CBO TESTIMONY

Statement of
Eileen M. Manfredi
Principal Analyst
Budget Analysis Division
Congressional Budget Office

on
CBO's Baseline Estimates
for Farm Program Spending

before the
Committee on Agriculture,
Nutrition, and Forestry
United States Senate

March 16, 1995

NOTICE

This statement is not available for public release until it is delivered at 9:30 a.m. (EST), Thursday, March 16, 1995.

CONGRESSIONAL BUDGET OFFICE
SECOND AND D STREETS, S.W.
WASHINGTON, D.C. 20515

I am pleased to appear before the Committee today to discuss the baseline estimates of the Congressional Budget Office (CBO) for certain farm programs, including those of the Commodity Credit Corporation (CCC), the Conservation Reserve Program (CRP), and the recently reformed crop insurance program. In addition, I will compare CBO's estimates with those of the Administration, discuss the predictability and controllability of CCC outlays, and describe CBO procedures for scoring legislation.

CBO BASELINE PROJECTIONS

Assuming that commodity programs will continue to operate indefinitely with the program parameters specified in current law, CBO estimates that spending by the CCC will be $7.9 billion in 1995, increase to $8.5 billion in 1996, and then gradually decline to $7.8 billion in 2000 (see Table 1).

TABLE 1. BASELINE OUTLAYS FOR SELECTED AGRICULTURAL PROGRAMS (By fiscal year, in billions of dollars)

	1995	1996	1997	1998	1999	2000
Commodity Credit Corporation	7.9	8.5	8.4	8.3	8.1	7.8
Conservation Reserve	1.9	1.8	1.9	1.6	1.4	1.2
Wetlands Reserve	0	0.1	0.2	0.1	0.1	0.1
Federal Crop Insurance Corporation	0.6	1.5	1.5	1.4	1.4	1.4
Agricultural Credit Insurance Fund	0.4	0.4	0.4	0.4	0.4	0.5

Outlays for the Conservation Reserve Program will remain in the $1.8 billion to $1.9 billion range for 1995 through 1997 and then drop each year, reaching $1.2 billion in 2000, assuming no new legislation is enacted. The Wetlands Reserve Program will spend $47 million in 1995 for 100,000 acres added to the roughly 110,000 acres already enrolled as easements. CBO estimates that, to reach the acreage levels authorized by law, enrollment and costs will increase significantly in 1996 and 1997. Outlays are projected to peak at $182 million in 1997 and then gradually decline as the program approaches the authorized acreage level of 975,000 by 2000.

CBO expects that crop insurance outlays will be $0.6 billion in 1995, but will jump to $1.5 billion in 1996 as program reforms are carried out. Because the new program seeks to eliminate the use of CCC funds for agricultural disaster assistance, crop insurance outlays will cover some expenses that have been made by the CCC in recent years.

In fiscal year 1994, the farm credit programs of the Agricultural Credit Insurance Fund (ACIF) made about $0.9 million in direct loans and guaranteed roughly $1.8 billion in farm loans at an estimated subsidy cost of $500 million. (Subsidy cost reflects interest rate subsidies and the risk of default.) Budget authority for loan programs was reduced to $400 million in 1995, lowering available loan levels to approximately $2 billion. Because

ACIF's programs are discretionary, the baseline budget authority is simply an extrapolation of current funding levels. Outlays are constrained by expected demand and the budget authority. Thus, we project that outlays over the 1995-2000 period will average about $0.4 billion a year. Total outstanding ACIF debt, which was $19 billion at the end of 1994, is expected to decline over the baseline period, as repayments and write-offs outpace new loan obligations.

CBO BASELINE VERSUS ADMINISTRATION PROJECTIONS

CBO's baseline estimates are higher than the Administration's over the 1995-2000 period for the CCC, lower for the conservation reserve, and close to the same for crop insurance.

