AND SEVERAL AGRIBUSINESS FIRMS. AND, IT AFFECTS ASSOCIATED PROGRAMS ATTRACT STRONG ADVOCATES AND INCLUDE A "CHOICES DEBATE" FOCUSED ON "U.S. SUGAR ONGOING DEBATES ABOUT THIS IMPORTANT COMMODITY POLICY.

It Should Be Changed

by Thomas A. Hammer

◆ **The current U.S. sugar program is not sustainable. It has led to rising domestic production and declining imports. Then, unless support prices are reduced to restrain production, there could be significant budget outlays as the United States becomes a surplus producer of sugar.**

This nation's sugar policy cannot survive another multi-year farm bill because of prospective sugar demand and supply conditions in the context of federal budget difficulties.

The fate of the sugar program has been inextricably tied to other commodity price-support programs since the sugar program was included in the 1981 and 1985 farm bills. Therefore, an understanding of the vulnerability of the current sugar policy requires first a general review of the congressional budget process and existing omnibus farm legislation.

The Budget Game

During the 101st Congress, the 1985 farm bill, which expires September 30, 1990, will be rewritten or extended until 1991, a nonelection year. While farm-state Members of Congress up for election in 1990 may find a way to postpone action on omnibus farm legislation, the federal deficit and the congressional budget process will, nevertheless, force the Congress to take a number of potentially divisive actions related to commodity price-support programs.

Government has made the growing of sugarcane and sugarbeets enormously good business.

These actions will be triggered by the Gramm-Rudman-Hollings (GHR) Deficit Reduction Act. GRH was the congressional response to the growing concern by the electorate that the federal budget was out of control. This anti-deficit law, which mandates that $36 billion be cut from the federal budget each year, establishes a statutory blueprint to balance the federal budget by 1991. GRH contains an automatic deficit reduction mechanism—sequestration—which mandates across-the-board cuts in defense and domestic programs if the Congress and the President are unable, or unwilling, to come up with the necessary budget cuts. The bottom line is that the budget process now has the necessary teeth to force the Congress to deal with the federal deficit.

This new budget game has profound meaning for agriculture, which suddenly became the fastest growing item in the federal budget during the Reagan years while other "pet" programs were being slashed. Previously uninterested urban Members of Congress have begun to focus on the "farm budget crisis" with intense scrutiny. Agriculture Committee Members of Congress have become aware that the government resources available to deal with farm programs are finite.

The Budget *versus* Commodity Interests

Recently, in a speech to the Commodity Club of Washington, D.C., House Majority Leader Tom Foley (D-WA) warned that as a result of the budget-cutting process the Agriculture Committee may have as little as $10 billion to fund all commodity price-support programs. This is $7 billion less than the average annual outlays for these subsidy programs over the last seven years.

These inevitable budget constraints will force agricultural lawmakers to make diffi-

Continued, page 8

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HAMMER *Continued from page 5*

cult choices between priorities and commodity interest groups. As the budget "pie" gets increasingly smaller, congressional Members and farm organizations will be forced to compete fiercely for their share of the budget. In earlier years, commodity groups were able to support each other's interests to the mutual benefit of all. However, the GHR anti-deficit law may be the one thing that finally pits one farm lobby against another.

As this program begins to cost money, the question of sustainability becomes a real issue.

The Sugar Program—A Review

Proponents of the sugar program will say: What does any of this have to do with U.S. sugar policy?

An oft-used phrase in the agriculture vernacular is "if it ain't broke, don't fix it." While this may be considered poor grammar, it does make extraordinarily good sense. The corollary is equally true.

Is the sugar program "broke"? Let's examine this question in detail. On the face of it, the sugar program has done its job. It has supported domestic prices some 4 cents above the statutory minimum of 18 cents per pound, and appears to have done so at no direct cost to the federal government. However, this "no-cost" provision cannot be sustained if the current program is extended in another multi-year farm bill. Rising domestic production and declining imports will make it impossible for the U.S. Department of Agriculture (USDA) to manage the statutory price level without budget outlays (currently prohibited by law).

