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 ($2.5B/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…
    
    \[
    \frac{(2.5\text{bil} \times .5)}{17} = 73.5 \text{ million}
    \]

• $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.