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By SHANNON ANDERSON

Introduction

Life-long farmer Thomas Jefferson prioritized agriculture in his presidential administration because he envisioned a nation of yeoman farmers laboring upon the fertile New World soil, nourishing the nascent American society with the food they produced. Today, nearly two hundred years removed from the lifetime of Thomas Jefferson, the goal of supporting this noble profession has spawned several agricultural price support programs. However, these numerous programs seem to have a convoluted rationale and, at best, questionable justifications in today's neo-liberal trade climate. In fact, they seem to fly in the face of both classical Liberal economic theories and the American tradition of the Protestant work ethic. Facing fierce opponents and equally fierce advocates, the programs are indeed beneficial to farmers; however, they come at a high cost to others. Through a look at government intervention in the sugar sector, this paper seeks to answer several questions: Why support sugar? What are the consequences of this support, both in America and abroad? And finally, when did this practice begin, and is there any foreseeable end?

Background

In order to understand the debate over sugar price support programs, it is necessary to understand what tools are used to enact these programs. Contrary to popular belief, there are no direct subsidies to sugar farmers. Instead, a complex system of price support loans and tariffs are employed by the United States government to manipulate domestic market sugar commodity prices to keep them among the very highest anywhere.[1] The simplest way to describe the loan system is as a means to keep the price of U.S. sugar high, and the easiest way to describe the tariff system is as a means to create barriers to competition which would result in bringing those artificially-high domestic prices back down to international market levels.

Program Mechanisms

According to the USDA Economic Research Service (ERS) website, the loan program for domestic sugar producers is implemented via USDA-administered discount loans that are twenty percent below market interest rates. The program thus gives financial benefits to domestic sugar producers through this discount loan program in the form of savings on interest payments. The loans are "non-recourse," meaning that the government must accept sugar as a payment in the event that a processor defaults on their loan. Such forfeitures result in the Commodity Credit Corporation, the USDA's agricultural price stabilization branch, receiving tons of surplus sugar. However, the forfeiture of sugar to the government is avoided at all costs, as it will result in either wasted sugar or excess sugar on the market that serves to depress prices for all U.S. sugar producers, thereby negating the intended price-bolstering effects of the loans. This means that the government must take action to keep the domestic market price of sugar at a price that allows U.S. sugar producers to repay their loans and make a profit. This target price is known as the *market price objective.*[2]

To achieve the market price objective, the USDA administers a sugar import-restriction program known as tariff-rate quota system (TRQ). Under this system, the Secretary of Agriculture sets an aggregate sugar import limit to which a limited tariff will be applied for all countries that import sugar to the U.S. Once a country reaches its import limit, that country must pay a second, higher tariff on all addition sugar it wishes to send into U.S. markets.[3] These secondary, higher tariffs collectively serve to limit sugar imports to the U.S. The economics behind this are increases in foreign sugar producers' costs of exporting their product to the U.S. because of the secondary tariffs, resulting in a smaller supply of sugar on the domestic commodity market. The restricted supply raises domestic sugar prices, allowing farmers to get the sort of revenue needed to repay the sugar support loan program. Thus, the TRQ program creates a commodity climate which favors the repayment of sugar support loans through higher profits to sellers in the domestic market.

In addition to discounted rate loans and the TRQ system, sugar price support programs include limits on what domestic producers can grow.[4] In this restricted-output context, a situation arises that is analogous to a scarcity with higher prices resulting in diminished supply. These higher prices, much like the TRQ secondary tariffs, help to ensure that farmers can repay their loans as well as contribute to the program's financial benefit to farmers.

Program History

The federal government has operated variations of sugar price support programs for over 72 years. While this may seem like a relatively short period of time for the government to be involved in the sugar sector, it is slightly misleading because the government has, in fact, been involved in the economics of domestic sugar production in one way or another since the United States' inception over 230 years ago.[5] The website for the American Sugar beet Growers Association says that the first tariff on sugar imports was imposed by the U.S. in 1789, for the purpose of generating federal revenue, and tariffs on sugar imports have continued virtually without interruption ever since.