In spite of the fact that members of the Agriculture Committees assured their colleagues in 1981, and again in 1985, that 18 cents was merely a minimum "safety net" that sugar growers needed to survive, this price support level became a powerful incentive to overproduce.

During the 1981 debate, former Congressman Bowen (D-MS) stated that the 18 cents loan rate was "so far below the cost of production that there is absolutely no incentive to grow for this loan." Senator Inouye (D-HI) assured that "the sugar program will not provide incentive for increased production...." Yet by the late 1980s, domestic sugar output is up more than 1.5 million tons from the level at the beginning of the decade. This has occurred while domestic sugar consumption has steadily declined as cheaper corn sweeteners captured the market.

The day of reckoning for the sugar program has been postponed as a result of this year's drought—the worst since the "dust bowl" of the 1930s. In order to support sugarcane and sugarbeet farmers at 18 cents per pound and to prevent USDA from acquiring *any* domestic sugar, import quotas were slashed from 3 million tons to 750,000 tons over the past four years.

This precipitous decline was momentarily stopped this summer as a result of weather damage to the nation's beet crop. The Secretary of Agriculture announced a 300,000-ton increase in the overall sugar quota on July\22, 1988, which brings the import quota to 1.05 million tons. This drought-related action will, in all likelihood, be followed by another increase in permitted sugar imports on December 15, 1988, when the Secretary of Agriculture announces the quota for calendar year 1989.

Nevertheless, with a return to normal weather next year, U.S. sugar production will rebound again to record levels. The reason is simple. Government has made the growing of sugarcane and sugarbeets enormously good business. The expansion of this industry has only been slowed because there has been a great deal of uncertainty regarding the type of sugar program that will exist in the 1990s. If the Congress were to maintain current price support levels through the 1996 crop, the results would be predictable. Diversified farmers would shift more of their cropland to sugarbeets; cane farmers would look for new land to put into use; all sugar growers would look for ways to maximize their yields; domestic processors would invest in "brick and mortar" in order to increase their capacity to deal with the increasingly larger domestic crop; and coastal refineries processing only imported cane sugar would close their doors as import quotas were completely eliminated. All this will happen in response to the artificially high loan rate—not as a result of supply and demand fundamentals.

If the present 18 cents loan rate is extended, five years from now the United States could easily be producing between 8 and 9 million tons of sugar due to rising yields and expanded acreage. Yet we only consume 8.3 million tons now, and growth in demand will be sharply constrained by increasing competition from crystalline fructose, lower-priced aspartame, and a variety of new low-calorie sweeteners. As we approach the point where production equals demand, the import quota will become too small to determine prices in a 20-million ton U.S. sweetener market. It is at that point that budget outlays will begin to occur, either for loan forfeitures or for export subsidies to unload surplus sugar production.

In 1985, the so-called "no-cost" provision was inserted by the growers to increase the palatability of the sugar program to taxpayers. The sugar program was adopted with this caveat. However, as this program begins to cost money, the question of sustainability becomes a real issue.

If Congressman Tom Foley is correct in predicting that there will be approximately $10 billion for price support programs in the future, then spending a few hundred million dollars or more on the sugar program will take money directly out of the pockets of other commodity groups who will already be faced with less money to support their programs. When viewed in this light, the sugar program is clearly unsustainable unless changes are made.

The Sugar Program—Future Choices

Some sugar producers talk boldly of a return to mandatory production and marketing controls to avoid these budget intercommodity clashes. Assuming that the urban-controlled Congress and the more market-oriented Agriculture Committee Members would allow such a return to failed programs-of-the-past, is it possible for government to enforce these controls?

Market shares for different sweeteners have changed dramatically over the last 15 years and many more changes are coming. Locking in the current mix of caloric sweeteners is probably impossible. One would have to cap the expansion of the corn sweetener industry and virtually prohibit the introduction of the new low-calorie sweeteners that are looming on the horizon. Fortunately, the very unworkability of mandatory controls will doom this approach.

If the current sugar program cannot be sustained and a return to mandatory controls is not obtainable, what is the solution? A review of several key questions may serve as a useful exercise to determine what type of sugar program may be acceptable in the future.

- Does it provide a "safety net" to growers, while still working toward a balanced federal budget?
- Does it balance the needs of farm and nonfarm interests?
- Does it ensure that taxpayer or consumer dollars do not become a substitute for farm income or markets?

