THE FEDERAL SUGAR PROGRAM AND ITS IMPACT ON CONSUMERS

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Introduction

The Consumer Federation of America has long opposed the federal sugar program as costly to consumers. The program relies on a system of price supports and import restrictions to keep prices paid to U.S. producers above the world market.[1] Unfortunately, much of this increased income to growers is passed on to consumers as an added cost by those who buy sugar from producers—that is, food processors and retailers.

Consumers pay this hidden subsidy when they buy food products containing sugar at the grocery store. It amounts to a hidden food tax that hits poor Americans the hardest, since they spend a larger percentage of their income on food than other families.[2]

In a report issued in June 2000, the General Accounting Office took an exhaustive look at the sugar program. It concluded that the cost of the program to sugarcane refiners, food manufacturers and consumers was about $1.5 billion in 1996 and about $1.9 billion in 1998.[3] The 2000 report followed a 1993 GAO report that put the cost of the sugar program to sugar users at $1.4 billion.[4]

Had there been no sugar program, GAO estimated that, for table sugar alone, consumers would have saved nearly $600 million in 1996 and nearly $800 million in 1998, assuming all savings from ending the program were passed on by processors and retailers. That equates to a savings of eight to 10 cents per pound, or 40 to 50 cents on a five-pound bag of sugar.[5]

Supporters of the sugar program dispute these findings. They suggest, when it comes to sugar, there is little or no correlation between wholesale and retail prices and that only food processors and retailers benefit from reduced wholesale sugar prices. According to the growers, food companies will simply

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[1] Last week, for example, *The Wall Street Journal* listed U.S. raw sugar price at about 20 cents per pound and the world price at about six cents per pound. *Wall Street Journal,* February 13, 2002, p. C-14.

[2] In 1999, for example, the poorest fifth of families spent 37 percent of pre-tax income on food while the richest fifth spent less than eight percent. The middle fifth of families spent 15 percent of its pre-tax income on food. From Table 1, *Consumer Expenditures in 1999,* Bureau of Labor Statistics, U.S. Department of Labor, May 2001

[3] *SUGAR PROGRAM Supporting Sugar Prices Has Increased Users' Costs While Benefitting Producers,* U.S. General Accounting Office, GAO/RCED-00-126, June 2000, pp 21-24.

[4] *Sugar Program: Changing Domestic and International Conditions Require Program Changes,* U.S. General Accounting Office, GAO/RCED-93-84, April 1993.

[5] Consumer Federation of America calculations based on sugar consumption data in *Sugar and Sweetener Situation and Outlook Report,* Economic Research Service, September 2001, Table 17, page 36.

pocket any savings from reforming the sugar program by reducing the support price.[6] Put another way, they say there is no a so-called consumer "pass-through" of ups and downs in raw commodity prices.

But both common sense and long-standing economic thought[7] suggest that, over time, significant increases or decreases in ingredient or other major input costs are reflected in retail prices. The theory is simple. In a competitive market, any company that fails to reflect reduced input costs in its prices eventually will lose sales to manufacturers of similar products. The GAO cited this argument in discussing table sugar prices, noting that this market is highly price-competitive. "With a homogeneous product such as sugar," GAO said, "each brand is almost perfectly substitutable for another. When substitutability between products is nearly perfect, it is more difficult for sellers to insulate their products from the price competition of rivals."[8]

At another point, the GAO specifically rejected the growers argument that there would be no pass-through of savings to consumers from sugar program reform. While declining to specify a pass-through amount, GAO said: "In the absence of the sugar program we believe that it is unlikely that no cost reductions would be passed through to final consumers, particularly in the case of table sugar."[9]

What Have Sugar Prices Done Over Time?

Figures 1 and 2 (attached at the end of this statement) track wholesale and retail sugar prices from 1977 through 2001. A review of those graphs and the data behind them leads to several conclusions:

- In general, retail sugar prices have followed wholesale prices up and down since the late 1970s. The movements are rarely perfectly symmetrical, however, and wholesale price *increases* are more likely to be passed on than price *decreases.*

- There is a clear decoupling of the wholesale and retail prices from 1995 to 1999. Clearly, something happened to disturb the pattern in this period.