The same website summarizes the government's relation to the sugar growing community nicely: "The nature of intervention in sugar marketing changed significantly near the end of the 19thcentury as the rationale for high sugar tariffs shifted from generation of revenue to protection of a domestic industry."[6] It was not until a hundred years later, in 1890, that the rationale behind tariff policies began morphing from revenue generation to protection of domestic sugar producers. This policy intention remains a shaping force of today's interventionist sugar price policies. The traces of America's current system go back to 1934 with the introduction of import quotas that allocated specific quota amounts to different trade partners, such as Mexico and Jamaica. These policies, which sugar producers rationalized as necessary for the protection of domestic producers in an increasingly flooded and price-depressed international market, continued through the 1960s.[7]

The international sugar surpluses of the early 1970s convinced Congress that sugar price support programs were no longer necessary. Consequently, Congress did not renew the legislation authorizing the price support programs. Ironically, the years immediately following the expiration of this legislation saw a sharp rise in international sugar production. Congress rushed to reinstate price support programs for the crop, known as the Food and Agriculture Act of 1977.[8] Through this act, loans became an integral part of the sugar price support programs, and the tariff system took on new importance in maintaining the sugar price floor, or market price objective. Again, according to the American Sugar beet Growers Association website, the new legislation reinstated import restrictions to protect sugar support loans: "To encourage processors to sell their sugar in the marketplace rather than forfeit it to the Commodity Credit Corporation (CCC), import duties and fees were used to maintain the domestic sugar price at a level called the market price objective."[9]

The Current Debate

Domestic Consequences

Price support advocates and legislators call the current system of sugar price support a "no-cost" policy. In fact, in the Food, Conservation, and Energy Act of 2008, Congress mandated that the USDA continue to operate sugar price support programs at no cost, just as they had been required to operate these programs under the provisions of the Farm Security and Rural Reinvestment Act of 2002.[10] Others counter that these programs *do* have a cost, namely American consumers paying $1.4 billion dollars in higher sugar costs.[11] In fact, both arguments are correct, although the former argument is misleading because it only takes into account net government outlays and ignores costs incurred to any entity outside of the government. So while it is true that the government does not allocate any of the federal budget towards sugar programs in the form of direct subsidies, there are two costs associated with the sugar price support programs that are difficult to trace, and for this reason, tend to fly under the radar.

The first cost constitutes what economists call a *transaction cost.* Any action taken on the part of the government has an implicit associated cost. Although it may not be immediately obvious, as is the case at hand in which government outlays have a net value of zero, the creation and administration of the sugar commodity support system does cost taxpayers because of the cost associated with employing those who implement the programs. Thus, any government policy, including the sugar price support programs, costs money to implement, and therefore, cannot be accurately described as "no-cost."

The second effect not accounted for is that the additional cost paid annually by American consumers in the form of higher sugar prices that result from the sugar price support system. In fact, the very goal of the sugar price support programs is to raise the domestic price of sugar. The 2008 Farm Act, for example, prohibits domestic human consumption of excess sugar that has been forfeited to the CCC – these excess sugar stocks must be converted into ethanol instead.[12] Were these excess sugar supplies added to the domestic sugar market, prices would of course decrease and it is this precisely what this provision of the 2008 Farm Act seeks to prevent. According to various sources, this and other program provisions amount to an estimated $1.4 billion dollars in the form of higher food prices for U.S consumers.[13] This is easy to miss because this particular cost does not come out of the consumer's income in the form of taxes paid to the government, but rather in the form of a higher food bill for the consumer. By artificially inflating prices, sugar support programs force higher prices on the consumers, creating a similar effect to a sugar excise tax.

An additional cost of the program is what economists call a *negative externality*: the cost of environmental degradation inflicted on the Florida Everglades by pollution from the local sugar industry.[14] Through their creation of artificially high sugar prices, the government's sugar support policies create incentive to join the sugar industry, resulting in an overabundance of sugar producers. These superfluous producers near the Florida Everglades, some argue, produce run-off that creates an environmental disaster with a $400 million to $700 million clean-up cost.