The Administration's baseline was completed earlier than CBO's and does not reflect more recent commodity reports indicating low stocks, higher export registrations, and higher prices. As a result, CBO's estimates for the CCC's commodity program outlays are below the Administration's for 1995 through 1997, with the biggest difference occurring in 1995. CBO's projection of a smaller conservation reserve, along with less rosy assumptions about demand and prices, affects estimates beginning in 1998, making CBO's

estimate of outlays significantly higher than the Administration's for the rest of the baseline period (see Table 2). Thus, beginning in 1998, CBO projects greater plantings, lower prices, and higher support payments than does the Administration's CCC baseline.

If the Administration's higher CRP outlays are added to its lower CCC baseline outlays and compared with the combined outlays in the CBO baselines, the difference declines. Since the Administration assumes contract extensions for substantially more acres in the CRP than does CBO, its

TABLE 2. ADMINISTRATION OUTLAYS AND DIFFERENCE WITH CBO ESTIMATES (By fiscal year, in billions of dollars)

	1995	1996	1997	1998	1999	2000
Administration Estimates[a]						
Commodity Credit Corporation[b]	9.7	8.9	8.6	6.8	6.8	6.3
Conservation Reserve	1.9	1.9	2.0	2.0	2.0	2.0
Federal Crop Insurance Corporation	0.7	1.4	1.3	1.5	1.5	1.5
CBO Estimates Minus Administration Estimates						
Commodity Credit Corporation[b]	-1.8	-0.4	-0.2	1.4	1.2	1.5
Conservation Reserve	0	-0.1	-0.1	-0.5	-0.7	-0.7
Federal Crop Insurance Corporation	-0.1	0.2	0.2	-0.1	-0.1	-0.1

SOURCE: Congressional Budget Office.

a. Current services baseline, assuming no policy change.

b. The estimates cited for CCC exclude the wool program and the export credit guarantee program.

estimates for rental payments are higher than CBO's. For 1998 through 2000, CBO's outlays for the CCC and CRP combined range from $600 million to $1 billion above those of the Administration.

The Administration's policy proposals for the CCC, CRP, and Federal Crop Insurance Corporation (FCIC) are limited this year, with only one proposal affecting the CCC. That proposal calls for eliminating disaster assistance for feed losses for those farmers growing their own feed if crop insurance protection is available. The budget presents that change as proposed appropriation language and covers only 1996, with an estimated savings of $60 million. (CBO agrees with that estimate.) The Administration's budget also includes an estimated CCC savings of $500 million a year over the 1998-2000 period. However, since the budget does not identify any specific plan for achieving that goal, CBO's reestimate of the budget does not include any savings for that unspecified proposal.

CBO'S BASELINE ESTIMATES FOR THE CCC'S COMMODITY PROGRAMS

CBO's baseline projections cover expected outlays for the 1995-2000 period and assume a continuation of current law and normal weather. To generate

baseline estimates of outlays for commodity programs, CBO forecasts the supply and demand for all the major crops and projects the future costs of export programs. CBO tries to predict the response of farmers to prices, such as the number of planted acres and the distribution of acreage among crops, as well as the number of idled acres in either the annual commodity programs or the longer-term Conservation Reserve Program. CBO also makes assumptions about discretionary decisions of the Secretary of Agriculture, such as those regarding annual percentages of land required to be idled for participation in commodity programs, entry of grain into the farmer-owned reserve, management of export programs, and decisionmaking criteria for extending conservation reserve contracts.

CBO estimates that CCC outlays over the 1995-2000 period will average about $8.2 billion a year, somewhat lower than the $9.8 billion a year spent from 1990 through 1994. We project that annual spending will average about $3.2 billion for corn and other feed grains, $1.7 billion for wheat, $900 million for export programs, and about $800 million each for rice and upland cotton.

CBO estimates that CCC outlays in 1995 will be $1.6 billion below the 1994 level, despite substantially higher costs for corn. Outlays for feed grains are expected to triple in 1995 to $3.1 billion from less than $1 billion last year.

