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The Coming Tug of War: Forces Moving the 2007 Farm Bill

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The main forces of trade agreements and budgets will certainly play a strong role in driving the 2007 farm bill debate. Other factors ranging from the political makeup of Congress to the growing level of rhetoric calling for reform, from the cost-price squeeze facing producers to the emergence of nonprogram commodities at the table will also play, at this time, uncertain roles in the development of the final legislation. These various forces and factors are assessed and projections as to the final outcome of the debate hesitatingly provided.

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Introduction

The level of intellectual engagement on the upcoming farm bill seems to have stepped up a notch or two from some of the last few efforts. Conferences are being held, speeches given (like this one), papers being written, all focused on one issue or another in the legislative debate. The purpose of this paper is to examine one of the fundamental questions about whether the upcoming bill will, at the end of the day, reflect essentially the provisions of the current program structure or whether there will be major program reform. In developing the conclusions, the paper will examine a number of the forces at work, forces for and against movement from the current structure as well as some just plain forces.

Before getting into whether the force will be with us or not, it is probably appropriate to spend some time discussing the time line for the farm bill development. In the past year, the administration has conducted numerous farm bill listening sessions, literally all over the country. They have served to provide the administration with a great deal of background information upon which to draw for any legislative proposals they might make. Originally suggesting that they would actually submit a proposed bill, current discussion suggests they may be leaning more toward a concept document as opposed to actual legislation. Regardless of the form in which the administration makes its feelings known, it is likely the administration will be much more active in this legislative effort than was the case for the 2002 bill. Given the differences in personnel at some of the higher levels of the Department of Agriculture, they are expected to be much more of a player than in any of the last several bills.

Ultimately, however, farm bills are written by Congress. Between now and the time the current legislation expires a midterm election will take place. This election will place every House seat up for a vote and a third of the Senate. This election process also places a significant limit on the number of legislative days Congress has to act before the end of the 109th Congress. The House Agriculture Committee has already engaged in a series of hearings prior to the development of the new bill; the Senate will likely follow. While not clear, it

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does seem that the major forces that would actually drive writing legislation this year are limited at best. There is nothing on the legislative calendar that says they must write a new farm bill this year, and past history certainly suggests Congress only completes work on a farm bill when it is absolutely necessary—i.e., well after the winter wheat crop is in the ground, but before spring planting usually begins.

This suggests the new farm bill debate begins in earnest with the start of the 110th Congress and that Congress completes action either late in 2007 or early 2008. Making this kind of prediction 12 to 18 months ahead is at least as hard as predicting soybean prices for the same time lead.

Forces for Change

Others would give a longer list or might include some of the "just plain forces" items in this category, but for discussion purposes, the three considered here as moving us toward change are: budget, trade agreements and negotiations, and intellectual bias.

Budget

Referred to by some as taxpayer revolt, but others as a means of controlling the size of government, and still others as a weakening of public sentiment for farm programs, the ultimate expression is in the form of limits on federal spending on agricultural programs. It is probably a good idea to place farm program spending in context. For fiscal year (FY) 2004, total government spending added up to $2,417 billion. Spending on commodity, conservation, and risk management programs by U.S. Department of Agriculture (USDA) totaled $24.6 billion, 1% of the total federal budget. For FY04, the total federal deficit was $434 billion. Completely eliminating farm program spending would only put a small dent in the federal deficit, so efforts to reduce spending on these programs reflect more of a change in philosophy about where government tax dollars should go than in true deficit reduction.

As an example of the kind of shift in thinking required, recall that during the early stages of crafting the 2002 bill, the agricultural committees were provided with additional spending over and above that incorporated in the 1996 legislation. Recall that the 1996 legislation was supplemented in 1998, 1999, 2000, and 2001 with "double Agricultural Market Transition Acts" and other payments intended to offset lower producer revenue caused by other factors. This boost in spending above that anticipated by Congressional Budget Office's (CBO's) projections were in large part annual, ad hoc add-ons. Also recall that at the time the additional funding for the 2002 bill was provided, the federal budget was in a surplus condition, and expected to remain that way for years to come.

Turn now to 2006 and the period leading up to the current point of debate. Rather than operating in a surplus, the federal budget has returned to large, continuing deficits. Phrases like "hemorrhaging red ink" and "spending our children's inheritance" have returned to the vocabulary. Last year, 2005, saw a return to the budget reconciliation process and at least lip service to actual cuts in program spending. One may argue as to the impacts on the latest package on actual outlay levels, but there are more troubling signs on the horizon that point to a change in attitude toward caps on farm program spending.