Furthermore, the sugar price support system promulgates yet another cost in allowing the growers of corn – which can be processed into sugar substitutes like high fructose corn syrup – to undercut sugar prices by a few cents to make a big profit.[15] Americans have steadily increased their consumption of high fructose corn syrups since Japanese researchers first developed a method to use corn to produce this sugar substitute in the 1970s. Following this discovery, soda, candy and other food manufacturers raced to use this cheap sugar substitute in their products. The health effects of consuming sugar versus consuming corn syrup are highly debated. Opponents of the corn-derived sweetener point to some potential health hazards of high fructose corn syrup. For example, a website for the Weston A. Price Foundation, a non-profit organization that advocates policies that encourage a healthier diet, makes the charge that the high levels of fructose contained in the syrup prevent the effective absorption of copper, a mineral necessary to form collagen and elastin: "High fructose corn syrup (HFCS) began to gain popularity as a sweetener because it was much less expensive to produce…Thus, with almost twice the fructose, high fructose corn syrup delivers a double danger compared to sugar."[16] Others, like the University of British Columbia's Garry Yang, go even farther in inveighing against high fructose corn syrup, claiming, as Yang does, that "it is no coincidence that the emergence of HFCS usage in food is shadowed by the increase in obesity worldwide."[17]

In addition to complaints about the negative health effects brought about by the sugar price support programs, opponents claim that these programs perpetuate a manipulation of our democracy as the sugar lobby buys votes for legislation that favor these programs in exchange for generous campaign contributions to members of Congress.[18] Proponents of this particular critique note the $11.9 million contributed by sugar-producing interests to congressional campaigns between 1979 and 1995.[19] They also point to the "enormous political clout" of the "formidable lobbying machine" of sugar producers.[20] Further supporting their claim is a bit of interesting anecdotal evidence from the Reagan era. Fearing that the "efficient sugar-producing nations of the Caribbean and Central and South America" would "quickly seize upon open markets in North America and Europe for their exports" in the event of sugar trade liberalization, U.S. sugar producers "secured key positions on the USDA advisory committee" and sent a lobbyist all the way to Geneva to monitor and influence the General Agreement on Tariffs and Trade negotiations.[21] While there may be a correlation between a candidate's support for legislation that benefits sugar producers and those same sugar producers' contributions to said candidate's campaign funds, it is difficult to prove causation. Nevertheless, this relationship between campaign contributions and legislation that favors contributors is a compelling one, and can be pointed to as likely reason for the continued existence of sugar price support programs.

Leveling another charge against the sugar price support system is Fran Smith of the Competitive Enterprise Institute, who cites a U.S. Department of Commerce study from February 2006 which "found that limiting sugar imports was 'a major factor' in the loss of 10,000 jobs in candy manufacturing."[22] Smith has a compelling point: by causing inflated sugar prices – a staple of the candy manufacturing process – government price support programs diminish the amount of candy that producers are can afford to manufacture. While a diminished output of candy would seemingly reduce obesity, the calories saved through reduced candy consumption are reappearing in thousands of food products in the form of cheap corn syrup, ultimately resulting in a net gain in calories and an increase in obesity rates. Furthermore, getting to the heart of Smith's argument, thousands of candy manufacturing jobs are lost as a consequence of sugar price support programs.

The domestic consequences of the sugar price support programs are varied and often difficult to pin down. Undoubtedly, these programs serve to provide benefits to some – namely, domestic sugar producers. The more interesting and compelling issue is the one of costs, not the one of benefits. There is no debate over the fact that the programs do have highly concentrated benefits and widespread costs, with only one percent of sugar growers receiving 43 percent of the benefits of the price support programs.[23]

International Aspects

Turning from the domestic aspects to the international aspects of America's sugar price support system, many interesting questions arise. First, do domestic sugar price support programs have a deleterious effect on foreign sugar farmers? Second, how do these programs fit into international trade agreements like NAFTA and GATT? And lastly, do such trade agreements put pressure upon the U.S. government to liberalize their trade policies with respect to sugar?