That increase, however, is likely to be more than offset by substantial reductions in several other areas, including wheat, cotton, tobacco, and disaster payments. Spending for wheat and cotton will decline because of changes in supply and demand conditions, and the buyout program for tobacco will generate additional repayments from higher purchases of CCC stocks by manufacturers. The new crop insurance program will probably eliminate the need for future disaster payments, except for the $1 billion estimated in 1995 for losses on 1994 crops. Those 1995 payments were authorized in the 1995 Agricultural, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act.

Over the 1996-2000 period, we expect the costs of the CCC's commodity programs to rise slowly and noncommodity costs to fall (see Table 3). In general, for the commodities covered by government support programs, CBO anticipates that the requirements for idling acreage under the annual acreage reduction programs will be reduced, acreage will gradually come out of the conservation reserve, more acreage will be enrolled in the annual programs for voluntarily idling acreage in return for government payments, and no significant improvement in export volume and in commodity prices over the levels achieved in 1993 or 1994 will occur until toward the end of the five-year period (see Tables 4 and 5).

TABLE 3. COMMODITY CREDIT CORPORATION OUTLAYS
(By fiscal year, in millions of dollars)

	Actual	Projected					
	1994	1995	1996	1997	1998	1999	2000
Commodity							
Corn	625	2,740	2,785	2,508	2,771	2,926	2,890
Other feed grains	347	380	491	442	458	479	474
Wheat	1,731	1,151	1,774	1,825	1,922	1,843	1,694
Rice	837	904	819	799	756	658	571
Upland cotton	1,539	138	687	1,051	1,028	1,015	1,042
Soybeans	-183	-21	0	0	0	0	0
Peanuts	37	119	91	89	63	65	64
Tobacco	693	-50	-155	-268	-364	-339	-130
Honey	0	6	10	0	0	1	2
Sugar	-24	-37	-32	-33	-33	-34	-34
Dairy	158	295	371	361	329	286	266
Other commodities	143	-14	101	107	119	119	120
Subtotal	5,902	5,611	6,941	6,881	7,050	7,018	6,960
Noncommodity							
Disaster payments	2,567	1,080	80	80	80	80	80
Export programs	1,246	967	1,126	995	885	781	679
Other noncommodity	-157	243	260	298	148	135	125
Net interest	-17	43	86	143	105	42	4
Subtotal	3,639	2,333	1,552	1,515	1,218	1,038	887
Total	9,541	7,944	8,494	8,396	8,268	8,056	7,847

SOURCES: Actual data from Department of Agriculture; projections from the March 1995 baseline of the Congressional Budget Office.

NOTE: Numbers may not add up to totals because of rounding.

TABLE 4. PROGRAM ASSUMPTIONS IN THE CBO BASELINE FOR THE COMMODITY CREDIT CORPORATION (By crop year)

	1995	1996	1997	1998	1999	2000
Target Prices (Dollars per bushel, except as noted)						
Corn	2.75	2.75	2.75	2.75	2.75	2.75
Wheat	4.00	4.00	4.00	4.00	4.00	4.00
Rice[a]	10.71	10.71	10.71	10.71	10.71	10.71
Cotton[b]	0.729	0.729	0.729	0.729	0.729	0.729
Nonrecourse Loan Rates (Dollars per bushel, except as noted)						
Corn	1.84	1.82	1.78	1.79	1.78	1.78
Wheat	2.56	2.61	2.61	2.58	2.52	2.50
Rice[a]	6.50	6.50	6.50	6.50	6.50	6.50
Cotton[b]	0.519	0.519	0.522	0.543	0.550	0.550
Soybeans	4.92	4.92	4.92	4.92	4.92	4.92
Acreage Reduction Requirements (Percentage of base acreage)						
Corn	7.5	5.0	5.0	2.5	5.0	5.0
Wheat	0	0	0	0	0	0
Rice	5.0	0	0	0	0	0
Cotton	0	0	10.0	12.5	12.5	10.0

SOURCE: March 1995 projections of the Congressional Budget Office.

a. In dollars per hundredweight.

b. In dollars per pound.

