

U.S. Sugar Program

- U.S. provides a massive subsidy to domestic sugar growers. Sugar has sold for as high as **22 cents** a pound domestically, when the world market price was only **4.5 cents**. Consumers bear the burden. Each 1 cent increase in the price of sugar adds between \$250 and \$300 million to consumers' food bills.

Why does the policy exist and persist?

- **Group size and incentives to lobby:** There are 13,000 sugar farmers in the U.S (mostly beet). There are 250 million consumers of sugar.
 - Assume the price of sugar is kept 10 cents above the world price. Consumers thus bear a cost of \$2.5 billion. If everyone consumes the same amount, the cost to each consumer is about \$10. So why bother?
 - Assume all sugars farms are the same size. Every sugar farmer would thus get \$192,000 ($\$2.5\text{B}/13,000$) from the policy!
- It is obvious that sugar producers have a much stronger incentive to act collectively (lobby) than consumers of sugar.

Add realism: Sugar growers are not all the same size

- We assumed before that all sugar growers are of equal size and got a symmetrical benefit from the subsidy program. In fact, sugar is a highly concentrated industry: 17 huge sugar cane plantations in Florida produce > 50% of the sugar.
 - Do the math to see the per-capita stakes for these 17 farmers:
 - 17 plantations produce > 50%. The total benefit of the sugar program is \$2.5 billion. Hence...
- $$(2.5\text{bil} * .5)/17 = \$73.5 \text{ million}$$
- \$73.5 million is the benefit going to each of the 17 large cane growers.
 - Since this payoff is so large, the 17 cane growers have strong incentives to lobby to keep the program going, even if the nation's other 12,983 sugar growers free-ride.