- There is a gradual widening of the farm-to-retail price spread—the difference between the wholesale and retail prices—over time. Until the mid-1990s, however, the increase in spread, if the cane and beet wholesale prices are averaged, was generally in line with inflation.

Table 1 compares changes in wholesale and retail sugar prices in five-year intervals from 1980 through 2001. From 1980 to 1984, a 28 percent drop in the raw cane sugar price and a 33 percent drop in the refined beet sugar price corresponds to a 15 percent decline in the retail sugar price. That's about a 50 percent pass-through of savings to consumers from lower wholesale prices.

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6 See page 9 of the testimony of Jack Roney, director of economics and policy analysis, American Sugar Alliance, before the House Agriculture Committee, July 18, 2001.

7 See, for example: *A Study of the Relationship Between Farm Level Prices and Retail Food Prices,* Dale Heien, U.S. Council on Wage and Price Stability, September 1976; "The Effects of Changing Input Costs on Food Prices," R. McFall Lamm and Paul C. Westcott, *American Journal of Agricultural Economics,* May 1981; or "Why Do Food Prices Increases?" Michael Belongia, *Journal of the Federal Reserve Bank of St. Louis,* April 1983.

8 GAO/RCED-00-126, p. 24.

9 GAO/RCED-00-126, p. 97.

From 1985 to 1989, when wholesale prices rose 12 percent for raw cane sugar and 25 percent for refined beet sugar, retail prices increased 13 percent. That's considerably less than a 100 percent pass-through of *increased* costs to consumers. From 1990 to 1994, a five percent decline in the cane sugar price and a 16 percent decline in the beet sugar price prompted a 6.5 percent decline in the retail price. That's about a 60 percent pass-through of savings if you average the cane and beet decreases.

This rough correlation of price increases and decreases disappears in the last half of the 1990s, a point sugar growers have used effectively in Congress to ward off challenges to the sugar program in 2000 and 2001.[10] From 1995 to 1999, the price for raw cane sugar declined 5.4 percent while the price for wholesale refined beet sugar increased 3.4 percent. Over the same period, the price for retail refined sugar increased 8.6 percent. Although based on only 18 months' worth of data, in 2000-2001 the price correlation appears to return. In fact, the increase in the retail sugar price lags well behind both the increase in the cane sugar price and refined beet sugar price for this period.

Table 1
Changes in U.S. Wholesale and Retail Sugar Prices, 1980 - 1999

Years	Change in Raw Cane Sugar Price	Change in Wholesale Refined Beet Price	Change in Retail Refined Sugar Price
1980 -1984	- 27.8 percent	- 33.0 percent	- 14.9 percent
1985 - 1989	+ 12.1 percent	+ 25.3 percent	+ 13.3 percent
1990 - 1994	- 5.2 percent	- 16.1 percent	- 6.5 percent
1995 - 1999	- 5.4 percent	+ 3.4 percent	+ 8.6 percent
2000 - 2001	+ 10.4 percent*	+7.5 percent*	+ 2.5 percent**

Source: Consumer Federation of America calculations, based on Economic Research Services tables in *Sugar and Sweetener Situation and Outlook Report,* SS-232, September 2001, and available by FAX. Shown are changes in average annual prices between1980 and 1984, 1985 and 1989, 1990 and 1994, 1995 and 1999, and 2000 and 2001.
* 2001 data is though September only.
** 2001 data is through August only.

Still, it is inescapable that, in the last half of the 1990s, as the wholesale price of sugar plummeted, processors and retailers did *not* pass on *savings* to consumers. The sugar growers, understandably, point to this as proof that there is no consumer pass-through of wholesale sugar price changes.[11]

Let me suggest an alternative view, based on a longer look at the price fluctuations. While retail refined sugar prices generally have followed wholesale prices up and down, in the mid- to late-1990s, something happened to disturb the market and upset the usual pattern.