There are only limited signs that Congress, through the budget process, is ready to force more significant spending reductions. These actions denying disaster support occurred during a period of relatively little concern over federal deficits. Only in 2005 did Congress take action to limit spending, and even then incorporated more reductions on the revenue side than were included on the spending side. In other words, the reconciliation package, as a whole at least, actually directly increased the deficit. Should Congress decide to take serious budgetary action in the future, however, signs are certainly on the horizon that agriculture in particular will face constraints.

The Consolidated Appropriations Resolution for 2003 established what has become a serious precedent for future legislation of a similar type. Prior to the 2003 Act, disaster

assistance for agricultural programs were handled as a kind of "gentleman's agreement." With a contraction of commodity supplies due to drought or other natural disaster, prices for the program crops tended to rise, lowering commodity program costs. Recall that historically, farm program support was more closely tied to market prices than say the 2002 bill was, and thus government costs went down as prices rose. Deficiency payments and loan outlays are classic examples. With these past disaster assistance packages, the reduction in program outlays from what was anticipated prior to the start of the crop year was considered a pot available to the authorizing committees. Say a drought was expected to lower program costs by $5 billion from CBO's March estimates; as long as the disaster package was given a budgetary score of less than $5 billion, Congress tended to be willing to go along and give the spending an emergency designation. This emergency designation meant that only a majority of Congress was needed for passage, as opposed to the super majority needed for proposals that were anticipated to raise the deficit. This approach also tended to protect all of the other provisions of the farm bill from funding raids to support disaster assistance.

The Consolidated Appropriations Resolution of 2003, however, jumped markedly from this history. As Chite states: "The full cost of these provisions was offset by a $3.7 billion limitation placed on future mandatory spending (FY2003–2013) for the Conservation Security Program (CSP)." In other words, to receive a 1-year disaster assistance bill, Congress required the authorizing committees to give up a 10-year spending stream to offset the cost. This program offset was required even though 2003 projected spending levels at the time the package was being debated were estimated to be well below that anticipated at the start of the budgetary cycle. And the offset came from one of the areas afforded the largest funding increase in the 2002 farm bill—conservation.

Later Congressional action restored the spending cuts to the CSP, but again in the Military Construction Appropriations and Emergency Hurricane Supplemental Appropriations Act, 2005—written to provide assistance for the four hurricanes that struck in *2004*—"A portion of the agricultural spending was offset by placing a cap on mandatory spending for the Conservation Security Program beginning in FY2008, which is estimated to save $2.86 billion over a multi–year period" (Chite).

While overall crop production levels in 2005 were more than adequate, there were several areas of the country that suffered significantly from drought conditions. Information on the effects of the hurricanes during the 2005 season has also been well documented. Yet despite these storms, it was not until January 26, 2006, that the administration announced a program to provide assistance for crop loss suffered from the storm. This was after several attempts were made in Congress to develop and pass various support packages.

The message that could be taken from these actions is one of "this much and no more," a sense that Congress provided significant additional support as part of the 2002 bill and if the sector wants to shift things around, so be it, but don't ask for more. A more ominous message however, is that agriculture will be well up on the list should Congress get serious about deficit reduction.

Bottom line, deficit reduction obviously has the potential to have a significant effect on the future course of policy in the United States, but the likelihood is that it will move 2002 farm bill policy only in an incremental fashion.

Trade Agreements

Probably the most frequently discussed reason for major policy reform in the United States comes from current or potential trade agreements. The World Trade Organization (WTO) Uruguay Round Agreement on Agriculture (URAA) limited the amount of support in various forms the United States was allowed to provide to agriculture. It also limited the use of export subsidies. Since then there have been various bilateral trade agreements that have further opened U.S. markets to various prod-

ucts, but that have not had a direct effect on the domestic programs.

One issue that has certainly generated a great deal of discussion in the profession and the agricultural sector as a whole has been the United States–Brazil cotton dispute and the panel finding regarding that dispute. A detailed description of the case, the URAA provisions related to it, and other implications is given by Gillon. While the panel finding ran to over 350 pages of text, three main provisions cause concern regarding the policy design of the 2002 farm bill. First, the so-called step two payments were found to be a prohibited subsidy, primarily because the United States did not notify them as such when the URAA was finalized. The second was that the current set of direct payments, which were intended to be decoupled and considered "green box" by Congress when passed, were determined not to be "green box" by the panel because of the prohibition on planting fruits and vegetables on acreage receiving payments. Third, the countercyclical payment and the marketing loan program were determined to create "significant price suppression" and thus harmed Brazilian producers.

