EVALUATION OF AGRICULTURAL PROGRAMS IN TERMS OF ECONOMIC GROWTH, FOREIGN TRADE, AND POLITICAL FEASIBILITY

Cotton

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The future for cotton as a useful and valid part of the U. S. economy, contributing to economic growth and a sound expansion of foreign trade, hinges critically upon the question: Can we achieve a *much faster* rate of technological progress *right here in this country?*

Presumably we do not need to dwell here on the fact that a potential does exist for much faster progress in cotton technology, especially in lowering the cost of production. An interesting case in point is the boll weevil, which has long stood as the symbol of cost and trouble for much of the Cotton Belt. This is a highly specialized insect which feeds on virtually nothing but the cotton plant and is found mainly in North America. Yet, only in the past several years has a research effort of realistic scope been launched against the boll weevil. Already several highly promising leads have been developed, raising hopes that this insect can be brought under much better and cheaper control, possible even eradicated. Many comparable opportunities exist, but the total research effort on cotton is small in relation to the vast complexity of problems. Our scientists have said that adequate research could open the way to an average cost reduction of 11 cents a pound in the next five or ten years, and a number of scientific authorities have specifically agreed.

What is wrong with emphasizing faster progress toward lower costs in American agricuture? Since some tough questions do arise here again and again, I shall organize my remarks around them, as they relate to cotton.

1. Since cost reduction in most cases means greater output per acre or per man-hour, does it not increase the problem of finding employment for agricultural land and labor?

The answer is that all the land, labor, and capital now employed in producing and handling cotton stands in serious jeopardy of losing its employment. This is not the threat, sometimes found in food and feed, that one farm enterprise will be displaced by another. It is the threat that U. S. cotton will be displaced on its home market by industrially produced fibers and in exports by these together with foreign cotton.

A prime fact in cotton today is that production costs must be reduced if prices are to be lowered in order to achieve market expansion. If we assume a static market and try to squeeze all we can from it by the supply-management technique of high price and low production, we will eventually have little or no market.

Other competitive factors besides price are involved in the contest for fiber markets. Quality and promotion are the most obvious of these. But on the current competitive scene the role of price is especially crucial.

Over the past three years cotton has lost about a sixth of its domestic market to competing fibers. This shift was caused largely by a government-supported rise in the market price of cotton, following and accompanying reductions in the prices of rayon and other man-made fibers. The shift is continuing, with no end in sight.

In exports, the fundamental market changes which reflect real shifts in the competitive position of U. S. cotton are more difficult to determine because so many temporary factors obscure the basic trend. However, at least this much is evident: A few years ago the trend was strongly upward, but today it definitely is not and possibly it is even downward. Meantime the export market for U. S. cotton, even as it now stands, depends vitally upon a subsidy which results in a two-price system, making cotton available much cheaper to foreign than to domestic manufacturers, thus stimulating a tremendous expansion in imports of cotton products.

Thus the market for cotton, domestic and foreign, is in critical condition because of the domestic price level. It must be lowered, and the costs underlying it must be lowered.

2. If research results in a faster flow of new production techniques, is this not likely to help other cotton growing countries as much as our own?

Cotton, unlike many other farm commodities, is grown only in the warmer climates. Its production is remarkably concentrated in the underdeveloped countries, the only outstanding exception being the United States. We are the only highly industrialized country of the Free World which has the soil and climate to grow cotton in significant amount. This makes a big difference. The other countries can and do adopt new techniques, but in general, they do it at a slow pace. We are the only country with the resources of capital, education, communications, machinery, chemicals, and so on, to adopt new techniques at a relatively fast pace.

3. **Today when we are all so concerned with the problems of the underdeveloped countries and with the struggle against Communism, is it really wise for our rich nation to compete strongly with poor countries in producing agricultural raw material such as cotton?**

Some basic facts of the world cotton picture need to be understood. The total production of cotton in all the countries of the Free Foreign World recovered to its prewar peak level by the season of 1950-51, and since that time has continued upward by three-quarters of a million bales per average year (over 2 million last year). Cotton production has increased in the past twelve seasons by approximately 75 percent, while the combined populations of these countries increased about 30 percent. Production increased two and a half times as fast as population. I would call that quite a contribution to economic growth.

Cotton is an extraordinarily dependable source of foreign exchange to these underdeveloped countries, for reasons that become apparent when we examine the role of the United States in this picture.

As a general proposition, with some qualifications, this country serves as the residual supplier of cotton to the world. As a corollary to this, we are the price leader. We set the general level of the world price, and other exporting countries adapt to it. We hold the only large reserve or buffer stocks of cotton anywhere in the world. The world price cannot rise much above our export price, because our supplies are large enough to hold it down. Neither can it drop far below our price, because a large amount of U. S. cotton is nearly always required to fill the total export demand. If effect, we provide other exporting countries with a guarantee that they can sell their cotton every year without seriously breaking the price.

We provide this lifesaver to many of the poorer countries at no small cost to ourselves. We bear the cost of carrying the buffer stock for the whole world. In a season when world production exceeds demand, such as the one just past, we accept a sharp decline in our exports—we accept a large jump in our carryover stock—while other countries go right on exporting all the cotton they have to sell.