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10 In the summer and fall of 2001, both the House and Senate rejected by wide margins farm bill amendments to reform the sugar program. Instead of reforming the program, the House voted to reimpose federal limits on how much sugar can be grown and sold in this country. In the Senate, Idaho Republican Larry Craig was just one of those who cited the disparity between wholesale and retail prices as justification to oppose reform. "Over the last couple of years," he said, "we have seen a dramatic decline in sugar prices in this country, even with the current program. Nowhere have we seen any one retail product on the consumer market shelf decline as a result of the reduction in sugar...I don't think the (reform amendment) brings down the price one penny on a candy bar, one penny on a bottle of pop, or any other commodity in the marketplace, from boxed cereal to any other product that has sugar added to it...That is simply a false argument."

11 See Figures 12 and 13 from the Roney testimony, House Agriculture Committee, July 18, 2001.

Since this period was also marked by a wave of mergers and acquisitions in the food industry,[12] one possible explanation for the failure of retail sugar prices to drop is agribusiness consolidation and a resulting decrease in competition.[13] A prerequisite of the consumer pass-through argument is sufficient competition among processors and retailers to trigger price declines when input costs fall. In a competitive market, individual processors will seek to get an edge on their competitor by passing on a reduction in input costs to consumers. In a noncompetitive market, processors may be able to do the reverse.[14] That is, they may be able to increase their profits by keeping prices high and, to use the phrase I used earlier, pocket any savings from reduced wholesale prices. If recent consolidation in food processing and retailing has created anti-competitive conditions, that's a likely explanation why the previous correlation between wholesale and retail sugar prices disappeared in the late 1990s.

What about the farm-to-retail price spread—the widening gap between the wholesale and retail prices of sugar? Some argue that, while the wholesale price of sugar has not kept up with inflation, everything else needed to prepare sugar for the retail market has. As a result, if the price spread widen, it is because of inflation's effect on these other items.

An analysis of price changes since 1977 indicates that the cane price spread generally lagged behind inflation while the beet price spread outpaced it until the mid-1990s, when both exceeded inflation (see Table 2). If the cane and beet spreads are added together and averaged,[15] the combined spread lags behind or only slightly exceeds inflation until 1995-2001, when it outstrips inflation by 3.5 cents, or about 20 percent (See Table 3).

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[12] Among large food processing mergers in recent years: Kraft Foods purchased Nabisco, General Mills acquired Pillsbury, and Dean Foods combined with Suiza Foods. All of these companies are major purchasers of sugar. Dean Foods and Suiza Foods were the nation's No. 1 and No. 2 dairy processors. Together, they control about 30 of the national market. Many view a market as noncompetitive if four firms have more than 40 percent of sales. Among retailers, between 1992 and 1998, the share of sales of the four largest firms increased from 16 percent to nearly 30 percent.

[13] The growers are among those who make this argument. In his July 2001 House Agriculture Committee testimony, the ASA's Roney said: "Lack of competition among food retailers apparently is the main reason these companies can succeed in not passing along to consumers the lower prices they pay for sugar and other agricultural products."

[14] Such a pattern emerged in New England under the Northeast Interstate Dairy Compact from 1996 to September 2001. Retail prices increased beyond the amount dictated by the increase in the farm price of milk under the compact. Specifically, retail prices plateaued—or failed to recover fully—after two price spikes prompted by increases in the base federal price for milk. See *Report on the Operation and performance of the Northeast Interstate Dairy Compact,* July 200, and *Impact of the Northeast Interstate Dairy Compact on Consumer Prices for Fluid Milk,* June 2001, both by Kenneth W. Bailey, Department of Agricultural Economics and Rural Sociology, Penn State University.

[15] Over the last five years, beet sugar has accounted for about 53 percent of total U.S. sugar production while cane sugar accounted for 47 percent. CFA calculations based on data in *Sugar and Sweetener Situation & Outlook,* SSS-232, USDA Economic Research Service, September 2001, p. 32.