Fortunately, the very unworkability of mandatory controls will doom this approach.

Safety Net *versus* Budget Considerations

Like other elements of American agriculture, sugar producers need and deserve a program that provides a safety net. Unless sugar subsidy programs around the world are completely phased out during the ongoing GATT negotiations, even the harshest critics do not believe that Congress again will vote to eliminate the sugar program as it did in 1974.

However, the existing program represents an extravagant degree of protection. In fact, according to USDA statistics, we are supporting domestic sugar growers at a level that exceeds full production costs, including returns to land and capital. It is no wonder that the domestic industry is expanding output. A program designed and operated to guarantee a profit to the least efficient producer will not be acceptable to the Congress (or even other commodity interest groups) once taxpayer funds are needed to support such a program. This suggests that the sugar program can only be sustained with a lower support level.

Farm *versus* Nonfarm Interests

Nonfarm Members of Congress have endured the burgeoning federal expenditures for agriculture. But how long can they be expected to do so if a farm commodity program grossly inflates food costs or provides downside protection for farmers, but no comparable upside protection for consumers. The current sugar program has cost consumers approximately $3 billion annually, or about $15 billion over the past five years. Until this year's drought when sugar prices rose several cents above the statutory support level, sugar prices had remained somewhat stable, but at a level three to five times above world prices. Urban Members of Congress began to ask, "Who needs this kind of stability?" Again, this criticism can be muted merely by adopting a more reasonable support price.

Government Subsidies *versus* Farm Income

A study recently prepared by USDA measures the net transfer to agricultural producers from the rest of the economy as a result of government policy. These transfers can come from either the pockets of consumers or the taxpayer, or both. According to this study, over 50 percent of the revenue received by the U.S. sugar producer was attributable to the government sugar program. Moreover, that transfer from the rest of our society is provided entirely through border protection (e.g., quotas). Once sugar quotas are eliminated, this 50 percent subsidy will be borne by the U.S. taxpayer.

In 1986/87, over 70 percent of the value of sugar growers' sales were subsidized by the consumer when compared to existing world prices. This amounted to an average subsidy of $185,000 per grower. But to some, it means much more. For example, in Florida, two growers control 60 percent of the processing capacity and 64 percent of the sugarcane acreage. Specifically, these two growers accounted for production of 885,600 tons of raw sugar in 1986/87—27 percent of total U.S. cane sugar output and 13 percent of all U.S. sugar production. This meant a windfall of more than $250 million to these two growers in one year alone. Clearly, Congress did not envision this magnitude of income transfer to such large operators. This inequity can also be remedied by lowering the support level or targeting benefits to smaller-sized farmers.

Conclusion

In general, the federal deficit and the congressional budget process will drive future farm bills as they come under intense scrutiny from urban Members of Congress. Commodity groups will be pitted against one another as they compete for their share of a shrinking federal budget. This budget crunch will result in the targeting of farm benefits to those commodities and/or growers most in need of income supplement. Agricultural policymakers will favor programs that provide income by expanding, not contracting, markets.

Specifically, for sugar, this means that the current sugar program is not going to be the program of the future. Mandatory production or marketing controls are not viable options because they will never be supported by all segments of the sweetener industry. However, the solution may be found in the framework of the existing program.

The 1981 sugar program, as amended in 1985, has sown the seeds of its own destruction. The basic problem with the sugar program is that the safety net was set too high in spite of the claims by former Congressman Bowen and Senator Inouye. If allowed to continue, it will eliminate all sugar imports for the first time in the nation's history and then begin to cost excessive amounts of taxpayer dollars to support a mere 10,000 growers who represent less than 1 percent of American farmers.

The answer is to adopt a support price that (1) maintains an efficient sugar industry but does not encourage inefficient growers, (2) provides for a reasonable mix of domestic and foreign sugar, and (3) does not unduly burden either the domestic taxpayer or consumer.

If this is done, a sugar program will continue during the 1990s. If not, the Congress will reject the sugar program as it did in 1974 when it fell into disrepute with the majority of the farm and nonfarm congressional members.