Response to American Enterprise Institute Claims

The American Enterprise Institute (AEI) released a paper in September 2012 claiming potential costs of $20 billion per year for the Price Loss Coverage (PLC) and Supplemental Coverage Option (SCO) programs in the Congressional 2012 Farm Bill proposals. The release is apparently intended to create alarm over potentially high costs of future farm policy. Unfortunately, AEI is following the model of other farm policy critics by employing inaccurate data and failing to tell whole story.

- The expected costs of the House and Senate bills have been well documented by the Congressional Budget Office (CBO), much more experienced, capable and balanced in cost estimation than AEI. Rather than estimating the effects of an improbable price scenario, CBO uses stochastic scoring, which takes into account the probability that some years will have high costs and some years will have smaller costs over time. CBO has estimated the ***expected annual cost of the House bill's PLC to be $1.6 billion per year on average over the next 10 years. CBO estimates that the expected costs of the SCO program are $300 million per year in the Senate version of the Farm Bill and $400 million per year in the House version. Combined, CBO projects that PLC and SCO are expected to cost $2.0 billion or less over the next 10 years, taking into account the probability of both high and low cost years.*** This is far below the $20 billion per year trumpeted by AEI.

- AEI's headlines fail to put this cost in context—which is, the expected cost increase of the Price Loss Coverage (PLC) program is more than offset by other program reductions. The House and Senate Farm Bills eliminate the Direct Payment Program, the Average Crop Revenue Election Program and the Supplemental Revenue Assistance Payments Program. CBO estimates ***the combination of these changes will <u>reduce</u> expected farm commodity program spending by $2.4 billion per year.***

- The AEI claim that insurance companies "already receive $3 billion per year in other taxpayer subsidies" is again exaggerated. First, the companies are not subsidized. They are private companies delivering a program under contract with the Federal government. Payments to them cover the real costs of program delivery. Second, the $3 billion figure is not accurate; it apparently selects one or a few recent years on which to base the claim. It certainly does not take into account that ***the total payments to the companies will be negative in 2012***, as the companies' share of indemnities paid to farmers will exceed the payments they receive for delivery expenses. The expected payments to the companies in future years, as estimated by both CBO and USDA, are well below the AEI claim.