Table 2
Cane and Beet Farm-to-Retail Price Spreads Versus Inflation,
In Cents per Pound, 1977 - 2001

Spread	2001*	1977	'77 plus inflation	'01 vs. inflation	1984	'84 plus inflation	'01 vs. inflation
Cane	22.4	10.6	31.0	− 8.6	14.6	24.9	− 2.5
Beet	20.7	6.5	19.0	+ 1.7	10.7	18.2	+ 2.5

Spread	2001*	1990	'90 plus inflation	'01 vs. inflation	1995	'95 plus inflation	'01 vs. inflation
Cane	22.4	19.5	26.4	− 4.0	16.9	19.6	+ 2.8
Beet	20.7	12.9	17.8	+ 2.9	14.2	16.5	+ 4.2

Source: Consumer Federation of America calculations, based on Economic Research Services tables in *Sugar and Sweetener Situation and Outlook Report,* SS-232, September 2001, and available by FAX. Shown are changes in average annual cane and beet margins in selected years, compared with what inflation alone would do to those margins, and the difference between the two.
* 2001 data is though August only.

Table 3
Average of Cane and Beet Farm-to-Retail Price Spreads Versus Inflation,
In Cents Per Pound, 1977 - 2001

Spread	2001*	1977	'77 plus inflation	'01 vs. inflation	1984	'84 plus inflation	'01 vs. inflation
Cane & Beet	21.5	8.5	24.8	− 3.3	12.6	20.7	+ .8

Spread	2001*	1990	'90 plus inflation	'01 vs. inflation	1995	'95 plus inflation	'01 vs. inflation
Cane & Beet	21.5	16.2	21.9	− .4	15.5	18.0	+ 3.5

Source: Consumer Federation of America calculations, based on Economic Research Services tables in *Sugar and Sweetener Situation and Outlook Report,* SS-232, September 2001, and available by FAX. Shown are changes in the average of the annual cane and beet margins in selected years, compared with what inflation alone would do to those margins, and the difference between the two.
* 2001 data is though August only.

So, again, there is a noticeable problem—in this case a widening of the farm-to-retail price spread beyond inflation—in the mid- to late-1990s. While the growers see this as a reason to oppose sugar program reform, CFA sees at least two separate issues.

First, we firmly believe that, in a competitive market, major ups and downs in wholesale prices *will* be reflected in retail prices paid by consumers. Is the pass-through perfectly symmetrical? No. Does the consumer benefit lag behind the wholesale price movements? Probably. Will the pass-through be 100 percent when wholesale prices drop? Probably not. But we remain convinced, based on our review of the numbers, that consumers will in fact benefit from reform of the sugar program.

At the same time, it is very clear that consumers did not benefit from the free fall in wholesale prices in recent years. In fact, the opposite happened. The wholesale price dropped and the retail price held steady or increased. Some might call that price gouging. We strongly suspect this is industry increasing profits at consumers' expense—that is, processors or retailers exercising increased market power, probably as a result of increased concentration during the period.[16] Put another way, the market is becoming anti-competitive.

But if the problem is market power, the solution isn't retaining the sugar program. It's fostering a more competitive market. CFA has attempted to do this by supporting key provisions of the competition title in the new farm bill and by opposing several recent mergers in the food and agricultural area.

What about products like candy, chewing gum and cake mixes? These items contain substantial amounts of sugar, but they are more highly processed than table sugar. Sugar growers cite recent increases in the price of these items as further proof there is no consumer pass-through when it comes to sugar.[17] But for these products, because they are more highly processed, the price manufacturers pay for sugar is not likely to be the primary determinant of the retail price.[18] As a result, it is not realistic to expect these prices to decline when the wholesale price of sugar declines. What might be expected in response to a significant decline in wholesale sugar prices is a *moderating* of price increases.

And in this case, government price data indicate that is largely what has happened (See Table 4). Food prices in general increased 10.1 percent between 1998 and 2001, somewhat more than the overall inflation rate for the period.[19] But for all sugar and sweets—a government category that includes refined sugar and artificial sweeteners, candy and gum, and other high-sugar items like jellies, jams, honey, and marsh mellows—prices increased only 5.5 percent.[20] For candy and gum alone, prices increased 5.7 percent. So prices for all these items together increased at a rate a little more than half that of the food price inflation rate. In our view, at least some of that difference is a consumer benefit from the recent free fall in wholesale sugar prices.

