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CHOICES
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# Potential Deficit Reduction Efforts and WTO Cotton Ruling Adding to Policy Uncertainty

Hal Harris and Joe Outlaw

2005 is shaping up to be an interesting year for agricultural policy in the United States. Here we are, three years into a six-year farm bill, and commodity organizations and other agricultural interest groups are starting to get itchy. Most agricultural policy observers would agree that any changes made to existing agricultural policies during 2005 will result in less support for agriculture rather than more. In recent years, when a cut or offset was needed, conservation programs were looked to first. But is that what would happen now?

Several forces are converging that are likely to create policy and therefore financial uncertainty for U.S. farmers and ranchers. Persistent rumors of impending Congressional efforts to curtail the budget deficit via budget reconciliation have many interested parties asking: "How much will the cut be, and how are they going to do it?" Obviously, the people who know the answer to these questions aren't volunteering any information. Budget reconciliation may not even happen. But at this point, there have been many comments suggesting that it is a very real possibility. Otherwise, why would several of the major commodity organizations consider hiring a former House Agricultural Committee Chair to help them try to "hold the line" on future budget cuts? Whether the threat of budget reconciliation is real or not—at this point, perception is reality.

The second force causing heartburn is the WTO ruling on the Brazilian cotton case against the United States. There are some who thought (and still think, for that matter) that the 2002 farm bill is fully compliant with U.S. WTO obligations. There are at least a few members of Congress who take exception to being forced into changing U.S. commodity programs by foreign governments. Although the cotton ruling has drawn a lot of attention from the media, it was not the slam-dunk win that initial reports indicated. There are some who think that the U.S. appeal will be successful, but others point to the fact that there are several examples of countries losing cases that have continued programs found to be in violation of WTO rules. Whether in the court of the WTO or of international public opinion, it will be difficult for the United States to completely ignore a loss of the appeal. And the bottom line is pretty clear—the U.S. cotton program does have an impact on world cotton prices.

The collection of papers in this edition of *Choices* is intended to cover four of the big issues in agricultural policy today. The article by Flinchbaugh and Knutson sets the stage for the Agricultural Policy Outlook for 2005 theme by reminding us how we got to this point in agricultural policy and where we are likely to go in the future.

The article by Mercier provides an excellent summary of the WTO, the U.S. role in the WTO, and reflections on the Brazilian cotton case as it may or may not influence U.S. agricultural policy in the coming years.

The third article, by Cain and Lovejoy, provides a historical perspective on U.S. conservation programs and

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thoughts on the increased importance of conservation programs in the future.

In the final article, Richardson and Outlaw discuss the issues associated with cutting commodity payments to farmers. The reality is that it is not as easy as one would think, and equity issues will almost certainly arise.

As we continue the process toward a new farm bill, *Choices* encourages readers to share ideas contributing to the interesting debate that lies ahead.

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