Protectionist policies have made their way into the Central American Free Trade Agreement, the North American Free Trade Agreement and the General Agreement on Tariffs and Trade. In fact, in a challenge to the quota system administered by the U.S. Department of Agriculture, Australia successfully brought a claim against the U.S. in 1988 under GATT, alleging that U.S. sugar import quotas were a violation of GATT rules:

> The GATT Council had found that the complex system of U.S. quotas imposed on foreign exporters of sugar to the U.S. market was a violation of GATT Article XI because it contained quantitative import restrictions. In other words, the U.S. sugar program assigned specific quotas, in tons, to dozens of nations that export sugar to the United States. To get around the problem, [the U.S.] simply reorganized the quota system into a tariff-rate system. Each country that had a quota to export sugar to the United States was allowed to export a certain number of tons virtually free of any tariff, but once that limit was reached a very high tariff (16 cents a pound for raw sugar) would be imposed, effectively barring additional exports.[24]

This explains the reasoning behind the switch from a quota system with minor associated tariffs to the TRQ system that was discussed above in the Program Mechanics and Program History sections. The TRQ system, while charging nations like Australia hefty additional tariffs for any imports that exceed their quotas, is a victory for sugar exporting nations who can now sell more sugar in the American market and consequently receive prices that are two to three times that international market rate.[25]

In addition to GATT, other international trade agreements compel the United States to liberalize their policies for sugar imports. The World Trade Organization's Doha Development Agenda is one of these forces. It seeks to make developing countries part of the world trading system through reform of protectionist agricultural policies. The United States is not the only one feeling the pressure. The European Union is also under considerable pressure, especially from developing countries involved in the Doha negotiations, to substantially reduce their domestic agricultural subsidies, which the WTO calls "trade distorting."[26] Such forces run up against the desire of sugar farmers and their boosters in Congress to maintain America's long-standing sugar price support programs.

Despite charges of selectivity, and even hypocrisy, in its advocacy of trade liberalization, the United States does face a number of complicating factors in its considerations regarding trade liberalization. Among these is the fear that "eliminating the sugar programs would be a form of 'unilateral disarmament,' leaving the U.S. with no leverage to convince European states to do away with their own trade-restrictive sugar import policies."[27] Additionally, U.S. participation in NAFTA has come along with challenges from Mexico to sugar price support programs. On January 1, 2008, under the provisions of NAFTA, all tariffs and customs duties for sugar trade between the U.S. and Mexico were lifted. Prices of sugar in the U.S. domestic market were expected to drop due to this anticipated influx of Mexican sugar. In an attempt to confront the consequential threat to their revenue, U.S. sugar producers successfully lobbied Congress to include in the 2008 Farm Act a provision that would allow the CCC to in effect purchase enough domestically-produced sugar to maintain the supply levels that existed prior to the January 2008 increase in sugar imports from Mexico. The effects of this provision have been hard to gauge because of a February 2008 fire that destroyed a sugar refinery plant in Port Wentworth, Georgia whose products accounted for a significant share of the U.S. domestic sugar supply. Despite the NAFTA-generated increase in Mexican sugar imports, the loss of U.S. sugar refinery capacity made sugar supplies became scarcer, allowing for domestic sugar prices to remain at previous levels. Without the anticipated drop in price levels, the CCC was able to avoid purchasing excess sugar stock. It will therefore still be some time before the combined impact of increased Mexican sugar imports and CCC purchasing of excess domestically-produced sugar supplies can be measured, but it has been reported that the Congressional Budget Office estimates that this will result in $660 million cost.[29] It will be interesting to see how the USDA will offset this anticipated cost given the 2008 Farm Act provision which mandates that sugar price support programs operate with no net change to government outlays.

The Future of Sugar Price Support Programs

American agricultural price support programs, specifically those in the sugar sector, continue to exist because of strong political support in Congress. The reasons behind this support seem to be a robust lobbying effort on the part of sugar producers. Stemming from these programs are several domestic and international consequences: government-granted financial benefits to sugar growers which are subsidized by consumers via increased sugar and food prices, high domestic consumption levels of health-harming high fructose corn syrup, and a hypocritical and selective international trade liberalization policy. Despite some challenges from the international trade community, Congress' century-old support for sugar prices is unlikely to significantly change course in the foreseeable future.

Endnotes

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