

Effects of US Subsidies on the Very Poor

AEI

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Consider the steps from US cotton policy to wellbeing of African farm families

- **Reforming US cotton policy would reduce US production as a consequence:**
- **World prices would rise**
- **African prices for cotton fiber exports would rise**
- **African farm prices for seed cotton would rise**
- **Cotton farm income would rise for some very poor people, and**
- **Available income could save children, stimulate productivity, and be available for other uses.**
- **Let's go through the steps with numbers**

The Farm Bill Insulates US farmers When Prices Fall

- **The consequence of raising loan rates and target prices and adding other subsidies is to further insulate US farmers from price signals on the downside**
- **That means US policy deepens price declines**
- **Farmers in poor countries, where farmers are the poorest people, face market signals directly, but often have limited opportunities for adjustment**
- **Cotton is rightly the headline case**

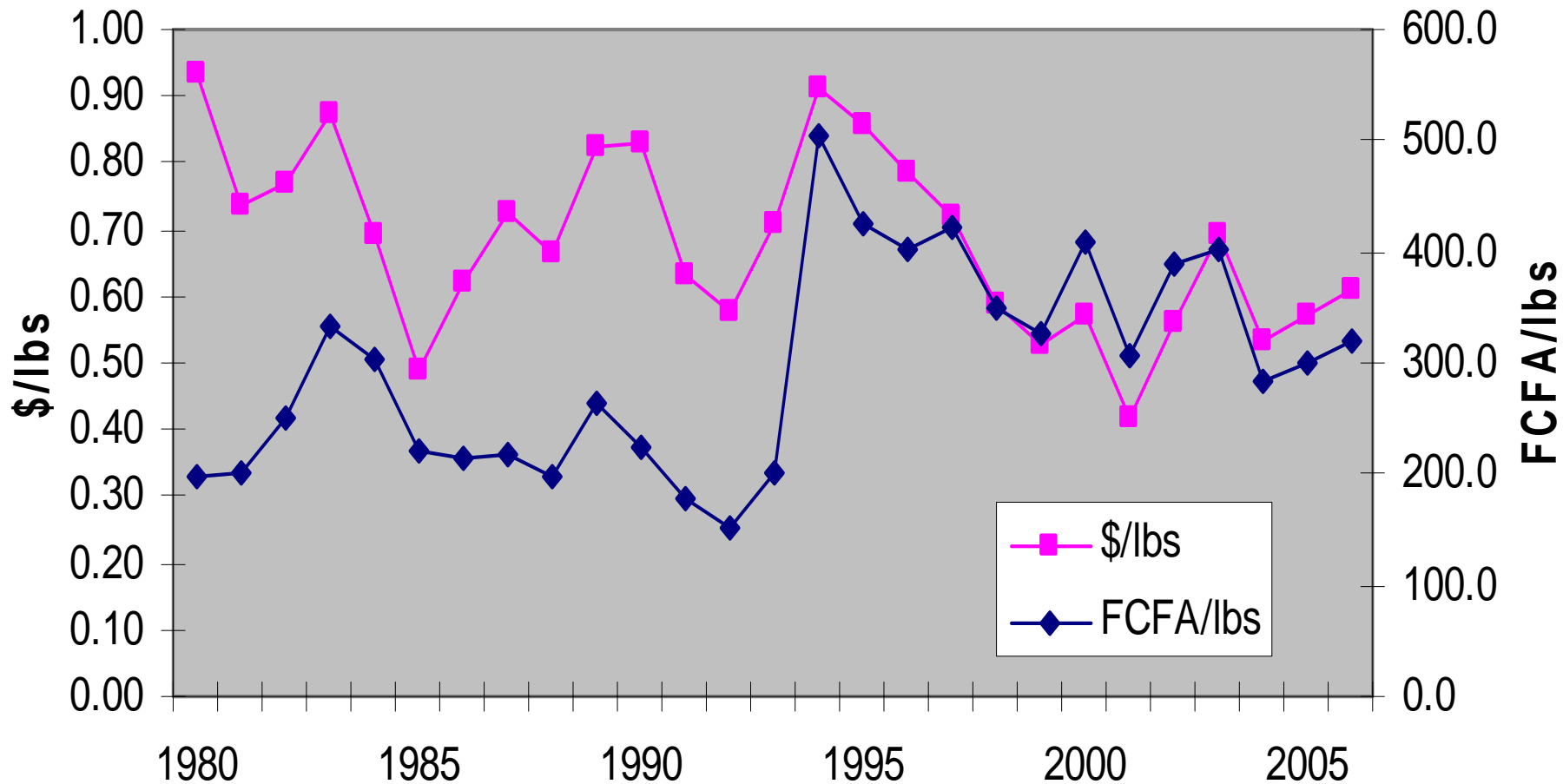
US cotton subsidies and global prices

- **US cotton subsidy offsets low market prices, links payment expectations to production, and limits what crops may be grown.**
- **US cotton production costs are well above those in competitor regions.**
- **Subsidized US cotton farms produce 20% and export 40% of world cotton.**
- **Cotton from all regions compete in global markets.**

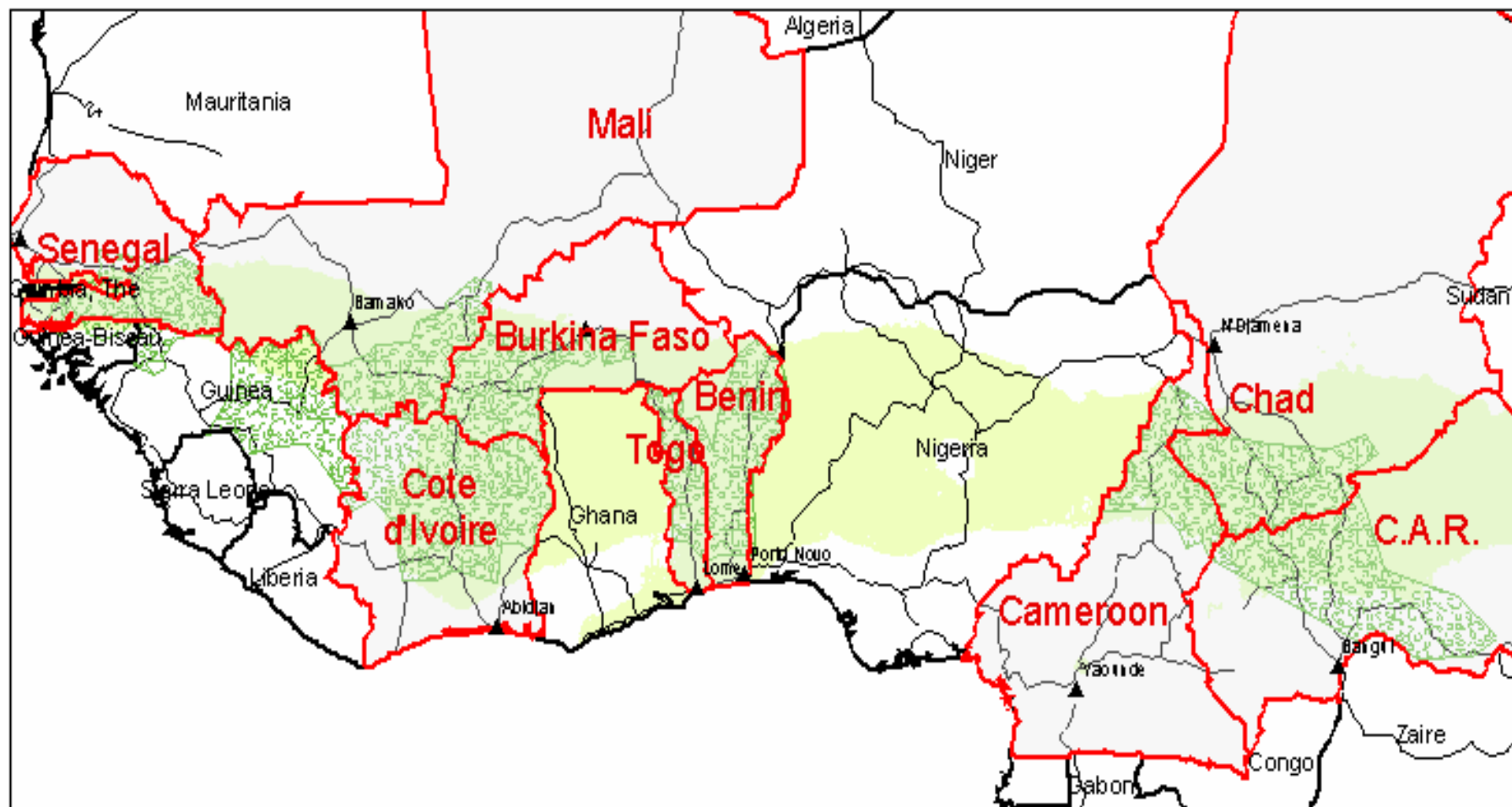
US government payments suppress the West African export price of cotton

