CATO INSTITUTE
Tax & Budget
BULLETIN

No. 46 • June 2007

The Sugar Racket

by Chris Edwards, Director of Tax Policy Studies, Cato Institute

A major farm bill is currently moving through Congress, giving policymakers a chance to cut damaging farm subsidies.[1] They could start by ending restrictions on the U.S. sugar market, which keep domestic sugar prices two or more times higher than world prices.

Federal sugar policies confer benefits on a small group of sugar growers, but they damage consumers and U.S. food companies. Congress has provided a sweet deal for sugar growers since it imposed import tariffs on sugar in 1789. Controls on domestic sugar production date back to the Jones-Costigan Act of 1934.

When the Republicans controlled Congress, they shied away from reforming sugar policies in the 1996 and 2002 farm laws. The majority Democrats now have a chance to show that they are different. By reforming sugar policies, they could cut food costs for average families, make U.S. manufacturing more competitive, and end unfair benefits for a small group of wealthy sugar barons.

Components of the Sugar Program

The purpose of U.S. sugar policies is to keep domestic prices artificially high. In recent decades, U.S. sugar prices have been typically two or more times higher than prices on world markets.[2] The federal government achieves that result by setting guaranteed prices and backing them up with trade restrictions and production quotas.

Guaranteed Prices. The U.S. Department of Agriculture runs a complex loan program to support sugar prices. The USDA makes loans to sugar processors, who use their sugar as collateral. In return, processors agree to pay sugar growers certain minimum prices. If the market price of sugar rises, processors can sell their product on the market and pay back the loan. If the market price falls, processors can forfeit their sugar to the government and not repay their loans. The effect is to guarantee prices for both processors and growers. Sometimes other techniques are used to prop up prices, such as paying producers to discard their current inventories.

Trade Restrictions. Import barriers help to maintain high domestic sugar prices. The government applies a two-tiered system of "tariff rate quotas" to limit imports. A lower "in-quota" tariff rate is for imports within a set quota volume. A higher "over-quota" rate applies to imports in excess of the quota. The in-quota amounts are allocated to 40 foreign countries on the basis of prior import patterns.

These restrictions prevent lower-cost foreign sugar from putting downward pressure on U.S. prices. Sugar imports are currently restricted to about 15 percent of the U.S. market. By contrast, imports typically accounted for about half of the U.S. market prior to the 1980s.[3]

Production Quotas. In addition to controlling sugar imports, the government imposes quotas, or "marketing allotments," on U.S. production. Each year, the USDA decides what total U.S. sugar production ought to be and then allots it 54.35 percent to beet sugar and 45.65 percent to cane sugar. Most sugar beet production is in Minnesota, Idaho, North Dakota, Michigan, and California. Most sugarcane production is in Florida and Louisiana. The USDA allots each U.S. state and each sugar company a specific quota based on a complicated formula. In sum, the sugar industry is a cartel that is centrally planned from Washington.

Effects of the Sugar Program

The taxpayer cost of sugar subsidies is expected to be $1.4 billion over the next decade.[4] More important, federal sugar policies burden American consumers by creating high prices for sugar and for products that contain sugar. The Government Accountability Office estimated that federal sugar policies impose costs on sugar consumers of $1.9 billion annually.[5]

High sugar prices also damage U.S. food manufacturers, including makers of candies, chocolate, and breakfast cereals. The sugar-growing industry employs 61,000 people, but 988,000 are employed in food businesses that use sugar and are hurt by current policies.[6]

Last year the U.S. Department of Commerce studied the economic effects of federal sugar policies and released a damning report that had five key findings:[7]

- Employment in U.S. food businesses that use substantial amounts of sugar is declining.
- For each sugar-growing and sugar-harvesting job saved by current sugar policies, nearly three confectionary manufacturing jobs are lost.
- Sugar costs are a major reason why some U.S. sugar-using businesses are relocating their factories abroad.
- Numerous food companies have relocated to Canada, where sugar prices are less than half of U.S. prices, and Mexico, where prices are two-thirds as high.
- Imports of food products that contain sugar are growing rapidly because it is not competitive to manufacture those items in the United States.