TABLE 5. CBO PROJECTIONS FOR MAJOR SUPPORTED COMMODITIES (By crop year)

	Actual	Projected						
	1993	1994	1995	1996	1997	1998	1999	2000
Corn (Millions of bushels)								
Production	6,336	10,103	8,783	9,012	9,159	9,424	9,400	9,518
Exports	1,328	1,950	1,725	1,775	1,825	1,885	1,945	2,015
Total Use	7,620	9,240	8,870	9,010	9,140	9,285	9,430	9,585
Ending Stocks	850	1,718	1,636	1,643	1,666	1,810	1,786	1,724
Price (Dollars per bushel)	2.50	2.20	2.21	2.22	2.22	2.18	2.20	2.22
Wheat (Millions of bushels)								
Production	2,396	2,321	2,431	2,414	2,458	2,517	2,561	2,608
Exports	1,228	1,272	1,174	1,196	1,232	1,280	1,323	1,365
Total Use	2,467	2,482	2,406	2,453	2,523	2,590	2,653	2,711
Ending Stocks	568	490	600	648	671	688	688	679
Price (Dollars per bushel)	3.26	3.47	3.21	3.11	3.06	3.05	3.11	3.21
Rice (Millions of cwt)								
Production	156.1	197.8	167.7	178.4	180.3	180.9	181.4	182.0
Exports	79.4	87.0	82.5	81.0	79.8	78.5	76.5	73.7
Total Use	176.4	188.8	187.2	188.5	190.2	192.0	192.9	192.9
Ending Stocks	26.0	42.7	31.7	31.0	31.4	31.5	32.1	34.2
Price (Dollars per cwt)	8.09	6.25	6.18	6.40	6.65	7.10	7.37	7.60
Upland Cotton (Millions of bales)								
Production	15.76	19.4	20.1	20.3	19.1	18.9	19.1	19.5
Exports	6.56	9.2	8.2	7.3	6.9	6.8	6.9	6.9
Total Use	16.90	20.2	19.5	18.8	18.7	18.9	19.2	19.4
Ending Stocks	3.30	2.6	3.3	4.9	5.4	5.5	5.5	5.6
Price (Dollars per pound)	0.58	a	a	a	a	a	a	a
Soybeans (Millions of bushels)								
Production	1,869	2,558	2,109	2,177	2,207	2,246	2,261	2,290
Exports	589	825	765	765	751	756	771	780
Total Use	1,958	2,305	2,235	2,235	2,226	2,241	2,261	2,295
Ending Stocks	209	470	347	292	275	284	287	285
Price (Dollars per bushel)	6.40	5.30	5.35	5.72	5.90	5.82	5.81	5.88
Dairy Products (Billions of pounds)[b]								
Production	151.5	152.6	157.9	160.2	161.8	163.5	165.0	166.8
Commercial Use	144.7	149.9	152.8	155.0	157.0	159.3	161.5	163.5
CCC Removals	7.6	4.2	5.8	6.6	6.4	5.9	5.3	5.2
Price (Dollars per cwt)	12.73	13.12	12.62	12.54	12.48	12.41	12.40	12.40

SOURCE: March 1995 projections of the Congressional Budget Office.

NOTE: cwt = hundredweight; CCC = Commodity Credit Corporation.

a. Government agencies are prohibited from publishing price projections for cotton.

b. Dairy projections are presented on a fiscal year basis.

Corn

Watching the supply and demand situation for corn has been similar to taking a rollercoaster ride, largely because of the change from the flood-reduced yield in 1993 to the record yield of 1994. Because of the reduced stocks at the end of the 1993 crop year, the Administration dropped the acreage reduction percentage (ARP) to zero for 1994 corn. That reduction increased the number of both eligible payment acres and harvested acres in a year in which the average yield reached almost 140 bushels per acre.