- **Our research (and that of others) shows that:**
- **The added US cotton enters world trade and has suppressed the world price by say 6% to 17%**
- **Market price is high now, but the new farm bill seems to be ready to raise subsidy for cotton**
- **Africans export almost all their cotton and compete directly with US cotton in mills around the world**
- **A lower export price for African cotton translates into a lower prices for African farmers.**

World price and the West African export price of cotton



Franc Zone Cotton Regions



- FrancZone Countries
- Countries
- FrancZone Cotton Regions
- 800-1400 mm/year of Rainfall
- Major City
- Main Roads

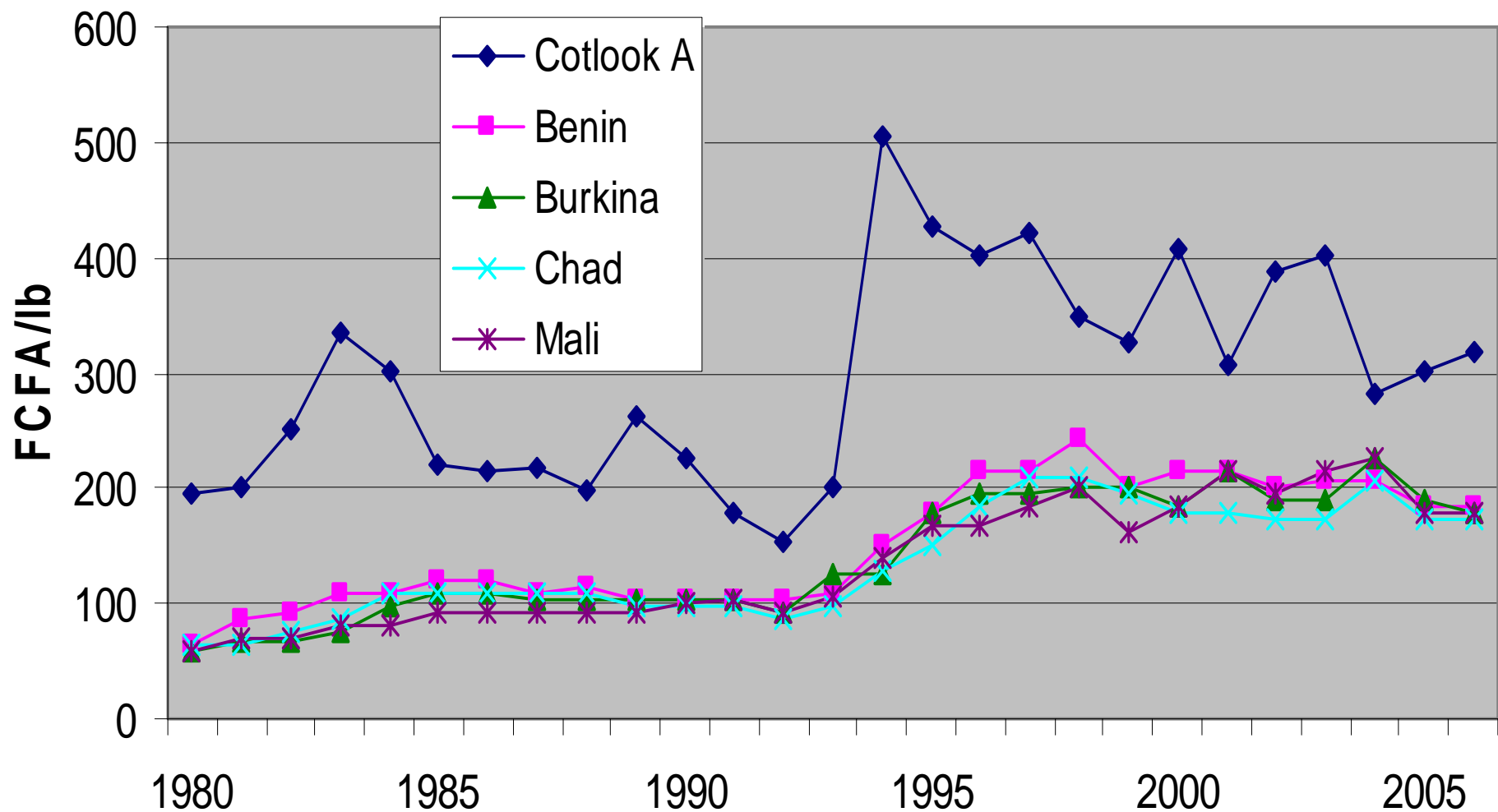


Production Estimates &
Crop Assessment Division (PECAD)
Foreign Agricultural Service (FAS)

Effects on growers depends on how much of the export price gets back to the farm

- Marketing costs from farm to the port comprise about 40% of export price**
- Removing US subsidies would raise the long run expected price around which fluctuations occur and flatten price down spikes**
- Much of an anticipated permanent change in the export price gets transmitted to the farm**

Figure 2: World Price and producer prices in West African countries, 1980-2006



Effects of U.S. Policy Changes on Cotton Fiber Prices in West Africa

World Price	African Export Price (Base Price = 730 FCFA/kg)	African Farm Fiber Price (50% transmission)
<i>% change</i>	<i>Absolute change,</i>	<i>FCFA/kg</i>
14.1	103	51
10.3	75	38
8.4	62	31
5.9	43	21

Effects of U.S. cotton subsidy elimination on

World Price

Farm Seed Cotton Price
Base price = 185 FCFA/kg

50% Transmission

*Percent
change*

*change
FCFA/kg*

*Percent
change*

14.1

21

12

10.3

16

9

8.4

13

7

5.9

9

5

**Who are these farmers in Benin,
Burkina Faso, Chad and Mali?**

And, what are their cotton farms like?

Cotton Farm Numbers and Average Cotton Area per Farm in C-4 Countries, 2004