Many news stories have highlighted the damage done to U.S. food companies by current sugar policies. Chicago, once the nation's candy-manufacturing capital, has been hit hard with thousands of lost jobs. Candymaker Fannie May closed its factory in 2004, and Brach's moved its candy production to Mexico in 2004 blaming high sugar prices.[8] Kraft moved its 600-worker LifeSavers factory from Michigan to Canada in 2002 to access low-cost sugar.[9] Hershey Foods closed plants in Pennsylvania, Colorado, and California and relocated them to Canada.

Sugar policies also cause environmental damage. Large areas of the Florida Everglades have been converted to cane sugar production because of federal protections and subsidies.[10] Sugar production damages the Everglades by land drainage, habitat destruction, and the run-off of chemicals in the fertilizers used by sugar growers.

Conclusions

Given the negative economic and environmental effects of U.S. sugar programs, why do they persist? Because Congress often decides to confer benefits on a favored few at the expense of the general public.[11] In this case, the favored few really are few—about 42 percent of all sugar program benefits go to just 1 percent of sugar growers.[12] These large sugar growers, such as the Fanjuls of Florida, are a notoriously powerful lobbying interest in Washington. Federal supply restrictions have given them monopoly power, and they protect that power by becoming important supporters of presidents, governors, and many members of Congress.[13]

The *Washington Post* lamented the political corruption caused by the federal "sugar racket."[14] More than that, sugar policies are a textbook case of economic damage done by big government intervention in the marketplace.

The upcoming farm bill provides an opportunity for reform. The Bush administration has proposed minor changes to sugar policies to reduce taxpayer costs. But a bipartisan group of more than 100 House members led by Jeff Flake (R-AZ) is demanding more fundamental sugar reforms.[15] Another positive development is the freeing up of sugar trade with Mexico in 2008 under rules of the North American Free Trade Agreement.

In winning the House last year, Democrats portrayed themselves as reformers willing to take on special interests for the benefit of average families. They also promised to run the most ethical Congress in history. Now they have a chance to prove it by ending benefits for the wealthy sugar barons and dismantling the federal sugar racket.

---

1 For background, see www.cato.org/downsizing/agriculture.
2 U.S. Department of Commerce, International Trade Administration, "Employment Changes in U.S. Food Manufacturing: The Impact of Sugar Prices," February 2006, www.ita.doc.gov/media/Publications/pdf/sugar06.pdf. See also www.ers.usda.gov/briefing/sugar/data.htm.
3 Remy Jurenas, "Sugar Policy Issues," Congressional Research Service, March 23, 2005, p. 1.
4 U.S. Department of Agriculture, "Administration's Farm Bill Proposal," www.usda.gov/documents/07sumbudgetscore.pdf.
5 Government Accountability Office, "Sugar Program: Supporting Sugar Prices Has Increased Users' Costs While Benefiting Producers," GAO/RCED-00-126, June 2000, p. 5.
6 U.S. Department of Commerce.
7 Ibid.
8 Kari Lydersen, "Chicago Is Home Sweet Home to Fewer Candy Factories," *Washington Post*, February 7, 2006, p. A3.
9 Laurent Belsie, "Bitter Reality: Candy Less Likely to Be 'Made in US,'" *Christian Science Monitor*, April 8, 2002.
10 Aaron Schwabach, "How Free Trade Can Save the Everglades," *Georgetown International Environmental Law Review* 14, Winter 2001.
11 For a discussion, see Chris Edwards, *Downsizing the Federal Government* (Washington: Cato Institute, 2005), chapter 6.
12 Government Accountability Office, "Sugar Program: Changing Domestic and International Conditions Require Program Changes," RCED-93-84, April 16, 1993.
13 Center for Responsive Politics, "The Politics of Sugar," May 1995, www.opensecrets.org. CRP's site also has data on recent campaign contributions by the sugar industry. See also www.soursubsidies.org.
14 "Big Sugar," editorial, *Washington Post*, April 16, 2005.
15 See letter to the House Agriculture Committee, July 20, 2006, http://flake.house.gov/UploadedFiles/Sugar.pdf.