Even with sizable increases forecast for both domestic use and export demand (up almost 50 percent), a 1994 production increase of 60 percent is likely to push up corn stocks to 1.7 billion bushels, whereas farm prices are projected to fall to $2.20 from 1993's $2.50. Thus, CBO expects the deficiency payment rate (the difference between the target price set by law and the market price) to double and payments to rise sharply.

Outlays in fiscal year 1995 will include payments related to various crop years. Deficiency payments for any crop year are paid over three different fiscal years. Consequently, those made in 1995 reflect high payments for the 1994 crop and repayments from farmers for overpayments made for the 1993 crop. They also include advance payments for farmers signing up to

participate in the 1995 crop program this year. In addition, CBO expects that outlays for new loans will exceed repayments of old loans in 1995. With more corn expected to enter into the farmer-owned reserve this year, repayments will be delayed because those loans can last for 30 or more months instead of the normal loan period of nine months. We estimate that the net result will be outlays totaling $2.7 billion for the corn program in fiscal year 1995.

For later years, the CBO baseline assumes that the amount of acreage idled under the annual acreage reduction programs will be relatively small. The Department of Agriculture (USDA) has set the corn ARP at 7.5 percent for the 1995 crop year, and we expect it to range between 2.5 percent and 5 percent through 2000. CBO's forecasts assume a corn yield at a trend level of 126 bushels per acre in 1995, rising about 1.5 bushels a year in subsequent years. Under those assumptions, prices would remain near the forecast 1994 level of $2.20 a bushel and demand would grow sluggishly, especially domestic demand. The baseline assumes only a modest growth in ethanol production pending resolution of the lawsuit regarding the renewable oxygenate requirements. CBO expects feed and residual use in 1995 to decline from the level of the record 1994 crop but to grow modestly through 2000. Corn exports should grow over the 1995-2000 period but the amount of exports is likely to remain below the 1994 level until 2000. Exports could vary significantly depending on actions taken by the European Union in

implementing the reduced subsidies required by the General Agreement on Tariffs and Trade (GATT).

CBO estimates that outlays for the corn program will range from $2.5 billion to $2.9 billion a year from 1995 through 2000, with another $400 million to $500 million for other feed grains--sorghum, barley, and oats. After 1995, the outlays will be mostly for deficiency payments, since loan repayments will probably exceed outlays for new loans in most years as the farmer-owned reserve is emptied.

Wheat

CBO estimates that outlays for the wheat program will drop from $1.7 billion in fiscal year 1994 to $1.2 billion in 1995 because of the relatively small deficiency payments due in 1995 on the 1994 crop. Even with no acreage required to be idled for the 1994 crop, a combination of relatively low output and strong demand buoyed prices to an estimated average for the season of $3.47 a bushel--the highest since 1989. With continued low stocks, USDA again announced a 0 percent ARP for the 1995 crop, and we expect the ARP for wheat to remain at that level throughout the baseline period. CBO anticipates that wheat exports will drop in 1995 as the production of U.S.

competitors rebounds from the reduced levels of 1994. Ending stocks are likely to rise and average prices fall to $3.21 a bushel.

In later years, wheat output should increase by more than yield growth as some acreage currently idled under long-term conservation contracts is planted. CBO projects that outlays for the wheat program will range between $1.7 billion and $1.9 billion a year from 1996 through 2000. Though stocks are expected to rise from current low levels, the stocks-to-use ratio will probably not exceed 27 percent. Thus, we assume that the Secretary of Agriculture will continue to announce a 0 percent ARP. Major uncertainties surrounding those projections include planted acreage and export demand. The number of acres planted versus acreage idled in the long-term CRP or under the annual voluntary paid (0/85) program will depend on the responses of producers to prices and conservation rules. Export demand will depend on the responses of competitors to world prices and reduced subsidies under GATT, as well as on the decisions of importers, especially Russia and China.