As the step two program was found to be a prohibited subsidy and the United States was directed to "withdraw the prohibited subsidies . . . without delay" (WTO Settlement Panel, 2004) is being dealt with as part of the Deficit Reduction Act of 2005. Other administrative action dealt with some of the credit programs that were also of concern. The other provisions of concern however, were not given a time line as part of the panel's finding, and thus are to be dealt with at some later date, presumably as part of the new farm bill.

Brazil is not the only country to raise legal challenges to our domestic farm policies. The Canada International Trade Tribunal is holding hearings in the matter of an antidumping investigation from the United States (Inquiry No. NQ-2005-01). If one listens to Oxfam, there are over 20 countries that could line up to bring suit against the United States (Oxfam). The bottom line is that while the United States is committed to negotiations, other countries may well consider litigation their main way of generating policy reform.

Many are placing a great deal of hope with the current or Doha round of global trade negotiations, hope in the sense of improving the global trade picture. To help move the negotiations, the United States tabled an aggressive proposal on the table United States Trade Representative (USTR). As has been the tradition in these negotiations, the proposal dealt with all three pillars of support for agriculture: market access, export competition, and domestic support.

The market access reforms suggested by the United States included:

- *Progressive tariff reduction:* Developed countries cut their tariffs by 55%–90%. Lowest tariffs are cut by 55%, with cuts going to 90% for highest tariffs.
- *Tariff rate caps:* Establish a "tariff cap" ensuring no tariff is higher than 75%.
- *Sensitive products:* Limit tariff lines subject to "sensitive product" treatment to 1% of total dutiable tariff lines. For these lines, ensure full compensation by expanding tariff rate quotas (TRQ) where they exist and find other means to address sensitive products where TRQs are not in place.
- *Special provisions for developing countries:* Create special and differential treatment provisions for developing countries to provide real improvements in access while ensuring that import-sensitive sectors in those countries are afforded appropriate protection.

The export competition provisions included:

- *Export subsidies:* Eliminate all agriculture export subsidies.
- *Export credit programs:* Establish specific disciplines on export credit programs to bring them in line with commercial practice, including a maximum repayment period of 180 days.
- *STEs:* Install new disciplines on export state trading enterprises (STE) that end monopoly export privileges, prohibit export subsidies, and expand transparency obligations.

- *Food aid:* Establish disciplines on food aid shipments that guard against commercial displacement by removing obstacles to emergency shipments and deliveries to countries with chronic food aid needs. Establish an objective test to identify commercial displacement in other circumstances.

On domestic support this proposal called for:

- *Overall goals:* Reduce overall levels of trade-distorting support by 53% for the United States and 75% for the European Union (EU).
- *Amber box:* Cut aggregate measurement of support (AMS) by 60% for the United States and 83% by the EU, with product specific AMS caps based on the 1999–2001 period.
- *Blue box:* Cap partially decoupled direct payments at 2.5% of the value of agricultural production.
- *De minimis:* Cut *de minimis* allowances for trade-distorting domestic support by 50% (from 5% of the value of production to 2.5%)

At the Farm Bureau, we have done a fair amount of work to determine the extent to which market access gains can be used to offset domestic support reductions for the United States. While the results unapologetically focused only on the United States, at least some of the conclusions are well borne out by other researchers. For example there are a fairly limited collection of country–commodity pairs that generate the vast majority of trade gains for the United States. This is very consistent with Jean, Laborde, and Martin who found, "... excluding 2% of tariff lines as sensitive products is enough to empty the agreement of any substantive liberalization."

One of the key conclusions we are continuing to refine is the parallelism between reductions in amber box support and tariff levels. In general, the results indicate that there would be enough in the way of trade gains from a 50% reduction in tariffs to offset a 50% reduction in domestic support in the form suggested by the administration.

There are some key components to the United States proposal. Probably the most important is the aggregate effect on boosting trade as well as in reducing trade distorting support to the sector. Somewhat surprisingly, as we work through the tariff reductions, the average cut is just over 50%. At the same time, the average reduction in the AMS also works out to be just over 50%. In other words, it appears to us that the administration's proposal would meet the criteria of generating enough gains from trade to offset the proposed adjustments in domestic support.