Think also of foreign countries as *consumers* of cotton. They have a big stake in the function which we perform as the stabilizing factor and the one source of emergency cotton supplies in the world. Textiles provide more employment than any other industry in the world. The great expansion of recent years has been widespread throughout the less developed countries. Cotton is by far the leading textile raw material, especially in these countries. Stable prices and dependable supplies of cotton are especially vital to many of the weaker economies.

Also, think of the world-wide competitive struggle between cotton and the man-made fibers. The foremost weapons which man-made fibers use against cotton are research and sales promotion. In seeking to use these same weapons on cotton's side, the United States assumes most of the burden and in some cases all of the burden for the entire cotton-producing world. Remove the United States and you remove most of the source of cotton's efforts to meet the challenge of modern industrial competition.

Research and promotion are basic tools of growth and progress for any commodity, for any nation, and for the world as a whole. We must remember that in dividing the fruits of progress the seeds of progress can quite possibly be destroyed.

4. If we try seriously to make our cotton producers truly competitive in the world cotton market through lower production costs, what becomes of the farmer who plants, let us say, less than 15 acres and has little real chance to keep up in a fast-moving technology?

He is providing the answer himself, and has been doing so for years. The answer which he gives us is that even under today's circumstances he is going out of cotton. In 1961, the latest year reported, 668,000 original cotton allotments were less than 15 acres, but less than half this many farms with effective allotments of 15 acres or less actually planted any cotton. On the other hand, the farms with 50 acres or more represented 8.6 percent of the original allotments, 14.7 percent of the effective allotments actually planted, 63.2 percent of the acres planted, and undoubtedly a higher percentage of the cotton produced. This trend is bound to continue if cotton survives at all in this country.

5. What of the farmer who operates on a larger scale? Is he not able to accept the world price for cotton today?

The world price is less than 25 cents a pound. The answer to the question is *no*. Studies of efficient operations in various parts of the Cotton Belt do indicate that the *direct* costs of production are frequently well below this figure, sometimes below 20 cents. But this, of course, is not the whole story.

Some charge is often included in "direct" costs for depreciation and maintenance of machinery; but in the case of land and buildings, the true costs of ownership and upkeep involve so many sticky questions of accounting principle that they are usually just omitted. As a practical matter, cotton has to carry much of the overhead burden of the non-cotton acres. How these overhead costs should be handled may be a difficult question, but they are nevertheless real. In many cases, on expensive land, they can easily reach the vicinity of 10 cents a pound.

Farmers are sometimes said to be willing to grow cotton for some low figure if the government would "turn them loose." This apparently would be true if they could put all their suitable land in cotton and make all the needed arrangements and investments with confidence that the government would leave them "turned loose" forever. But in the real political and economic world, the farmer stands always in danger of severe cutbacks in his allotment. He may make an investment and then be denied the use of it. If farmers are to go on making the long-term investments required to grow cotton, we have to recognize that they are in a very high-risk operation, which requires commensurate profits or rapid amortization, whichever way we choose to look at it. In any case, the high risk is a true cost element, which the farmer faces even if the student of farm costs cannot.

So I suggest, in summary, that much of the cotton problem today comes down to this:

First, a compelling need is elimination of the two-price system by reducing the domestic price to the export level. This would relieve the great danger which now overhangs our export market, and it would provide a sound basis for checking cotton's competitive losses at home and restoring an upward consumption trend. Until some such action is taken, the outlook for American cotton is truly critical.

Second, since the true costs of production today, even for the efficient farmers, are too high for this kind of price level, another critical need is reduction of costs. The potential is great, but the only practical way to do this is by the relatively slow process of research, education, and capital investment.

Prices must come down quickly, but costs can only come down slowly. To bridge the difference in timing, the logic of a temporary government subsidy seems inescapable. The long, expensive effort needed to reduce costs is pointless if the markets are to be lost almost irrevocably in the meantime. Likewise, further government subsidy is pointless if it merely prolongs the agony of a dying industry or, even worse, if it carries us permanently into deeper dependence upon handouts from Washington. Either the cost-cutting effort or the temporary subsidy would be rather futile by itself. We need both, and both will be hard to get.

Against the difficulties we must weigh some of the values involved. The cotton economy is worth saving, even at great social cost. Even at present it carries some values that we could not afford to lose such as:

a. Its large earnings of foreign exchange.

b. The investment and employment that depend upon cotton.

c. The resources used in cotton which would seek other agricultural markets if cotton should lose out.

d. The strategic importance of cotton as the raw material of an industry which is the world's biggest industrial employer of labor.

e. The present great contribution of U. S. cotton to world economic stability and growth.

We have to lose some things, but we can also gain some things. If we succeed in launching a great new drive toward lower costs, this promises in time to yield us a much larger and sounder market, especially in exports, and in the process it will attract big new capital investments both in cotton farming and in the production of machines and chemicals.

Today, in some respects, some farm enterprises are more like "industry" than some "industrial" enterprises—capital intensive, research minded, highly organized for the use of scientific and engineering knowledge. These qualities mark the special role of the advanced, more than backward, countries. In those cases where emphasis on technology offers our country a chance for a genuine advantage in world trade, we should press hard to gain that advantage, whether it be in industry or in agriculture. Such opportunities are getting scarcer. We need them if we are to keep our economic health and vigor rather than settling down to a socialistic old age, to await our place in the graveyard of nations.