	Approximate Number of Farms	Approximate Cotton Area Per Farm
	<i>thousands</i>	<i>hectares/farm</i>
Benin	325	1.0
Burkina Faso	200	2.6
Chad	350	0.9
Mali	200	2.7

Source: ICAC and data supplied by Gerald Estur from various local African sources.

Cotton harvest in West Africa

- Harvest remains labor intensive, unlike the US where cotton machines have handled this process many decades.
- From the field to the gin is slow and labor intensive.
- In West Africa millions of people depend on cotton.



West African farm households are among the very poor

- **These nations among the bottom few in the world in per capita income. They are the poor of the poor and the farmers are the poor in these countries.**
- **Per capita expenditures (including home produced food and other goods) about 100,000 FCFA**
 - **About \$200 per capita**
- **About 10 members per household about half children**
- **Food accounts for more than half their total expenditures**
- **Cotton is the major source of cash income**
- **Consider a typical cotton farm based on survey data**

Increase in African farm revenue caused by removing US subsidies really matter

“Only” \$50 to \$100 per farm, but for millions of people this is enough to really matter.

- Enough for food for one or two children per household**
- Improved diet (20% increase) for all the children in the household**
- Money for fertilizer for one to two hectares. For cotton or could improve corn or millet yields**
- Money for schooling and health costs to help the next generation improve farm and non-farm productivity**

Bottom line

- **Ending cotton and the other farm subsidies would improve the prospects of hundreds of millions of very poor people**
- **The few more dollars from the market can measurably improve their lives**
- **The farm bill could be used to make these changes**
- **The current Bills go in exactly the opposite direction**