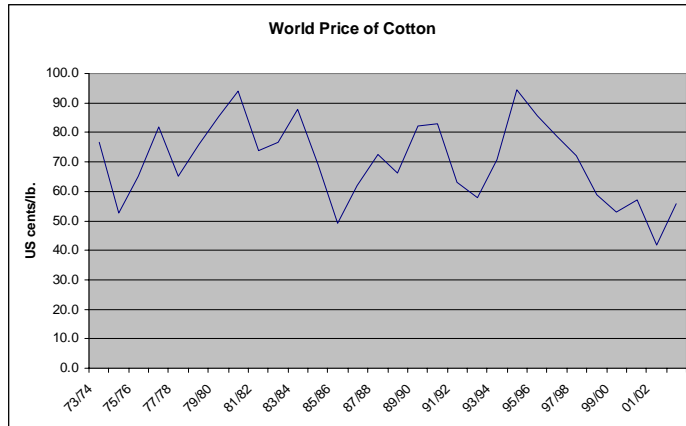


A Tale of Two Cotton-Pickin' Farmers

by Gillian Virata

WASHINGTON, D.C., March 15, 2004. Terry Pepper and Hamidou Coulibaly have never met and, since they live 6,060 miles apart, they are not likely to, either. And yet something over which neither of them has any control distresses both: the low price of cotton.



Terry and Hamidou are both hard-working cotton farmers whose labors are rewarded, or punished, by the world price of cotton. But since Terry's farm is in the United States and Hamidou's is in Mali (Africa) there are marked differences in the ways they farm, live, and reap benefits (if any) from their harvests.

Data source: International Cotton Advisory Committee

Cotton Farming in Texas

Terry runs a 1,500-acre farm, which has been in his wife LaRhea's family since 1926. (A football field is about half a hectare.) He uses four 140- to 180-horsepower tractors to cultivate his fields. These are "medium-age" tractors, he says, "not new, not fancy, because those would be too expensive." The tractors can plow nine rows wide, which is about 30 feet across.

But because Terry started planting most of his land to organic cotton in 1990, which means he does not use chemical weed-killers, he still uses hoes and manual labor to do some of the weeding. "Fields planted to organic cotton must be kept as clean as possible," he explains. Terry also has one full-time employee and a college-age son (who helps in the summer). He also hires a family of five in the summer to help with the manual hoeing.

With the world price of cotton staying low for an unusually long period of time (33 months) in the 1990s, Terry shifted to organic farming "hoping to find a niche market for cotton that was not controlled by global traders and politics." But because of the high cost of labor for weed control, his production cost remains at \$110 an acre, about the same as conventional, nonirrigated cotton in neighboring fields.

Because O'Donnell, Texas, has been hit by drought for the past 10 years or so, Terry's yield, at 172 pounds an acre, is well below the yield of the average American farmer, which is about 700 pounds an acre. His cost of \$0.64 a pound, however, is not far from the average cost of American farmers of \$0.73 a pound, by African estimates.

For most years, American farmers have spent more to produce a pound of cotton than what they could get for it in the world market. They have therefore depended on subsidies from the U.S. government to keep their farms going. According to the International Cotton Advisory Committee, the U.S. government spent about \$3.2 billion in 2002–2003 to support the cotton industry.

“As a producer, I don’t like subsidies,” says Terry. “It would be nice to make a little profit [without subsidies].” But without subsidies, he conjectures, “production in the U.S. will eventually evaporate.” In his view, this poses a risk to the country in the event the supply of cotton from elsewhere gets cut off.



Pepper’s farm equipment (Photo by Talin Pepper)

Cotton farming is a “great lifestyle” for Terry. A cotton farm, he says, “is a good place to raise a family, to teach values and work ethics.” Of his two sons, the older one (in the navy) has never been interested in farming; he thinks it is “too much work.” His 18-year-old son is in college and “likes farming but sees no future in it and is looking to go into other things.”

“He does it on the side but he doesn’t think it’s viable.” Terry has no intention of making his sons work on the farm if they don’t want to. “Ten years ago, families were on the farm. Now, there are very few wives working on the farm; most are working at unrelated jobs to help feed their families.”