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[16] The decoupling of the prices in the late 1990s can be viewed as compounding the injury to consumers from the sugar program. The consumer pays more thanks to the high domestic price of sugar and sees no savings—in fact, the consumer pays even more—when the wholesale price goes down.

[17] See Roney testimony, Figures 12 and 13.

[18] GAO put it this way: "In sugar refining, the cost of raw sugar is a much larger share of the total cost of production compared with its share in the production of other food products. Therefore, a change in the cost of raw sugar would be likely to have a larger effect on the price of table sugar than on the prices of sugar-containing products." GAO/RCED-00-126, pp. 23-24. USDA's Economic Research Service adds that, the larger the share an input has in the total costs of a food product, the more likely a change in that input's cost will affect the food product's price. See ERS website: *Food CPI, Price and Expenditures: How Changes in Input Costs Affect Food Prices.*

[19] Food price data in this paragraph is taken from Bureau of Labor Statistics tables showing monthly and yearly changes in average U.S. prices for all food items, the "sugar and sweets" CPI index, and the candy and chewing gum subcategory. Candy and gun account for 60 percent of the total sugar and sweets index. The tables are found on the BLS website.

[20] The inflation rate for sugar and artificial sweeteners for this period was 2.3 percent. Sugar accounts for all but two percent of this ERS category. The inflation rate for the "other sweets" category was close to the all-food rate at nine percent. Once again it appears that moving from refined sugar to more highly processed foods brings the inflation rate closer to the all-food rate. Data from BLS plus *Sugar and Sweetener Situation & Outlook,* SSS-232, USDA Economic Research Service, September 2001, page 28.

Table 4
Changes in Food, Sugar & Sweets, and Candy & Gum Prices, 1998 - 2001

Year	CPI	All Food	Sugar & Sweets	Candy & Gum
1998	+ 1.6 percent	+ 2.1 percent	+ 1.5 percent	+1.3 percent
1999	+ 2.7 percent	+ 2.0 percent	+1.5 percent	+ 2.1 percent
2000	+ 3.3 percent	+ 2.8 percent	+ .6 percent	+ 1.1 percent
2001	+ 1.5 percent	+ 2.8 percent	+ 1.7 percent	+ 1.1 percent
1998 - 01	+ 9.5 percent	+ 10.1 percent	+ 5.5 percent	+ 5.7 percent

Source: Consumer Federation of America calculations, based on data available on the Bureau of Labor Statistics website. Shown are changes in the U.S. city average CPI for each category from December of the previous year to December of the year listed. The 1998 to 2001 changes are from December 1997 to December 2001.

Government price data for two additional product categories containing large amounts of sugar suggest they do not lag as far behind the food inflation rate as sugar and sweets in general or candy and gum in particular (See Table 5). Compared with 10 percent inflation for all food items since 1998, cereal has increased seven percent and cookies and cakes have increased about nine percent. Yet another high-sugar item, ice cream, has almost doubled the food inflation rate, increasing 19.8 percent since 1998. But that probably has more to do with changes in federally controlled price of milk than sugar prices.

Table 5
Changes in Cereal, Cookies & Cakes and Ice Cream Prices, 1998 - 2001

Year	All Food	Cereal	Cookies & Cakes	Ice Cream
1998	+ 2.1 percent	+ 1.9 percent	+ 2.1 percent	+ 7.2 percent
1999	+ 2.0 percent	+ 2.1 percent	+2.8 percent	+ 0.8 percent
2000	+ 2.8 percent	+ 1.2 percent	+ 1.7 percent	+ 1.8 percent
2001	+ 2.8 percent	+ 1.6 percent	+ 1.6 percent	+ 8.8 percent
1998 - 01	+ 10.1 percent	+ 7.0 percent	+ 9.1 percent	+ 19.8 percent

Source: Consumer Federation of America calculations, based on Bureau of Labor Statistics data and Economic Research Service data in *Sugar and Sweetener Situation and Outlook Report,* September 2001. Shown are changes in the U.S. city average CPI for each category from December of the previous year to December of the year listed. The 1998 to 2001 changes are from December 1997 to December 2001.

