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DISCUSSION: ADJUSTING UNITED STATES COTTON PRODUCTION  
TO NATIONAL AND INTERNATIONAL ECONOMIC CONDITIONS

By

John W. Thomas

Texas Technological College

It is indeed a pleasure to have this opportunity to discuss Professor Hedges' excellent paper. We are in agreement that something needs to be done in order to put the cotton industry on a sound economic basis so that we may best compete with other fibers and with the tremendous increase in production in other areas of the world. We both are of the opinion that the United States cotton industry can become a healthy one in our competitive system.

Professor Hedges' paper examines thoroughly the historical governmental policies on controlling acreages and prices. He has presented a skillful analysis of the assumptions and reasons for failure to hold down surpluses. His apparent insight is very valuable for making policy suggestions. With his keen knowledge of this problem I would have liked to have had him elaborate more on possible solutions.

My discussion will include some characteristics of the cotton industry, comments on Professor Hedges' paper, the dilemma of our current policy, and my own ideas as to how the adjustment can best be brought about.

Characteristics of the Cotton Industry

A few comments about the cotton industry for those who are not closely associated with it might be helpful at this point. Cotton has many more different classifications than most agricultural products. In west Texas alone there are more than 500 classification combinations. Whereas, the Cotton Division, Agricultural Marketing Service, United States Department of Agriculture, classifies cotton by color, grade and staple; the mills in the United States and foreign countries as a rule purchase cotton by two additional quality measurements, namely Micronaire and Pressley. Micronaire is a measure of fineness which indicates maturity. Pressley measures tensile strength.

Although weather conditions are a major factor in determining the quality of cotton, producers can to some degree control quality by such management practices as harvesting early in the season.<sup>1/</sup> However, in many instances, under our present federal loan program, the individual

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<sup>1/</sup> Lyle E. Hessler and John W. Thomas, "Segregating Cotton by Harvesting Methods on the High Plains." The Cotton Gin and Oil Mill Press, August 22, 1959.

producer can make more profit by producing a lower quality cotton by using the cheaper harvesting methods.<sup>2/</sup>

Synthetic fiber manufactures are primarily large corporations who are spending large sums of money for research to further the production of a low-cost highly-uniform product; whereas, the cotton industry has been dependent almost entirely upon public supported research. Mills that spin cotton must carefully examine each bale for quality, as well as blend bales of different quality; while synthetic manufacturers can make fabrics to a specified quality and deliver them attractively packaged. Sampling, which often wastes as much as a pound per sample, is frequently repeated from the same bale. This weight loss is very costly, in addition to resulting in a ragged bale. Synthetics are handled by fewer middlemen; cotton marketing procedures are more rigid and tend to perpetuate inefficient handling of the product.

Cotton is one of our most important export commodities. Thus, in addition to our domestic competition with synthetics, cotton must also compete pricewise with both foreign cotton and synthetics on the world market. Our domestic mills and our consumers must pay a higher price for cotton products because of our restrictions on imported cotton. Export subsidies, along with being costly, have invited retaliatory measures from governments of foreign producers. Since cotton has been grown very successfully in backward, underdeveloped areas of South America and Africa, it may be that with improved transportation and technology these countries could eventually force the United States out of the cotton market if we continue with our present high support price.

#### Comments on Paper

Professor Hedges presents four questions as follows: (1) What industry model would be appropriate to attain the intended goals under statutory agricultural policies and programs in the United States? (2) How well does this model coincide with real life conditions in the cotton industry? (3) How successful have these adjustment policies and programs been in attaining the intended goals? (4) What problems have arisen and what lessons do 30 years of government participation in cotton production and marketing offer for future guidance?

Professor Hedges discusses the individual characteristics of the optimum model in terms of (a) demand, (b) supply, and (c) institutional factors affecting production, distribution, and consumption. I feel that the objective of price manipulation policies, which is to regulate quantity, would have been more successful if the producer had been willing to accept a

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<sup>2/</sup> John W. Thomas, "Case Studies on the Economics of Cotton Harvesting on the High Plains, 1957." Texas Agricultural Experiment Station Progress Report 2071, February 10, 1959; and John W. Thomas and Harold L. Mathes, "Case Studies on the Economics of Cotton Harvesting on the High Plains, 1958." Texas Agricultural Experiment Station Progress Report 2128, March 11, 1960.

lower support price. The wide variation in the cotton industry from the optimum adjustment model makes adjustments very difficult. Conditions necessary to effectively control supply, as so ably pointed out by Professor Hedges, are so unrealistic for the existing situation that no single approach to acreage control will solve the problem. Furthermore, we cannot expect foreign countries to stand by while our government exercises institutional controls that are detrimental to them.

Undoubtedly the high support price in the United States has caused an excessive expansion of foreign cotton production. The correction of the competitive disadvantage of our export cotton by a payment-in-kind subsidy program of 6 1/2 to 8 cents per pound, has proven costly and unfair to our domestic mills. In some instances, it is more profitable for mills to import cloth rather than spin the domestic cotton. If this same cost advantage were to be extended to the domestic mills, cotton would be more economical than synthetics for certain uses.