Rice

CBO estimates that outlays for the rice program will be $0.9 billion in 1995, but will decline each year to less than $0.6 billion in 2000. A jump in stocks

because of the huge 1994 crop--which was 27 percent above production--will probably cause prices to plummet from the 1993 average of $8.09 to around $6.25. In response, the Secretary of Agriculture has announced a 5 percent ARP for the 1995 crop, which is expected to reduce stocks, assuming that the strong export and domestic demand continues. We anticipate, however, that prices will remain below the $6.50 loan rate, triggering maximum deficiency payments. (Those payments are equal to the target price, which is set in law, minus the higher of the annually specified loan rate or the average farm price for the season.) CBO also projects sizable marketing loan benefits for the 1995 crop. Those payments represent the difference between the loan rate received by producers and the loan repayment made at the estimated world price.

In later years, CBO expects the ARP to revert to 0 percent and stocks to remain at 16 percent to 17 percent of use because of several factors. We expect that a large number of acres will continue to be idled annually under the 50/85 program (a modification of the 0/85 program, which pays farmers to idle acres voluntarily, but in this case at least 50 percent must be planted). We also anticipate only modest increases in yield and strong domestic demand. Exports are likely to fall as prices rise in the face of limited increases in output. However, as U.S. and world prices rise, both deficiency payments and marketing loan benefits will probably decline.

Cotton

CBO estimates that upland cotton outlays will be only $0.1 billion in 1995, dramatically below the $1.5 billion spent in 1994. In later years, outlays should rise and remain around $1 billion a year. Exports from the 1994 crop should reach 9.2 million bales--equal to the 1979 record and 1.4 million bales above any year since then. A combination of strong global demand for cotton and poor crops of major competitors plus the reduction of the world cotton stocks is driving buyers to the U.S. market. In fact, prices for the 1994 cotton crop rose so rapidly that part of the deficiency payments already advanced to farmers must be repaid in 1995. However, despite the high prices and strong demand, marketing certificate payments (made to keep the U.S. cotton industry competitive in world markets) will probably reach $90 million in 1995.

In later years, CBO projects that total use of cotton will fall from the 1994 level, despite expectations for continued growth in domestic mill consumption. The USDA has set the ARP at 0 percent for the 1995 crop year, and we expect it to remain at that level in 1996 and to rise to between 10 percent and 12.5 percent in later years. CBO forecasts a stocks-to-use ratio at the 29 percent level mandated by law. Prices in later years are likely

to fall below the target price and to result in deficiency payments of $0.7 billion to $0.9 billion a year.

Other Commodities

Outlays for other commodities are smaller than those discussed above. CBO estimates that dairy outlays will range between $0.3 billion and $0.4 billion a year from 1995 through 2000. The cow herd is forecast to continue to decline through 2000, but increases in yield are likely to result in expanded production. CCC net removals (purchases of surplus milk) will rise from 4.2 billion pounds to 6.6 billion in 1996 and then drop slowly to 5.2 billion pounds by 2000. However, assessments of roughly $255 million annually from producers will offset a significant part of the gross outlays.

CBO projects that outlays for the peanut program will be $119 million in 1995 but will drop to between $60 million and $90 million over the remainder of the 1996-2000 period. A support rate several cents above the forecast market price allows peanuts under quota to be repaid at a loss to the government.

Outlays for the tobacco program are likely to be negative--reflecting net loan repayments--from 1995 through 2000, following the $0.7 billion in outlays in 1994. The buyout program announced in December provides for increased purchases of surplus tobacco by manufacturers at a discount. The losses are to be paid from assessments collected from growers and buyers to make up potential future shortfalls in repayments of tobacco under loan. Those funds are known as no-net-cost funds.

CBO expects that outlays for the honey program will be virtually nonexistent after 1996 and that outlays for the sugar program will be negative throughout the 1995-2000 period. Allotments limiting domestic marketings and quotas on sugar imports keep domestic prices from falling below the loan rate. Thus, sugar loans are repaid fully each year. In addition, more than $30 million a year is generated from loan placement fees.

