

PART I

KING COTTON

HOW AMERICA HAS DOMINATED
THE GLOBAL COTTON INDUSTRY
FOR 200 YEARS



Nelson and Ruth Reinsch at Their Farm in Smyer, Texas. (Photo courtesy of Dwade Reinsch and Colleen Phillips.)



REINSCH COTTON FARM, SMYER, TEXAS

Unlike French wine or Florida oranges, Texas cotton doesn't brag about where it was born and raised. Desolate, hardscrabble, and alternately baked to death, shredded by windstorms, or pummeled by rocky hail, West Texas will never have much of a tourist trade. Flying into the cotton country near Lubbock on a clear fall day, I had a view of almost lunar nothingness: no hills, no trees. No grass, no cars. No people, no houses. The huge and flat emptiness is jarring and intimidating at first, since one can't help but feel small and exposed in this landscape. Though I have traveled to dozens of countries and to almost every continent, Lubbock, Texas, was one of the most foreign places I had ever been. There is a very good chance that my T-shirt—and yours—was born near Lubbock, the self-proclaimed "cottonest city" in the world.

The people of this forbidding yet harshly beautiful place are well suited to the landscape. Indeed, they are the product of it. The land has humbled them with its unpredictable temperament and its sheer scale, yet made them proud of each small success in taming and coaxing from it the fluffy white gold of the cotton plant. According to local legend, when God created West Texas, He made a mistake and forgot to fashion hills, valleys, rivers, and trees. Looking at His desolate and barren mistake, He considered starting over, but then had another idea. "I know what I'll do," He said. "I'll just create some people who like it this way."

And so He did.

Nelson Reinsch, cotton farmer, stands tall and handsome at the age of 81. He laughs easily but speaks carefully. He calls his wife, Ruth, "Sugar" and every other woman "ma'am." Nelson is a gentleman in the older sense of the word, well mannered and considerate from the inside. In his 81 years, Nelson has missed four cotton harvests, all of them during his Navy service in World War II. Nelson and Ruth are happy enough (or perhaps just polite enough) to talk about the past if that is what their guests want to hear about. But they wallow not one bit in "the good old days," and their minds are opening rather than closing as they approach the ends of their lives. The world is still very interesting to Nelson and Ruth Reinsch.

Producing cotton is no longer the backbreaking physical process it once was, but every year Nelson and Ruth still battle both the whims of nature and the vagaries of markets. Each summer they take on the wind, sand, heat, and insects; and each fall, at harvest, they take on the world markets, in which they compete with cotton farmers from over 70 countries. The Reinsches' 1,000 acres can produce about 500,000 pounds of cotton lint if fully planted, enough for about 1.3 million T-shirts. That Nelson is ending his life in the same occupation in which he began tells us much about him. It also tells us much about the U.S. cotton industry.

History shows that almost all dominance in world markets is temporary and that even the most impressive stories of national industrial victories typically end with sobering postscripts of shifting comparative advantage. Within the baby boomers' lifetime, preeminence in consumer electronics has shifted from the United States to Japan to Hong Kong to Taiwan to China. Apparel production has moved from the American South to Southeast Asia to the Caribbean and back to Asia. Advantages in steel have moved from the U.S. Rust Belt to Japan to South Korea. But for over 200 years, the United States has been the undisputed leader in the global cotton industry in almost any way that can be measured, and other countries, particularly poor ones, have little chance of catching up. The United States has historically occupied first place in cotton production (though recently second to China), cotton exports (though occasionally second to Uzbekistan), farm size, and yields per acre.¹

On the surface, cotton is an unlikely candidate for economic success

in the United States. Typically, American industries compete with those in “like” countries. American firms compete with Japanese automakers, German chemical companies, and Swiss pharmaceuticals. But for climatic reasons, few advanced industrial economies produce cotton. Instead, American cotton growers compete with producers in some of the world’s poorest and least developed regions. If our labor costs—among the world’s highest—have toppled or relocated industries as diverse as apparel, steel, and shipbuilding, how has U.S. cotton maintained its world dominance?

More broadly, how can an industry so basic and “downstream” as cotton production continue to thrive in an advanced, service-oriented economy? There would appear to be little sustainable advantage in an industry such as cotton. Models of business strategy would predict that dominance in such an industry can only be fleeting and stressful: The lack of product differentiation, the intense price competition, and the low barriers to entry make it scarcely worth the trouble. Business professor and strategist Michael Porter notes that

advantages [are] often exceedingly fleeting [in these industries]. . . . Those industries in which labor costs or natural resources are important to competitive advantage also often have . . . only low average returns on investment. Since such industries are accessible to many nations . . . because of relatively low barriers to entry, they are prone to too many competitors. . . . Rapidly shifting factor advantage continually attracts new entrants who bid down profits and hold down wages. . . . Developing nations are frequently trapped in such industries. . . . Nations in this situation will face a continual threat of losing competitive position. . . .²

While this description of life on the economic precipice rings true for poor cotton farmers in South Asia and Africa, it does not describe the cotton industry around Lubbock. Year in and year out, American cotton farmers, as a group, are on top. What explains American cotton’s success as an export commodity in a country that has experienced a merchandise trade deficit in each year since 1975? And what explains U.S. cotton producers’ ability to export such a basic commodity to much poorer countries? Why here? Why was my Chinese T-shirt born in Texas?