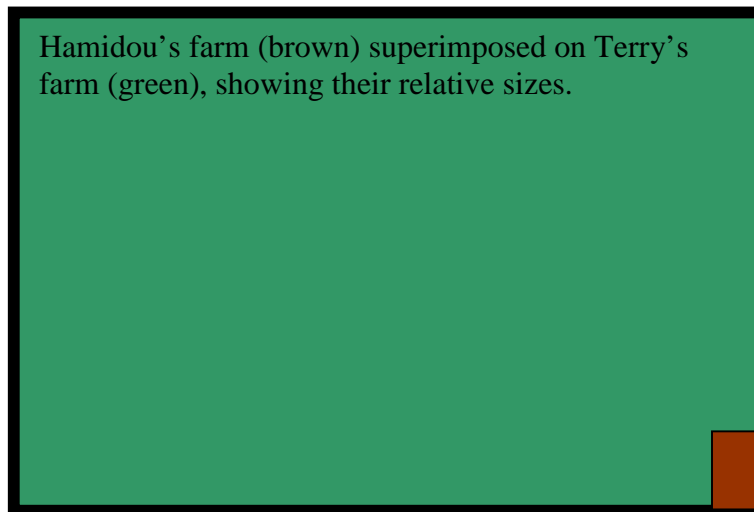
“My wife has started a business that makes value-added products out of the cotton fiber we produce on the farm. This business provides badly needed jobs for six local women in our economically depressed rural community. However, as yet, it has not returned any income to our family. So, at this point, all of our income is derived from farm sales.”

For Terry, the future is “a little scary.” He could, if needed, fall back on his training as an accountant. But he “hopes and prays” he can continue to work on the farm. If, for some reason, he had to stop farming, half of the farm, which is rented, would stay with its owners. “Since in our area there are not really alternative options at this point, we would either sell or rent our own land, most likely to another cotton farmer.

Subsistence Farming in Mali

Hamidou lives in Mali, one of the 10 poorest countries in the world. Most of Mali’s 12 million citizens are subsistence farmers, and Hamidou is no exception. This means he depends on his farm for everything he and his family needs. He grows corn and millet for their food, and cotton for spending money.

Hamidou's "farm" is 17 acres and he grows about 357 pounds of cotton an acre. In 2002, he earned just \$500 for his entire cotton crop after paying for fertilizers, insecticides, and other expenses.



"What we get is not enough," Hamidou explains. "We have to pay taxes, and I have to pay for clothes and medicine. I have children who go to school. I have to pay for their clothes and their school supplies."

Fred de Sam Lazaro, correspondent of *The NewsHour*, reports that Hamidou had to borrow money "to support his extended family of 40 members." Some of Hamidou's neighbors were worse off, having to sell their important draft animals to make ends meet or to borrow \$30 (10% of their annual income) to buy medicine.



African farmers work on small plots, usually ranging in size from less than 2.5 acres to about 17 acres. They work barefoot and use hoes, with their large families working alongside them. Their hoes are made by blacksmiths from scrap metal—they have short handles and a blade that is just a couple of inches wide.

Some of the luckier communities have a single plow, which they share. The luckier still have draft animals, an ox, or, in poorer communities, a donkey. Most communities in neighboring Burkina Faso, for example, are too poor to have any draft animal at all. An animal, they say, "makes the difference between night and day."

Africans still farm in much the same way their fathers and grandfathers did before them. But while their methods may be less efficient than those of American farmers, they also cost much less.



African farmers can “produce cotton at less than 50 cents a pound” reports Marc Lacey in *The New York Times*, quoting figures from Burkina Faso. This is more than \$0.20 a pound lower than the cost of producing cotton in the U.S. And yet, because the low price of cotton persisted through the 1990s and into 2003, for some time African cotton farmers have not earned enough to support their families.

Connected by Subsidies and Price

And here is where Terry and Hamidou’s lives are intertwined. Because of low world prices, the U.S. government subsidizes the farms of cotton farmers like Terry. These subsidies encourage them to keep growing large amounts of cotton, keeping the world supply of cotton very high and, in turn, holding down prices. The low prices then cause the U.S. government to increase its subsidies and a vicious circle is created.

Terry and other farmers in Organic Exchange, an organization of people in all facets of the organic fiber industry, often sit down to discuss how subsidies affect other people in the world.

“It’s hard to compare apples and oranges; they work under different conditions,” he says. “[They] can produce a pound of cotton cheaper than I can, but [they] also do not have to pay for regulations imposed by government that help maintain the standards of living we all enjoy in the US. So I see subsidies as a way for our government to level the playing field for global marketing of my fiber while maintaining the current standard of living of all Americans.”

Some African farmers have come to the conclusion that President Bush helps himself to cotton subsidies, as many African leaders have been known to do with government funds. The American system of lobbying, campaign contributions, and special interest groups has, perhaps, yet to be explained to Hamidou and his fellow farmers.

But for Hamidou, such an explanation would do little to help his plight. In 2001, the life expectancy in Mali was 48.4; in the U.S. it is 76.9. And with a literacy rate in Mali of 26.4, meaning less than 3 out of 10 persons above the age of 15 can read and write, Hamidou’s options are limited.