The technological advances have been very important in enabling us to grow almost as much cotton on one-third of the acreage as was used prior to acreage control. I am of the opinion that additional inputs, such as shifting of dryland to irrigation, have been more important than technological improvements per se in increasing production.

Dr. Hedges did not mention the risk and uncertainty involved in the cotton industry. Farmers may have been operating their cotton enterprise rather wisely in relation to the risk and uncertainty involved prior to acreage allotments. Bankers and other input providers, such as fertilizer and irrigation concerns, under high support prices have readily extended credit and in many cases provided farmers with technical information. However, at least in West Texas, there are indications that many farmers have been misinformed as they have extended inputs beyond the point of diminishing returns. For example, valuable resources are often wasted in an attempt to increase yields, such as applying water unnecessarily late in the season.

As long as acreage controls are in force, with a resultant fixity of the land resources, farmers will not be able to achieve maximum efficiency in allocating their resources. The advantage of operating a larger acreage under a lower support price is vividly demonstrated by those adopting the "B" program.

It appears that the very small operator is doomed under the present program. Any government action that retards movement either into a larger scale operation or alternative employment will in the long run prove economically detrimental to the individual, as well as, to society.

#### Dilemma in the Cotton Industry

The cotton industry faces a dilemma. There is little question that high support prices have contributed to the loss of domestic and foreign markets by placing synthetics in a more favorable market position and

increasing foreign production.<sup>3/</sup>

Free world markets could eventually bring about a more efficient allocation of resources for the very competent farmer, as well as give new life to the cotton exchange which could play an important role in increasing the effectiveness of the cotton industry. On the other hand, a completely free market would likely result in large price fluctuations and losses during the readjustment period for many farm families. Under present conditions, the absence of governmental controls could be economically and politically disastrous.

Could it be that the federal agricultural policy of acreage control, in an attempt to help individuals or segments of the industry financially, is slowly strangling the cotton industry?

#### Policy Considerations

Rather than continue to rely entirely upon acreage control why not establish individual marketing quotas with direct compensatory payments and market all cotton at competitive prices? Quotas could be established on the basis of the historical long term average production. The government could pay the difference between what the free market brings for an individual's cotton and the support price for each individual's marketing quota. Provisions could be made to announce this support price each year after harvest. The support price could be adjusted from year to year according to market demand. A maximum price shift from one year to another should be established so that farmers could plan ahead.

Cotton from the farmer who produces an excess above his assigned quota could be sold to others who had failed to grow their quota, used in subsequent years, or sold on the free market. This would enable farmers who had a crop damage, such as hail, to recover at least part of their loss. Provisions could be made for governmental supported extension of low interest credit for quotas so that farmers suffering economic stresses would not be forced into liquidation sales.

Acreage controls could be relaxed gradually. As an incentive to reduce production, an option of collecting a percentage of the difference in compensatory payments between the support price and the market price for their quota could be open for those not wanting to produce cotton. This could be handled as a conservation acreage program and/or merely a payment to assist producers in making adjustments for growing other non-support crops.

Since an abrupt shifting of cotton production from an area would cause serious economic disturbances to the local merchants, some

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<sup>3/</sup> John W. Thomas. "Farm Policies Need Continuous Revisions to Meet Exotic, Synthetic Competition." The Cotton Trade Journal, Mechanization Edition, August 8, 1958.

limitation as to the proportion of acres in any one county that could be retired annually would be appropriate. Priority could be given those operators who are willing to retire their land for the longest period of time. Eventually compensation could be withdrawn entirely for land permanently retired by reducing the percentage paid a stated amount each subsequent year. Provisions could be made for funds to be used for moving expenses and/or interest free educational loans for a select number of operators.<sup>4/</sup>

Acres released could be placed in a pool for non-quota distribution to producers in the county requesting additional non-quota cotton. If all released acreages were not used locally, they could be distributed statewide and finally into other states.

When the maximum percentage of land allowed was not put into the acreage reserve, a specified amount of the quota in each county could be made negotiable.<sup>5/</sup> Anyone interested in buying or selling quotas could submit by mail in writing the price at which they would be willing to trade. Officials could then negotiate these sales.

The government could retire from the cotton merchandizing business by gradually reducing its surplus to that considered necessary for an emergency stockpile. This reserve could be somewhat flexible by providing to buy or sell a predetermined amount whenever the competitive price for cotton falls above or below a specified amount.

The administration of such a program could be accomplished only if it were established as a permanent policy. Although it would be very costly in immediate outlay, future costs would diminish yearly, which is not true of our present program. Input restrictions would need to be eliminated gradually to allow our mills to purchase competitively regardless of location.

Eventually, an entirely free price should gradually stabilize the industry. Marginal cotton production would be eliminated by shifting acreage to areas that have the greatest comparative advantage. Cotton would then be produced in areas by operators who meet the competitive price and are able to produce the crop most efficiently.

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<sup>4/</sup> Theodore Schultz. "Homesteads in Reverse." Farm Policy Forum, Vol. 8, No. 4, pp. 189-192, May, 1959.

<sup>5/</sup> Negotiable quotas have been recommended by Cochrane, Brandow, Schnittker, and others.