Oxfam, the British charity, believes it has the answer. According to *Cultivating Poverty*, a scathing report released in 2002, the comparative

advantage enjoyed by U.S. cotton farmers lies in their skill at collecting government subsidies. In the fall of 2003, bolstered by Oxfam's research and resources, the poorest countries in the world cried foul against the richest at the opening of the World Trade Organization (WTO) trade talks in Cancun, Mexico. Tiny, desperately poor countries such as Benin and Burkina Faso stood firm and stared down U.S. negotiators: They charged that U.S. cotton subsidies were blocking their route out of poverty, and that it was impossible to compete with Uncle Sam's largesse to U.S. cotton farmers. In a sound bite that carried considerable punch, the poor countries pointed out that U.S. cotton subsidies exceeded the entire GDP of a number of poor cotton-producing countries in Africa. If the United States was going to champion the case for free trade, Americans needed to walk the walk as well as talk the talk. The stare-down continued for several tortured days until the talks collapsed and both rich and poor gave up and went home.³ The point, however, had been made, and several months later the WTO ruled that U.S. cotton subsidies violated global trade rules and unfairly tilted the playing field toward American producers. In the summer of 2004, with the huge subsidies in the public spotlight, U.S. trade negotiators agreed not only to put cotton subsidies on the table, but to tackle the cotton issue "ambitiously, expeditiously and specifically" during the Doha Round of trade negotiations.⁴

There is no doubt that the subsidies are big, and little doubt that they are unfair to poor countries. But anyone who believes that America's competitive power in the global cotton industry reduces to government subsidies should spend some time near Lubbock, Texas. While the subsidies are, of course, a boon to U.S. producers, the success of cotton growers such as Nelson Reinsch is a much more complex phenomenon.

First, the dominance of the U.S. industry predates by well over a century the implementation of national farm subsidies. As Chapter 2 describes, the U.S. cotton industry passed its competitors over 200 years ago. Therefore, while subsidies may account for some cost advantages today, they cannot be the longer-run explanation for the industry's dominance.

Second, the subsidy explanation for America's dominance gives short shrift to the astounding entrepreneurial creativity of the American growers. In many ways, the American cotton farmers are MBA case studies in

adaptability and entrepreneurship. American cotton growers have adapted their production methods, their marketing, their technology, and their organizational forms to respond to shifts in supply and demand in the global marketplace. The shifts in demand and supply that reveal cotton's story as a business were sometimes gentle and predictable trends of ascendancy and decline, and the farmers could see what was ahead; but times also came when changes were sudden and cataclysmic, reshaping the world in front of them. In each case, the cotton farmers responded with a creative maneuver—a new idea, a new technology, a new policy. Whether it occurs by design or necessity, the open-mindedness and forward orientation that struck me within minutes of meeting Nelson and Ruth Reinsch is a regional trait as well as a comparative advantage, because farmers in poor countries who are tradition bound—for whatever reason—rather than innovation bound, lose. The American growers' remarkable adaptability and entrepreneurial resourcefulness have their roots in character but also in the institutions and governance mechanisms taken for granted in the United States, which are lacking in many poor countries. In the United States, the farms work, the market works, the government works, the science works, and the universities work; and all of these elements work together in a type of virtuous circle that is decades away for the poorest countries in the world. In much of West Africa, with or without U.S. cotton subsidies, these institutional foundations for global competitiveness are weak. In addition, the institutions that are in place in many poor countries serve to funnel resources and power away from farmers rather than toward them.

While subsidies alone cannot explain U.S. dominance in this industry, the subsidies are but one example of a much broader phenomenon that has contributed to the U.S. farmers' seemingly immutable spot at the top. For 200 years, U.S. farmers have had in place an evolving set of public policies that allow them to mitigate the important competitive risks inherent in the business of growing and selling cotton. They have figured out how to compete in markets but also—and at least as important—how to avoid competing when the risks are too high. Put another way, U.S. cotton growers have since the beginning been embedded in a set of institutions that insulate them from the full strength of a variety of market forces.

When we consider the risks that a cotton boll faces on its way to becoming a T-shirt, it is a wonder we have clothes at all. The cotton can't be too hot, and it can't be too cold; it is susceptible to both too much water and too little; and it is too delicate to survive hail or even heavy wind and rain. Cotton plants are easily overtaken by weeds; there are dozens of varieties of pests that can take out a cotton crop; and crop prices are highly volatile. There is labor market risk as well, as workers must be available at a reasonable price when the cotton is ready to be picked. Every cotton farmer in the world faces these risks. And of course there are the normal business risks associated with falling prices and rising costs, foreign competition, and access to financing. As explained in Chapters 2 and 3, however, American cotton's story, and its success, have been about excellence in avoiding—or at least cushioning the impact of—these risks.

Today's proponents of markets and globalization can find much to like in the story of American cotton's victory, but the backlash can find support as well. For every noble victory in this industry, and for every case in which the Americans were smarter, faster, and better than the competition, there is a shameful victory as well. The most shameful of all was the cotton slave plantation, where the U.S. cotton industry was born, and where the Americans first trounced their foreign competition. Less shameful but still embarrassing are today's high subsidies. But to understand American cotton's long-run dominance, we should begin by agreeing to neither demonize nor romanticize American cotton farmers. During the 200 years in which the United States has dominated this industry, sometimes it was possible to win on the high road and sometimes it wasn't. My T-shirt's parentage in the fields of the American South has many things to be proud of, but some things to hide.