Needless to say, there are many barriers to achieving the administration's goal. One significant challenge on the market access leg of the stool is the starting point. Only one country, the United States, proposed that the negotiations begin from actual, applied tariff rates. All other countries stuck to the position of negotiating from the highest rates agreed to under the URAA. Just looking at the averages goes a long way toward describing the implications of this starting point. Consider the difference between the bound (58.1%) and applied (10.4%) rate for wheat in developing countries. Cutting the bound rate in half drops the upper limit to 29%, still well above the rate actually charged, and thus generates not a single bushel of additional wheat trade. This means the developing countries must be able to go home and sell better than 80% reductions in wheat tariffs for more wheat to move in developing country trade. That is a difficult political sell anywhere. It would have been much easier to start from bound rates and sell considerably smaller reductions. While this would have necessitated the United States also having discussions from actual spending rates on domestic support versus bound rates, there likely would have been a much greater chance of success than is now the case.

It is not clear how the negotiations actually move forward from where they are now. Overall, the negotiations seem to be at a point where all parties outside of the United States are in an "I won't show you mine 'til you show me yours" mind-set. The Europeans have publicly stated that they have no reason to see a conclusion to the round, that their best

outcome may well be to see the round collapse. The Brazilians, together with the Indians, continue to refuse to discuss significant reductions in their tariff barriers in nearly all areas but demand that the developed countries in particular lower theirs. For reasons that are frankly hard to fathom, the developing economies now seem to be completely sold on the notion that protectionism equals development.

While on the subject of developed versus developing, it is also not clear to some how Brazil can, with a straight face, consider themselves to be a developing economy and therefore subject to a reduced set of tariff cuts. Frankly, if they persist in that view, for agriculture at least, there may be good reason for the United States to declare itself a developing economy.

The time line on crafting an agreement has been well discussed in numerous papers. What is viewed as the critical time–certain event in the discussions is the expiration of trade negotiating authority on the part of the United States. This authority granted to the president expires in June, 2007. Once expired, any agreement negotiated by the president will be fully open to amendment by the Congress. As such, the negotiations will shift from discussions with one entity in the United States to one with 535 entities. Some have suggested that the United States should simply extend this authority. Frankly, the political will for such an extension is very limited and would quite probably fail.

So how do these trade forces move the farm bill? Barring a major breakthrough in the multilateral trade negotiations, probably very little. There may be adjustments needed to deal with whatever trade disputes have been up through the various panels and settled at the time the bill is being debated. But without a global agreement, why should we unilaterally adjust? And not just an agreement but one that will allow U.S. agriculture to feel that it has gained enough on the increased trade side to offset the domestic support reductions other countries will demand.

Bottom line, the likelihood of completing the Doha round seems to be diminishing on an almost daily basis. Without completion of the modalities, movement to and completion of the offer and counter phase on setting actual tariff lines in the next few months, the negotiations will not be completed prior to the expiration of our negotiating authority. In other words, the likelihood of these trade negotiations having a real effect on the 2007 farm bill is declining rapidly on a daily basis.

Intellectual Bias

Why are we even talking about changing the farm bill? If one talks with producers, the individuals who actually have to live with the legislation, you will find very strong support. They appreciate the structure, the combination of fixed and flexible payments, and the ability to update bases so that their payment acreage looks like what they plant today, rather than what they planted in the early 1980s. They recognize that, at least currently, there is no such thing as a level playing field. In short, most would probably just like us to change 2007 to 2012 in the legislation and move on. Certainly there may be some specific issues on specific days that bring concern, but overall, producers seem to like the current structure.

So where are the calls for change coming from? There have been regular strikes at the program structure by some in the media as well as by several nongovernmental organizations (NGO) for years. These range from angst over the amount of government spending—1% of the total federal budget—to conviction that the U.S. cotton producer is out to get the western Africa farmers. The calls are coming from both sides of the country (Sumner, Orden) and at least one or two (Thompson, Tweeten) in between. While admittedly some focus more on ways to transition from the current program to something else, rather than call for a wholesale reform, there is certainly a tone among the profession's writings pushing wholesale reform.

This combination of NGOs, public media, and our own profession are creating the background information most will turn to when the time comes for the 30-second spots once the debate unfolds in full glory, which will in turn help fuel further discussion of more extensive

policy reform. Whether this actually affects Congress in its debate is a debate in its own right.

The bottom line, however, is that it does establish that backdrop. It will play at least some role. The 2002 debate saw some very close votes in terms of moving money within the overall farm bill budget from commodity programs into conservation activity. As mentioned earlier, conservation programs received some of the largest proportional increases of all activities in the 2002 bill. The CSP alone was projected to be a multibillion dollar effort, allowing producers to receive payments for working lands conservation activity, a major breakthrough in some respects. These voices will have some effect, definitely moving toward reform.

