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Federal Cotton Program Works, Expenditures Declining

MEMPHIS – Criticisms of U.S. cotton farm programs are unwarranted. The truth: U.S. farm programs have operated as designed, supporting farmers' incomes in times of low prices while allowing them to react to market signals.

A report that dispels myths about U.S. farm law support to America's cotton farmers can be found on the National Cotton Council's website at <http://www.cotton.org/issues/2008/myths.cfm>.

A key misconception among the general press is that the 2002 U.S. cotton program drove world cotton prices down – hurting some cotton-producing developing countries -- while U.S. cotton production and exports increased. Not true. Independent studies by Texas Tech University, the Food and Agricultural Organization of the United Nations, and the International Monetary Fund found very low price impacts from the presence of the U.S. cotton program -- 1 to 3 percent.

In fact, Council economists point to world cotton prices that generally increased over the life of the 2002 farm law. At the same time, the U.S. share of world cotton production has remained stable and even declined in recent years.

Another myth is that the cotton program led to a rise in U.S. cotton exports. Not so. Exports have increased in response to U.S. textile manufacturers' steady decline in cotton use as a result of Asian competition. U.S. cotton fiber that was once being spun in U.S. textile mills is now being spun in Asian textile mills as the U.S. textile sector continues to shrink. Even though some U.S. cotton fiber found a new home in Asian spinning mills, the United States still consumes more cotton apparel and textile products than it produces cotton fiber, with cotton product consumption exceeding fiber production by 4 million bales in 2007.

Critics also contend that the U.S. cotton program does not allow America's cotton farmers to respond to market signals and plant other crops.

“The reality is that U.S. farmers responded to expected market prices in recent years by planting more cotton when cotton prices looked more attractive than competing crops and less cotton

when cotton looked less attractive,” said Dr. Gary Adams, the Council’s vice president of Economics & Policy Analysis. “U.S. farm programs have operated as designed, supporting farmers’ incomes in times of low prices while allowing them to react to market signals.”

Another falsehood is that the U.S. cotton program is causing economic injury to West African cotton producers. Even when cotton prices are rising, as they have been for several years, those countries’ producers receive only a small portion of the world cotton price as a result of internal production and marketing problems and as a result of the link between West African currency and the Euro.

“Strength in the West Africa currency has negated all price improvement since 2002,” Adams said, “and, unfortunately, those countries’ yields are not keeping pace with those in other developing countries that produce cotton.”

Also untrue is that the U.S. cotton program would not be affected by the current World Trade Organization Doha negotiations. “The United States already has reduced support to its cotton sector – through changes to the 2002 farm law and again through the recently-enacted 2008 farm law,” Adams said. “Further significant reductions would be required just to meet existing U.S. proposals in Doha.”

Meanwhile, the cotton industry continues to contribute significantly to America’s well-being. U.S. cotton provides employment for some 235,000 Americans and generates more than \$120 billion in annual economic activity.

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