Soybean outlays will be slightly negative because loan repayments are likely to be slightly higher than the value of new loans. In later years, net outlays for the soybean program will be zero as all loans are repaid within the fiscal year.

Export activities account for the largest CCC outlays not related to specific commodities. Outlays for the Export Enhancement Program are limited to \$0.8 billion in 1995 because of a restriction in appropriation legislation. In later years, CBO assumes that the Secretary of Agriculture will use the program to its fullest extent consistent with the GATT agreement. We expect outlays to fall steadily, from just under \$1 billion in 1996 to almost \$0.6 billion in 2000. CBO also assumes that the USDA will spend the \$166 million called for in the GATT implementing legislation as well as additional funds over the next three years for various programs to stimulate exports, though we do not know exactly which activities the department will undertake. The Secretary has requested authority to increase 1995 spending for the Marketing Promotion Program and for the Food for Progress program. Other "greenbox" measures--those consistent with GATT rules on subsidies--could include new export credit guarantee programs.

The CCC also guarantees loans to finance the sale of agricultural products to foreign buyers. CBO estimates that outlays for that program--which reflect the net present value of the cost of paying potential loan defaults--will be about \$350 million a year, based on total guarantees of about \$4.2 billion a year. For most countries in this program, the estimated

subsidy cost is relatively low, but potential losses from defaults by Russia could be significant. CBO assumes that Russia will continue to receive guarantees but that the amount guaranteed will be lower than in the past, which is consistent with the expected reduction in Russia's imports from the United States.

CROP INSURANCE

Last year the Congress enacted the Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994, which substantially changed the government's crop insurance program. The program is now both more comprehensive and mandatory for participants in CCC commodity programs. (Catastrophic coverage provides farmers 60 percent of the expected price for crop losses exceeding 50 percent.) As a result, outlays for crop insurance are likely to be higher than under the previous program. But the legislation also barred the future use of emergency designation for annual disaster spending, thus making it more difficult to provide disaster assistance outside the crop insurance program for crop losses. Therefore, the costs of annual disaster assistance legislation, such as the $1 billion estimated to be provided by the CCC for disaster assistance for the 1994 crop, are not likely to recur.

The costs of the crop insurance program--about $1.5 billion annually--include both catastrophic coverage and additional optional "buy-up" coverage for commodities previously included under the old program, as well as coverage for other crops not previously included. Because of the mandatory nature of catastrophic coverage and the subsidized premiums for additional coverage, CBO expects that the number of acres insured will be significantly higher than under the previous program, raising both outlays for the insurance program and the government's potential liability. Outlays under the new crop insurance program are likely to be slightly below the costs of the previous program plus annual disaster assistance, if such assistance was provided in legislation each year for the 1996-2000 period. (The law implementing the GATT agreement requires USDA to spend those expected savings on export programs.)

The legislation requires the FCIC to set future premiums to reduce the loss ratio--the ratio of claims paid to total premiums--significantly from historical levels. Over the past five years, the loss ratio has averaged 1.3 compared with a mandated goal of 1.075 by 1999. The CBO baseline projections assume that the FCIC will accomplish that goal after 2000. The ratio can vary widely from year to year. For example, in 1993 floods and other problems caused a loss ratio of 2.11, whereas the 1994 ratio is estimated to be 0.75. The payment of commissions to insurance agents also adds costs

to the crop insurance account. Previously, those costs were covered in the appropriated account for salaries and expenses and were not charged to the crop insurance fund.

CONSERVATION RESERVE PROGRAM

The authority to enter new acreage into the conservation reserve will expire at the end of calendar year 1995. As a result, if no new legislation is enacted, CBO expects that the number of acres in the CRP will gradually decline to about 17 million once all of the initial contracts have expired. That figure includes an assumption that about 1.6 million acres will enter the CRP in the last quarter of calendar year 1995, bringing the total acreage to the mandated 38 million in fiscal year 1996.