Forces against Change

The Current Cost Price Squeeze

The significant run-up in fuel and other energy prices this last fall had a dramatic effect on the cash flow situation of many producers. With diesel prices at or near $3.00 per gallon right at harvest, the collapse of the basis levels at many of the river terminals in the Midwest, the financial picture turned sour very quickly. Fuel prices have declined significantly from levels observed last fall, but it was only that large spike that has lead many to feel that prices in the $2.50 per gallon range are "down."

From 1990 to 2003, national agricultural spending on fuels and oils averaged $6 billion, with a standard deviation of $650 million. If December, 2005 prices would have held, outlays on this same category in 2006 would have likely approached $15 billion. Clearly they will rise significantly, at least doubling levels observed just 3 years ago. Fertilizer costs will also jump significantly in 2006 relative to 2003 levels. In 2003 farmers spent $10 billion on fertilizers. Again if December 2005 prices are reflective of what producers will have to pay this growing season, this category will probably total closer to $15 billion.

Added together, net cash farm income in 2006 will likely fall from 2004 and 2005 levels by $18 to $20 billion. While admittedly still above the average levels observed in the 1990s, take $20 billion out of any sector's net position in 1 year and there will be a significant amount of angst. Consider average corn operating costs. The USDA gives a national average number for 2003 at $156.53 per acre. For 2006, based on November 2005 prices paid index, the USDA sets the number at an expected $201.68 per acre. Of the $45 increase, $35, or 78%, is from higher fertilizer, fuel, and chemical costs. Many make the case that energy costs resulting strong global demand and output uncertainty have not just spiked but have moved to a new plateau. In other words, this example of a 29% increase in corn production costs in 3 years is not likely to reverse itself in the future.

Understand that for many commodity producers, these farm programs are the rules under which they live. Making major reform in the face of these large input cost increases will face considerable opposition by many producers and producer organizations. The bottom line is a major, concerted effort on the part of producers to leave things as they are.

Rejection of the Budgetary Premise

Many within production agriculture are also reaching the stage where they are fundamentally rejecting the budget cut premise as a reason for program reform. As mentioned earlier, the entire commodity and conservation program budget represented just 1% of the total federal spending package in FY04. Between FY04 and FY06 total federal spending is projected to grow by $312 billion. Agricultural producers have been willing to give up some of their support in times past as long as it was viewed as part of an overall package. Clearly, however, they now see themselves as being handed cuts in order for other parts of the federal budget to grow even more. If deficit reduction is the focus and all programs—including some of the other entitlement programs—were to be handed proportionate reductions, the agricultural sector would likely agree to participate. But to be singled out will likely bring about a very vocal opposition.

The bottom line, until the deficit reduction thrust includes all parts of the federal budget, producers will become ever more vocal in their calls to leave things as they are.

Rejection of Unilateral Disarmament

The trade negotiation picture has already been given considerable discussion. A part of that discussion was the concept that it is unlikely those negotiations reach any conclusion over the next 18 months. Consequently, many would ask if it makes good negotiating sense to reduce or significantly modify our own programs in the face of little willingness to negotiate by the rest of the world. As also discussed earlier, there have been and likely will continue to be challenges in various multinational and individual country trade bodies, but if we are likely to face significant litigation regardless, why give up the devil we know for the devil we don't?

The bottom line once again—little reason to give up what may be leverage to help move other countries toward more market access.

Just Plain Forces

The Structure of Agricultural Production Today

One discussion point to emerge from the recent Census of Agriculture is the concept of "the collapse of the middle." One way of considering this is the significant reduction in the number of middle sized operations concurrent with the increased concentration of production in larger sized operations and an increased concentration of number of farmers toward smaller operations. The Census reports the minimum number of operations needed to produce various percentages of agricultural output. In the 1987 census it took 270,243 farms to produce between 25% and 75% of the value of agricultural output. This is as pure a definition of the "middle" of agriculture as one can develop. In 2002 that number was down to 139,957 operations. Between 1987 and 2002 however, the total number of farming operations moved from 2,207,670 to 2,129,250. Overall numbers fell by 3%, the number of farms in the middle by 48%. The 2002 Census also shows that it took roughly 145,000 farms to produce $150 billion in agricultural output in the United States, 7% of the farms producing 75% of the output. A little quick arithmetic shows these operations had average sales of just over $1 million, while the remaining 2 million operations had sales averaging just over $25,000.

