be the impact of reduced government spending. Many economists worry the potential reductions are so large they will push the economy into a recession. It should be noted the automatic cuts under GRH would be suspended in a recession. At the least, unless the Federal Reserve Board develops an appropriate monetary policy, slower economic growth because of reduced federal spending or increased taxes implies smaller government revenues and larger deficits. Any reduction in the rate of increase of future revenue from existing sources in turn implies that the spending cuts necessary to achieve an FY91 deficit of zero could be larger than simply eliminating the FY87 deficit. There is also the unknown impact on economic growth of any change in the tax laws, whether they be revenue neutral or enhancing.

Increased taxes remain the big unknown. At present, conventional political wisdom is that Americans will not support tax increases. Will that sentiment hold as budget cuts impact their lifestyle? Whatever the answer, the desire for shrinking government spending appears strong and broad based. Thus, the largest politically acceptable revenue increase at present appears to be a one-for-one tradeoff: each dollar reduction in federal spending matched by a dollar increase in revenue.

BUDGET CUTS SCENARIOS

One scenario is that all cuts will occur through the automatic mechanism in GRH, whether implemented by the Comptroller General, the alternative special budget committee, or some substitute procedure. Recent estimates by the Office of Budget and Management suggest a FY87 deficit of around $180 B if FY86 programs are extended and adjusted for inflation and increases in number of people eligible for current entitlement programs (the so-called FY87 current services budget). Thus, a cut of around $36 B would be required to achieve the $144 B deficit target. This translates into approximately a 15% automatic cut in nonexempted domestic programs beginning October 1, 1986. To achieve a FY91 deficit of zero, recent budget evidence suggests automatic cuts totaling 40-60% over FY87-91. An important question for FY87 will be whether cuts for farm income support programs will be additive to FY86 cuts since the Farm Bill freezes target prices at 1985 program levels for 1987 crops.

Political considerations suggest that the general public will not permit deep cuts in some programs, such as guaranteed student loans, soil and water conservation, and mass transportation, while no cuts are made in other programs. These considerations argue that the horizontal cuts of GRH will be broadened to include most, if not all, nonexempted and limited cut programs.

The President's recent budget forecasts $846 B in FY87 expenditures, excluding interest on the debt. Debt expenditure can not be cut because it is determined in the bond market, not by the government. Spreading $36 B in cuts over $846 B in expenditures yields a 4.2% cut. Over FY87-91, cuts would total $180 B or 19.4% of the President's forecasted annual spending of $926 B over this period (excluding forecasted interest expense). To the extent programs are exempted or limited in the size of the cuts, these percentages would increase for the remaining programs.

As the impacts of the cuts on the American lifestyle become apparent, political considerations suggest that the one-for-one revenue scenario discussed above will become increasingly likely. This scenario yields across the board cuts in all programs of 2.1% in FY87 and 9.7% through FY91. Furthermore, in addition to horizontal cuts, Congress and the President will likely implement vertical cuts. These will eliminate entire programs. For example, in his FY87 budget President Reagan proposed eliminating subsidies for Federal Crop Insurance over five years and immediately stopping direct financial assistance to farmers for soil and water conservation measures (technical assistance will be continued).

OTHER IMPACTS

The least discussed aspect of GRH are the many important changes in congressional budget rules. Some are designed to insure the budget process is finished by October 1, the beginning of a new fiscal year. For example, Congress must complete action on budget reconciliation by June 15. Reconciliation establishes overall spending limits for Congressional committees. Previously, Congress was required to complete action on reconciliation by September 25. It should be noted that Congress routinely missed this deadline.

Other rule changes allow a member of Congress to raise new points of order on legislation that requests spending authority in excess of budget targets and resolutions. Unless a point of order is overruled by the presiding officer or is voided by at least a three-fifth vote, the legislation is declared out of order and barred from further discussion. The new points of order, in conjunction with the greater emphasis being given to budget matters in general, portend a shift of power among Congressional committees. Specifically, the House and Senate budget committees are likely to gain power

at the expense of authorization and appropriation committees, including the House and Senate agriculture committees and agriculture appropriation subcommittees.

This shift will affect agricultural legislation primarily through budget reconciliation. Reconciliation involves the instruction to committees on how much spending for programs under their jurisdiction is to be cut so as to comply with overall budget targets. These instructions can not dictate the cuts, but they do contain suggestions on how the cuts should be made. These suggestions are debated in Congress as if they were policy decisions although they are recognized as non-binding. The impact of reconciliation on agricultural legislation has already been felt. The shift from direct lending by Farmers Home Administration to guaranteed loans contained in the 1985 Farm Bill was in essence decided by the FY86 Congressional Budget Resolution, which passed the end of July 1985.

A second implication is that, if the earlier time table for budget legislation is adhered to, Congressional work on the 1990 Farm Bill may have to begin in 1989 instead of 1990 as it traditionally would. The earlier start reflects the need to make the authorizing bill consistent with the reconciliation instructions for FY91. Otherwise, the authorizing (i.e., agriculture) committees could lose some control over farm policy.

A third implication is that, with the emergence of the budget committees as an agricultural political center, agricultural lobbying efforts will have to include not only the agriculture committees and agriculture appropriations subcommittees but also the budget committees. Furthermore, assuming the budget committees continue to work without subcommittees, agriculture will have to justify its agenda within the national agenda of the budget committees, specifically the budget.

A fourth implication is that the Farm Credit System Act of 1985 appropriated no money for the potential relief of the Farm Credit System (FCS). Many experts expect FCS to need government aid within the next two years. The stricter budget points of order make it more difficult to enact appropriations for new programs. The points of order could be used to require that, in order to remain within the budget constraints for agriculture, spending for other agricultural programs would have to be reduced to offset appropriations for FCS. This possibility raises some potentially critical questions. Most importantly, if farm price and income supports are cut to make room for FCS relief, the number and degree of farmers in stress would increase, adding to the stress on lenders. Note, this offset requirement for funding new programs could potentially apply to any new program.

SUMMARY

In summary, political considerations and economic reality suggest that balancing the budget will probably involve a combination of horizontal and vertical spending cuts as well as revenue enhancement. Spending for all agriculture programs will likely decline and some will be eliminated. However, agriculture is unlikely to absorb a disproportion share of spending cuts. A reasonable guess based on the above discussion is a reduction of 10-20% in FY86 agricultural spending levels by FY92 in addition to the decline in farm program spending resulting from implementation of the 1985 Farm Bill. Thus, fewer government services will be provided to agriculture.

Another reasonable guess is that, compared with the 1985 Farm Bill, cash receipts for program commodities over the next six years could average 2-4% lower per year because of GRH. One direct implication is that land prices

will be further pressured, increasing financial stress on farmers and farm lenders. Using Ohio State University's crop enterprise budgets and a 3% real interest rate, a 3% drop in cash receipts would mean $40-60 lower land prices.

In the long term, it is changes in the rules of the House and Senate which may have the greatest impact on the relationship between government and agriculture. These rules change the way Congress conducts its business. At the least, agriculture will increasingly have to justify its agenda within the national priority to reduce the budget.