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The Farm Bill's $6 Billion Price Hike Is Just the Tip of the Iceberg

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As Congress rushes to pass a farm bill before the 2002 elections, taxpayers are in danger of being left to pick up the tab for the most expensive farm bill in history. This corporate welfare legislation will expand policies that hand out billions of dollars to *Fortune* 500 companies, large agribusinesses, and Members of Congress while excluding most small family farmers.

The initial projection for the 10-year cost of the House and Senate farm bills was a stratospheric $171 billion. President George Bush has indicated he could accept this, even though it would cost the average American household nearly $4,400 in taxes and inflated food prices over the next decade. However, the Congressional Budget Office (CBO) has revealed what astute observers knew all along: The current farm bills would cost much more than $171 billion.

The CBO recently admitted that it underestimated the cost of the Senate farm bill (S. 1731) by over $6 billion. That accounting error, coupled with the gimmicks that legislators have designed to hide the true cost of their spending proposals, could result in actual costs that are as much as twice the original estimate.

A $6 Billion Error. When the Agriculture Conservation and Rural Enhancement Act (S. 1628, which later became S. 1731) was introduced, it provided for Production Flexibility Contract (PFC) payments to farmers based on the number of acres they farm. But while the bill includes all of a farmer's base acres when calculating payments, the CBO calculated its projections using only 85 percent of base acres. Adjustments to correct this misreading increased the bill's projected cost from $171 billion to $177 billion ($73.5 billion to $79.6 billion above the baseline projection).

House and Senate conference committee negotiators must now decide whether to cut $6 billion elsewhere in the bill or simply retain this spending increase. Although $6 billion may not seem like much to legislators already committed to spending $171 billion on misguided, mistargeted, and counterproductive farm policies, it is money that could be used to fund:

- The operations of the war on terrorism for five months;
- 86 F/A–18 Hornet fighters for the war on terrorism;
- 414 Black Hawk helicopters for the war on terrorism;

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- 9,000 additional border patrol agents for 10 years;
- 6,600 additional customs agents for 10 years;
- 6,667 CTX–5500 explosive detection systems for airports; or
- 80,000 air marshals—enough for two agents for every flight in the United States.

A Pattern of Unreliable Forecasts. Forecasting errors that dwarf the recent $6 billion mistake have been the norm for decades. In 1965, proponents of Medicare predicted that its annual cost would never exceed $5 billion. In 2002, Medicare expenditures will reach $223 billion. Overall budget projections have been as dismal and flawed as have program cost estimates. The CBO's projections of a 10-year federal budget surplus dropped $4 trillion in just one year, plummeting from $5.6 trillion in January 2001 to $1.6 trillion in January 2002.

Even without errors caused by misreading a bill's provisions, such as the $6 billion mistake described above, most projections are destined to be wildly awry because the CBO is required to base its forecasts on two unrealistic assumptions: (1) that the economy's performance can be predicted 10 years in advance, and (2) that Congress will restrain its insatiable urge to expand expensive programs. The collapse of both assumptions caused the recent $4 trillion overestimation of the 10-year budget surplus; the economy fell into an unanticipated recession, and the war on terrorism led Congress to initiate and expand funding for several critical programs. Because of events like these, forecasters consistently remind legislators that their projections are not "predictions," but merely the best current estimates based on a set of tenuous assumptions. Yet legislators have exhibited an unshakable faith in these projections.

As far back as the 1970s and 1980s, farm bills spent on average 78 percent more than their projected levels. The 1990 farm bill underestimated farm spending between 1990 and 1996 by 33 percent. Despite this pattern of underestimations, however, Congress naively accepted the projection that the 1996 farm bill would cost $47 billion between 1996 and 2002. Once again, assumptions regarding the future of the economy and government spending proved false. Between 1998 and 2000, crop prices dipped, automatically triggering increased farm subsidy payments, and Congress then added $27 billion in "emergency" payments to farmers. The farm bill that Congress believed would cost $47 billion ultimately cost $123 billion.

Repeating the Pattern. Current farm bill cost estimates are no more realistic than those of 1996 or before. The CBO has already added over $6 billion to its estimate of the Senate bill's cost, and several agriculture economists have predicted that expenditures will rise even further. Both the Senate and House bills are based on economic projections that leave no room for the economy to go in recession, as it did in 2001, or for crop prices to decrease, as they did in 1998.

With or without a recession or decrease in crop prices, however, the current farm bill's cost projections are unrealistic. Senate drafters used budget gimmicks to try to squeeze an extra $8 billion ($6 billion in expanded conservation payments and $2 billion in additional dairy subsidies) into a bill that was supposed to have the same total cost as the House version. One of these gimmicks was "front-loading" payments—paying the highest subsidies in the first few years of the bill and assuming that any subsidy decreases in later years would be made up by Congress with "emergency" payments.

Conclusion. The recent $6 billion increase may be no more than a down payment on what will certainly become the most expensive farm bill in U.S. history. Despite the very expensive initial cost estimate of $171 billion, the real cost could ultimately be closer to $271 billion, or even $371 billion. With entitlement spending already out of control, the nation cannot afford to buy a farm bill without looking carefully at its price tag.

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