How do we design farm programs for this diversity in production size? As long as farm program payments are tied to production, there will also be this significant diversity in the level of government support per farm.

Importance of Off-Farm Income

The Economic Research Service has done an outstanding job in collecting and reporting information on the demographics of farming in the United States today. The sources of farm family income, what the producers view as their primary occupations, and distribution by farm size are now all well documented.

One of the important features to derive from this effort is information on the makeup of farm family income. That data indicates that on average, 90% of farm family income comes from off-farm sources. Clearly, keeping rural communities economically vibrant is critical to helping a significant majority of farm numbers, even though it might not be as large a contribution to agricultural production.

Remaking the Agriculture Committees

Farm bills are produced by Congress. They begin, and virtually end, with work by the Agriculture committees. A quick lesson in the legislative process indicates that the House and Senate floor action essentially just serves to validate what the respective committees have done and grants them the authority to negotiate with the other chamber. But all the real work is done in and by the committees.

For past farm bills, there was a great deal of continuity among the membership. Chairmen tended to hold their positions for years, often serving as chair for more than one farm

bill. With the 1980s, this began to change somewhat, with an up tick in turnover among some of the membership. By the 1990s and the change in majorities in the House and more than one change in majorities in the Senate, the turnover became even more pronounced. Further, some would see service on the Agriculture committees as somewhat less glamorous than some of the other possibilities.

It is frankly too early to call what the makeup of the committees will look like for the 2007 bill. All seats in the House will be up for reelection between now and the farm bill. Anyone paying attention to the political climate understands there is at least some uncertainty as to what the House and the Senate will look like for the 110th Congress.

Perhaps most telling is the number of members in the current committees that were not there for the crafting of the 2002 farm bill. On the Senate side, 7 of the current 20 members were not present for the development of the 2002 bill. Admittedly some, including the chairmen, were on the House side for the current farm bill process, but several others have no farm bill experience.

The situation is even more dramatic in the House. Of the current 46 members of the House Agriculture Committee, only 18 were around for the 2002 bill debate. In other words, 60% of the House Committee will find this a new experience and will come to the process without the legislative and procedural history some of their other members will have. This may, or may not, induce them to consider new legislative options. At the very least, they will bring no pride of authorship or ownership to the table toward the current legislation.

The Correlation of Forces

So how do we bring these forces together to give direction for the upcoming farm bill?

The forces that could drive a change in approach are unclear at best. The two primary forces for change, deficit reduction and trade agreements, certainly have the possibility of individually or collectively driving significant adjustments in farm policy. But will either one come into play in the time line discussed at the opening? The budget process will probably not be a factor in 2006. Political challenges of passing another set of spending cuts in an election year will make such action hard at best. While there will likely be some discussion over the next few months, it is difficult to see a path from here to there.

This will likely bring even more pressure to bear in 2007 however. Assuming the overall deficit levels remain in the $300 billion plus range—which seems like a safe bet today—it is likely there will be real deficit reduction legislation again for the first session of the 110th Congress. This may be of a significant size. Surely the agricultural sector will make every effort to minimize the effects and the magnitude of the cut. The question is whether the cut will be large enough to make producers at least consider alternatives, or to just play around the edges. The safest bet at this point is probably more toward the latter rather than the former.

On the trade agreement front, whether there is an agreement that has the ability to pass Congress or not is at best a coin toss. Right now, one would probably think more along the lines of a three-sided coin with only one head and two tails. There does not seem to be enough of a consensus among the various nations to build up the momentum needed to generate an agreement.

Trade litigation on the other hand will probably already play a role in the new farm bill. The Brazilian cotton case may generate the end result of the United States providing payments to fruit and vegetable producers. An interesting outcome from the Brazilian's starting point, but a perfectly valid result given the panel's ruling.

The intellectual bias point discussed will continue to bubble in the background. Over the coming months, the pace and intensity of the rhetoric may gain in strength, but most of the points have already been made, and there has been little offered as an alternative, other than some buy-out proposals.

Offsetting what must now be seen as weak forces are the strong forces of self-interest on the part of producers in a time of significant uncertainty. With market prices falling sharply

from levels observed in the last couple years, and sharply escalating input costs, it is unlikely producers are going to willingly stand up at this point and demand reform.

So the bottom line—most likely outcome for the 2007 farm bill are changes around the edges. There may be tweaks to the program parameters to meet some savings targets, but barring a major breakthrough in trade discussions—breakthroughs that have enough behind them to pass Congress, look for what we have now to last for at least a while longer.

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