

## CLOSING CASE

### Sugar Subsidies Drive Candy Makers Abroad

Back in the 1930s at the height of the Great Depression the U.S. government stepped in to support the U.S. sugar industry with a combination of subsidies, price supports, import quotas, and tariffs. These actions were meant to be temporary, but as of 2015 they are still in place. Under policies approved in the 2008 farm bill, the government guarantees 85 percent of the market for U.S. producers, primarily farmers growing sugar beets and cane. The remaining 15 percent is allocated for imports from certain countries at a preferential tariff rate. The government also sets a floor price for sugar. If the price falls below the floor, the government steps in to purchase excess supply, driving the price back up again. The surplus is then sold at a loss to producers of ethanol. A significant U.S. sugar harvest in 2013 required the government to spend some \$300 million to prop up U.S. sugar prices. As a result of these policies, between 2010 and 2013 the U.S. sugar price has averaged between 64 and 92 percent higher than the world price of sugar.

American sugar producers say that the federal programs are necessary to keep big sugar-producing countries like Brazil, India, and Thailand from flooding the U.S. market and driving them out of business. Opponents of the practice include numerous small candy producers. Many of them complain about the high U.S. price for sugar. Increasingly they have responded by moving production offshore. For example, the Spangler Candy Company, the maker of Dum Dums, has moved 200 jobs from Ohio to Juarez, Mexico, where it makes candy canes that are then imported back into the United States. Similarly, Adams & Brooks, a California-based candy company, has shifted two-thirds of its production across the border to Mexico in response to higher U.S. sugar prices.

A recent academic study suggest that the U.S. sugar policies primarily benefit 4,700 sugar producers, while imposing costs of \$2.9 to \$3.5 billion per annum on U.S. consumers due to higher sugar prices. The same research predicts that removing the support programs would lead to the net creation of 17,000 to 20,000 new jobs in the United States, while dramatically reducing imports of products containing sugar.

Given the benefits of removing sugar support programs, and all the talk about deregulation and reducing the budget deficit in Congress, many observers thought that 2013 would be the year that the sugar programs were finally abandoned. The farm bill was up for renewal, and the sugar support programs were held up as an example of how wasteful government subsidies are. However, sugar producers spent some \$20 million on political lobbying between 2011 and 2013. Partly due to their influence, the U.S. Senate voted 54 to 45 against any reform in the sugar programs. The majority included 20 out of 45 Republican senators, most of who publicly rail against this kind of government intervention. Apparently, however, political expediency required that they support intervention in this case.

Sources: George F. Will, "Congress Needs to Stop Subsidies to Sugar Farmers," *The Washington Post*, June 7, 2013; Ron Nixon, "American Candy Makers, Pinched by Inflated Sugar Prices, Look Abroad," *The New York Times*, October 30, 2013; J. Beghin and A. Elobeid, "The Impact of the U.S. Sugar Program Redux," Iowa State Working Paper 13-WP 538, May 2013, [www.card.iastate.edu/publications/dbs/pdf/13wp538.pdf](http://www.card.iastate.edu/publications/dbs/pdf/13wp538.pdf).

### Case Discussion Questions

1. Who benefits from subsidies to U.S. sugar producers? Who loses?
2. Do the benefits of U.S. government support to the U.S. sugar industry outweigh the losses?
3. What do you think would happen if the U.S. government removed all support for U.S. sugar producers?
4. Government support programs for sugar producers were introduced in the 1930s, yet they are still in place today, long after the original rationale disappeared. What does this tell you about political decisions relating to international trade?
5. If you had the power to make changes here, what would you do, and why?