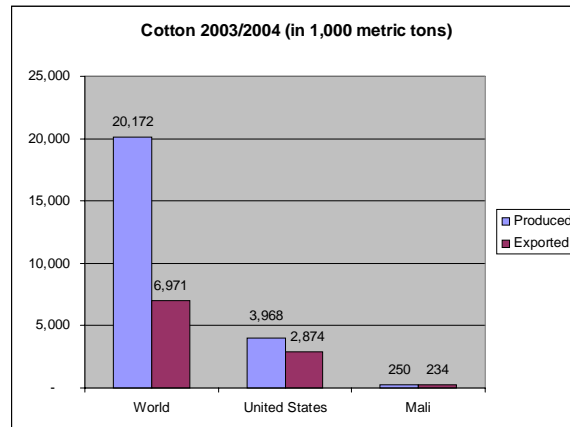
The World Bank, the IMF, and the International Cotton Advisory Committee have concluded that removing direct subsidies in all countries would cause the world price of

cotton to go up by \$0.31 a pound. If the U.S., as the world's largest cotton exporter, continues to subsidize its cotton farmers, the price of cotton will remain low.

For Terry, removing the subsidies could eventually mean losing a way of life that he cherishes. For Hamidou, if the subsidies stay, life will continue to be a struggle to survive, and he will consider himself lucky if he lives beyond the age of 52.

Food for thought:

1. Agricultural subsidies were in part meant to conserve the way of life of small rural families. Do you think large, efficient farming corporations should also receive subsidies? Why, or why not?
2. Do you think American cotton farmers should receive subsidies only when the world price is below their cost of production or should receive it every year regardless of the world price?
3. Do you believe that subsidies to farmers in developed countries affect farmers in developing and least-developed countries? Why, or why not?
4. What do you think should be done to improve the situation for farmers in developed and developing/least-developed countries?
5. American farmers can produce more cotton per hectare than farmers in Mali but at a higher cost. List everything you think farmers need to grow cotton in each country. Why is it more expensive to grow cotton in the United States?



Data source: USDA, February 2004

6. What is the GDP per capita (in PPP US\$) of the United States? of Mali?
7. Find the Human Development Index in the Human Development Report of the United Nations Development Programme. Look up the HDI ranking of the United States and of Mali. What do these statistics tell you?
8. Compare the United States and Mali in terms of the following statistics:
 - Percentage of GDP, or gross domestic product, that comes from agriculture.
 - Percentage of export revenues that come from agriculture.
 - Percentage of population that lives in rural areas.

What tentative conclusions can you draw from these facts?

A Brief History of the Cotton Trade and Why Prices Are Low

Compared with other crops, cotton is produced and traded by a relatively large number of countries. There are thousands of cotton traders outside the United States and even more in the U.S. Because of this, the cotton market is more fluid than the market for other large-volume commodities traded internationally. This makes cotton an ideal product for free trade.

Choosing Free Trade

When the stocks of cotton rose dramatically in 1939, the United States called a meeting of cotton-producing and cotton-trading countries to see if stocks could be controlled. The countries decided *not* to control stocks but agreed to meet and consult with one another to solve cost problems. They formed the International Cotton Advisory Committee as an organization to manage these consultations.

The UNCTAD, the United Nations agency that was established in 1964 to oversee trade, promoted a policy of managing stocks by creating buffer stocks for commodities such as coffee and rubber. Cotton producers again decided not to control stocks.

Later, in the 1970s, the use of buffer stocks was discredited, but other forms of intervention and price determination were used in trading in other commodities. Cotton producers, as in the past, chose not to use price intervention mechanisms.

Price Cycles

In the second half of the 20th century, cotton prices fluctuated in four-year cycles that consisted of periods of low prices followed by a recovery followed by high prices and then again by low prices.

In the early 1990s, the industry experienced its longest low-price period: it lasted 33 months. The price recovered to an almost record high in 1995 and then declined. The 2003–2004 growth season is the sixth consecutive season during which prices have stayed below the long-term average. Producers have been hard-hit. The countries that do not or cannot subsidize (like those on which the IMF has imposed such conditions) have been most affected.

Low Prices

Many factors keep the world price of cotton low. The introduction of new technologies and the accompanying increase in yields may be one factor. Another factor is government programs, such as those in Brazil and Turkey, to expand cotton production into new areas. The devaluation of some currencies against the U.S. dollar also gave cotton exporters in these countries an incentive to produce and export more cotton. The single most important factor behind the increase in the supply of cotton, however, is agricultural subsidies. All these factors encourage producers to produce more, and as supply increases, the price of cotton goes down.

Based on an interview with Carlos Valderrama, economist, International Cotton Advisory Committee, on February 13, 2004

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