So, while the growers argue there is no pass though to consumers and no likely benefit to consumers from lower wholesale sugar prices, CFA feels there is some evidence consumers have benefitted from sharply lower wholesale sugar prices in recent years.

Other Problems with the Sugar Program

There are problems with the sugar program beyond increased grocery bills. Let me touch on just three.

- The cost of the sugar program would be more palatable if most of what consumers paid helped struggling family farmers stay on their land. Unfortunately, since benefits under the sugar program accrue on a per-pound basis, the bulk of the benefits go to those who least need it—that is, the largest, most financially secure growers. According to the General Accounting Office's 1993 report, more than 40 percent of the benefits from the sugar program went to the top one percent of the growers in 1991.[21] Benefits were particularly concentrated among cane sugar growers, 33 of whom reaped in excess of a million dollars a year each. These are not struggling family farmers.

- Plummeting wholesale sugar prices in recent years have added a taxpayer cost to the program as well. CFA isn't necessarily opposed to taxpayer-supported government programs. But we'd like to see them accomplish something useful. And in the case of sugar, that's questionable. In 2000, high domestic production triggered the forfeiture of about 1 million tons of sugar at a taxpayer cost of nearly half a billion dollars.[22] That surplus is now being reduced under a program that gives surplus sugar back to growers who agree to not produce more price-depressing sugar.[23] But taxpayers are still paying more than $1 million a month simply to store government-owned sugar.[24] USDA projects that, by the end of this decade, the government will own 4 million tons of sugar acquired through forfeitures.[25] In addition, changes in the sugar program included in the Senate farm bill would add another half a billion dollars in costs over the next 10 years, according to the Congressional Budget Office.[26]

- Sugar production harms the Florida Everglades and the sugar program encourages more sugar production in south Florida. Since the 1950s, some 700,000 acres of marsh—roughly a fourth of the Everglades—has been developed for growing sugar cane and other farm crops.[27] Today, Florida accounts for roughly half of the nation's sugar cane production.[28] This disrupts water flows and adds

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[21] GAO/RCED-93-84, p. 30.

[22] Roney testimony, p 16.

[23] *USDA Announces Steps to Reduce Sugar Inventory,* News Release No. 0167.01, U.S. Department of Agriculture, August 31, 2001.

[24] SSS-232, p. 3.

[25] Statement of Senator Richard Lugar (R.-Ind.) during floor debate on the farm bill, December 12, 2001, Congressional Record, p. S13015.

[26] Congressional Budget Office Cost Estimate, S. 1731, Agriculture, Conservation and Rural Enhancement Act of 2001, December 5, 2001, pp. 5-6.

[27] "Restoring the Everglades: Challenge for Agriculture," *Agricultural Outlook,* USDA Economic Research Service, September 1997.

[28] *Sugar and Sweetener Situation & Outlook,* SSS-232, USDA Economic Research Service, September 2001, p. 4.

pollutants such as phosphorous to the Everglades ecosystem.[29] Congress has begun a multi-billion-dollar, 20-year Everglades cleanup and the growers are helping in that effort. But as long as the sugar program encourages more sugar production in Florida, these efforts will be less effective than the could be.

Working Toward a Solution

In lieu of the sugar program, Congress should consider a targeted assistance package for those small sugar producers needing help to survive.[30] This would be more effective than the current program. It would concentrate assistance where it's needed the most, not on the largest, wealthiest producers. And it would be paid for progressively, with those least able to pay contributing less proportionately, not more.

