THE BASELINE

Issue Brief

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Tariffs and Retaliatory Actions Add to the Uncertainty of CBO's Farm Bill Cost Estimates

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Introduction

Congress is working on passing a farm bill, but the process's success or failure will ultimately depend on the score produced by the Congressional Budget Office (CBO). History has shown that under the regular course of events through which a farm bill is drafted, CBO's cost estimates generally miss the mark when compared with actual budgetary outcomes.

This isn't due primarily to errors by CBO. Rather, there are several extenuating factors that make it inherently difficult to accurately project the costs of the major provisions in the farm bill, particularly when forced to do so in a short timeframe. Moreover, the impacts of the brewing trade war make projections of commodity prices and support subsidies even more precarious. Congress has effectively given CBO an impossible task on an impossible timeline, but will turn around and use its estimate as gospel truth.

Frequent Faulty Budget Projections

Farm bills are enacted roughly every five years, with the last one enacted in 2014. After failure to pass a new one the end of Fiscal Year 2018, its provisions expired on October 1 this year. The primary impact from expiration of the farm bill is on mandatory programs, with some (such as the Conservation Reserve Program) cut off from new funding, while the law guiding other programs, such as disaster assistance programs, revert back to previously enacted permanent authorizations. This week lawmakers have begun hashing out a deal on a multi-year extension, but the fate of the legislation hinges on its CBO score.

Early in the reauthorization process, CBO produces a baseline estimate of current farm bill programs, and then the “cost” of the new legislation is measured against how it will impact revenues and outlays relative to the baseline. As Senator Grassley said back in 2012, the baseline tells Congress “the amount of money available to write a farm bill.” Under budgetary rules, any net increase over this baseline would require a dollar-for-dollar offset somewhere else. As we noted last spring, this leads to an intense effort by legislators and lobbyists to make sure that their pet programs are counted in the baseline, because those that are locked out will have to fight for budgetary standing.

The track record of the cost estimates illustrates how the whole process is distanced from budgetary reality. For example, in 2013, Veronique de Rugy of the Mercatus Center detailed a chart illustrating how the 2002 projection was off by $137 billion and the 2008 farm bill missed the mark by $309 billion.

The discrepancies unfortunately persist. CBO estimated that the major programs authorized under the 2014 farm bill would cost $483.8 billion over five years. However, two years into the 2014 farm bill, the five-year estimate for those same programs in CBO’s 2016 baseline was adjusted to $466.5 billion: a $17.3 billion revision.

Key Facts:

- **Farm bill budget projections are historically unreliable due to the nature of forecasting commodity prices and support subsidies.**
- **This year’s farm bill projections could be more unreliable due to the instability introduced by American tariffs and new protectionist trade policy.**
- **Congress has given the CBO an impossible task in forecasting this year’s farm bill, and lawmakers should understand that the bill could end up costing tens of billions of dollars more than estimated.**

The cost projections were then again revised this year. The Environmental Working Group analyzed the 2018 CBO farm bill baseline, writing:

> Federal farm subsidies are now likely to cost almost $12.6 billion more than originally anticipated when lawmakers passed the 2014 Farm Bill. ... [CBO] forecast that spending on farm subsidy programs that make up Title I of the bill will cost over $36.1 billion between 2014 and 2018. That is almost $12.6 billion more than the original estimate of $23.6 billion.
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> Some of that extra spending is offset by savings in the federal crop insurance

> program. But overall, the farm subsidy and crop insurance programs are expected to cost almost $2.2 billion more than what was originally planned.

This Year's Projection Could Be Even More Unreliable

Many variables lead to volatility for farm bill estimates. The commodity costs are calculated from acreage and yield projections for major program crops. Also factored in is the estimated overall supply of each commodity (including projections of imports and exports, which will be exponentially harder in the midst of an escalating trade war) and the resulting expected consumer demand. All the effort put into these projections can be easily upended by an unexpected drought, flood, or other natural disaster impacting crop yields, transport, and prices. Economic conditions can strongly impact participation rates in the federal nutrition assistance programs - a significant part of the overall farm bill budgetary impact.

The difficulties of cost projections are also compounded by the Trump Administration's trade actions, making the figures that CBO reports even more meaningless than usual. The President has already enacted several billion dollars' worth of trade taxes and proposals for additional tariffs are working their way through the pipeline. In retaliation, other countries have imposed or plan to implement countervailing tariffs and trade restrictions. At this time, it is difficult if not impossible to assess the exact impact on commodity prices and the counter-cyclical assistance programs for domestic agricultural producers.

One thing that is clear is that the trade taxes have already had a negative impact on agriculture. Last July President Trump rolled out a $12 billion emergency aid package to farmers to offset the cost of the tariffs. Unchecked, the cumulative effect of the tariffs and retaliatory actions are projected to reduce GDP by $365 billion in 2019 and lead to the loss of 2.75 million jobs. This could lead to additional tariff-relief aid for farmers as well as boosting costs for the farm bill's nutrition programs.

CBO does include statements of uncertainty in its cost estimates, but they are usually included deeper into the publications, and legislators are nevertheless bound under rules to use them as the measuring rod for new proposals. In general, the problem boils down primarily to the process. As Congressional Research Service notes:

> As part of the budgetary nature of mandatory programs, whenever actual spending is below the original cost estimate, this does not create savings that can be used to either reduce the deficit or finance future spending. Likewise, if actual spending turns out to be above the original budget estimate, no budgetary offsets are required.

What is needed is a more measured response to the figures that reflect an understanding the inherent uncertainty in the projections as well as the role that legislators play in rigging the baseline in advance and then later using budgetary gimmicks to achieve a favorable CBO score.

Given the extremely volatile nature of commodity costs, the process should provide more periodic budgetary check-ins to protect taxpayers as actual costs turn out to be higher than projected, and to lock in savings for taxpayers if outlays are running below projections.

Conclusion

With the rush to pass the current deal and the inherent challenges in scoring farm programs, it is questionable whether CBO will have adequate time to fully assess the proposals. Despite being aware of the farm bill's expiration for many months, Congress has again delayed its work substantially, giving itself only a small window in which to strike a political deal, draft legislation to reflect it, secure a comprehensive score from CBO, and put legislation on the floor and, eventually, the President's desk before the lame duck session is over.

While CBO should work to improve the accuracy of its forecasting, the farm bill illustrates that many of its challenges are a result of Congress giving it an impossible task. By ensuring sufficient time to review legislative text and working to reduce trade barriers and uncertainty, the 116th Congress could do a great deal to help CBO do a better job forecasting farm and other programs.

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