In December 1994, the Department of Agriculture announced its intention to offer participants the opportunity to modify and extend their contracts up to an additional 10 years when their current contracts expire. CBO assumes that, without new legislation, USDA will selectively extend existing contracts covering about 15 million acres to reduce the size of the reserve, retarget it geographically, and enhance its environmental benefits.

Regulations to carry out CRP contract extensions have not yet been completed. However, CBO assumes that protecting water quality will be a prominent consideration in determining extensions. Thus, our baseline assumes that wheat acreage will fall from 30 percent to about 24 percent of the total, whereas corn and soybean acreage combined will rise from 23 percent to 34 percent by 2000. CBO estimates that, without new legislation, outlays for the CRP will fall from $1.9 billion in 1995, covering 36.4 million acres, to $1.2 billion in 2000 on 21.4 million acres.

BASELINE ESTIMATES AND BILL COST ESTIMATES

Estimating CCC spending one to five years ahead is a risky task. In the past, CBO's outlay estimates for the CCC have varied considerably from actual outlays for a variety of reasons, including abnormal weather, departmental decisions, legislative changes, and foreign events that affected global agricultural markets.

Abnormal weather (which results in crop yields significantly different from trend levels) has been a significant factor in CCC spending in several recent years. The droughts of 1988 and 1989 and the floods of 1993 lowered yields for various crops. In contrast, the ideal conditions of 1994 resulted in

a record corn yield of almost 140 bushels per acre--14 percent above the expected trend yield. Unanticipated departmental decisions have also significantly affected outlays--including USDA's decisions to allow 1990 wheat producers to plant above base, permit entry into the farmer-owned reserve for the 1990 wheat crop and the 1992 corn crop, use emergency authority to provide food assistance to Russia, and authorize the 1994 tobacco buyout.

Several pieces of legislation have added to or subtracted from expected outlays, including disaster assistance bills and the 1990 and 1993 omnibus deficit reduction bills.

Perhaps the major one-time foreign event to affect CCC outlays in recent years is the default by Iraq on guaranteed export credits, costing about $2 billion. The uncertain situation in Russia has also increased the unpredictability of CCC outlays. Because those factors can heavily influence CCC spending and because of the entitlement nature of the CCC programs, spending in the near term cannot easily be controlled by the Congress. Because of the variability of market forces, it also cannot be easily forecast.

Within the past year, CBO has changed its estimating procedures in an effort to account for the uncertainty in our baseline projections when we estimate the costs of legislative proposals. Previously, once values were

determined for crop prices, yields, supply, use, and other variables, the estimates of legislative changes were made assuming that those baseline values would be right on the money.

Of course, projections of prices, yields, or other variables are rarely that accurate. Prices may be higher because of higher export demand or poor weather, for example, or lower because of factors such as good crops at home or abroad or a sluggish world economy. CBO tries to project the most likely value--of the corn price, for example--when developing its baseline. But we recognize, as do all forecasters, that considerable uncertainty surrounds the projections.

For many legislative options, the most likely value--of the price, for example--is all that is needed to produce a good estimate of spending for the option because modest variations will not affect the cost dramatically. For some options, however, using the most likely value without accounting for the uncertainty produces a misleading cost estimate because small changes in the value may cause very large changes in the cost of the proposal. The possibility is especially great if costs for a program occur only when a variable, such as price, reaches a certain level and if the proposed legislation affects either the variable or the specified level.

In an attempt to improve our estimating process, we now incorporate an assessment of the probability of alternative cost scenarios. That probability-based approach recognizes that individual supply, demand, and price components of the baseline are likely to vary from the projected amounts. Over a five-year period, for example, yields are likely to be significantly above or below the trend value for at least one year. A proposal that would have no costs assuming trend yields may be estimated to have a net cost based on the likelihood that yield will vary from the historical trend. For instance, a proposal to increase the loan rate for a marketing loan program to a level close to (but below) expected market prices would be scored as budget neutral if no variability were considered. But CBO might well assume that prices in at least one year would be below the forecast level, thus resulting in an estimated cost for the legislation for additional marketing loans.