CFA is very concerned about the continuing decline in our family farms. These small farms add much to the economic and social fabric of the nation and we should do what we can to preserve them. And, clearly, some small sugar beet farmers in the Upper Midwest and elsewhere face serious financial problems. They deserve help. We simply feel price support programs like the sugar program are an inefficient way to assist them, because they are paid for regressively and concentrate benefits on the wealthiest producers.

Repeatedly in the last few years, as economic conditions in rural America deteriorated, CFA raised the possibility of a means-tested program to save the remaining family farms. A 2000 Economic Research Service analysis looked at different approaches to a "farm household safety net" based on income or expenditure thresholds used in other federal assistance programs. The analysis found that these safety nets would cost about as much as current farm programs. But who received the benefits changed dramatically. Under the safety nets, a much larger percentage of benefits went to smaller farms or those with limited resources.[31] Serious consideration should be given to a program along these lines to assist *all* small farms, including those producing sugar.

Such a sweeping change won't happen over night. And it certainly would entail government cost. But at least taxpayers would know they were providing subsidies to farmers who need help, not wealthy Florida cane growers. And there is some reason to hope that Congress may move in this direction.

Late last year the Senate Agriculture Committee abandoned a plan for a new milk price floor—another regressive price support program—in favor of a $2 billion, four-year, taxpayer-paid dairy subsidy,

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[29] According to The Everglades Trust, for 20 years, 200 tons of phosphorus have been dumped from sugarcane fields into the Everglades. As a result, it says, the Everglades shrinks by three to five acres a day. From the testimony of Mary Barley, The Everglades Trust, before the Senate Environment and Public Works Committee, January 7, 2000.

[30] Whenever reform of the sugar program is discussed, questions are raised about impacts on producers, especially sugar beet producers. An indication of what reform of the program would mean can be found in *Assessing Economic Impacts of Liberalizing WTO Sugar Tariff Rate and Minimum Access Commitments by the United States,* by Stephen Haley, USDA Economic Research Service, *Sugar and Sweetener Situation & Outlook,* SSS-231, May 2001. Haley looked at the effect of a 50 percent increase in sugar imports combined with a four-cent reduction in the sugar loan rate. After 10 years, Haley found total sugar production down 16 percent, with beet production down 12 percent and cane production down 19 percent. Presumably, a cash assistance package targeted on the smallest producers would lessen the impact of these reductions, especially among beet producers.

[31] "A Safety Net for Farm Households?" USDA Agricultural Outlook, January-February 2000.

capped so the largest farms don't receive more than mid-sized farms.[32] The Committee's program is far from perfect. The a cap on benefits—8 million pounds of milk annually—is too high. And, of course, the underlying dairy price support program would continue. It is also far from certain the new program will survive the farm bill conference. Nonetheless, for the moment, the new dairy program is a step away from consumer-paid subsidies and toward the taxpayer-paid benefit program we prefer.

Conclusion

The sugar program has been picking the pockets of American consumers for decades.
A review of the price data convinces CFA at least that consumers *will* benefit from sugar program reform, assuming a competitive market. While the pass-through is not typically 100 percent, for most of the last 20 years retail sugar prices have gone up and down with wholesale price changes. Likewise, while the farm-to-retail price spread has increased, until the mid-1990s it did not outstrip inflation. Finally, there is evidence that consumers *have* benefitted from the recent free-fall in wholesale sugar prices, in the form of very moderate retail price *increases* in items like candy and gum.

At the same time, it is clear that consumers did *not* benefit as much as they should have from declines in wholesale sugar prices since the mid-1990s. But that is likely a concentration issue and should be dealt with as a concentration issue. It is separate from sugar program reform.

Because benefits are awarded on a per-pound basis, the sugar program also helps mostly the wrong producers. It gives too much to those who don't need the help and too little to those who do. And it asks consumers...especially low-income consumers...to pick up the tab. In recent years the sugar program has added taxpayer costs as well as consumer costs, all the time continuing to damage the Everglades. This program is ripe for reform.

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[32] Senate floor statement. Senator Tom Harkin (D.-Iowa), chairman of the Senate Agriculture Committee, December 11, 2001, *Congressional Record,* p. S. 12839.

Figures 1 & 2