Presentation of Fran Smith, CEI,
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Good morning. I'm Fran Smith at the Competitive Enterprise Institute.

We've heard how the U.S. sugar program works – a central planning scheme that allocates the domestic supply, restricts imports, and sets prices substantially higher than the world market price. We've heard how this system has led to high job losses in the sugar-using industries and the negative impact on trade.

Those are important elements in the debate.

Today my comments focus on the largest group affected – U.S. consumers. Sugar is an important ingredient in a vast array of foodstuffs. We know its importance to candy, but sugar is a critical ingredient in cereals, bread and other baked goods, canned fruits and vegetables, mayonnaise, dressings and sauces; not to mention cookies and crackers, ice cream and other frozen desserts. Sugar is also a preservative for foods, such as meats and fish – think of hams or gravlox (I use sugar, salt, and dill) – and in jellies and preserves.

Keeping the price of sugar at artificially high levels means that consumers pay more for these food products. And when food becomes less affordable, the poor suffer most. Note the regressive nature of the sugar program -- the average middle-class American family spends about only 10 percent or so of their income on food, while the poor pay a much higher proportion -- over 30 percent.

Data from a wide variety of sources show the consistent burden on consumers. Let me list some of these studies.

- The Government Accountability Office (GAO) report in 2000, for example, found that the current sugar program forced U.S. consumers to pay about $1.9 billion more for food every year.
- A later report by the OECD (Organisation for Economic Co-operation and Development) corroborated this consumer burden at a slightly lower level, about $1.4 billion.
- A newer study by Promar, using the GAO's same methodology and today's higher prices, found the consumer sugar tax skyrocketing to $4 billion a year.
- An analysis by economist Mark Perry put that cost even higher – $4.5 billion in higher sugar costs last year.
- The last study I'll point to is from the Department of Commerce. In 2006 the agency reviewed numerous studies and noted that eliminating sugar quotas and tariffs would benefit consumers, provide taxpayer savings, and have a net positive effect on U.S. employment.

Sugar program supporters argue that lower sugar costs might benefit the food and confectionery industries but wouldn't help consumers. Do these people know anything about the fierce competition in the food industry? Pennies off make a big difference.

Nor have these critics considered how lower prices would offset fluctuations in the other input costs for these products. As labor and fuel costs rise in food manufacturing, the lower cost of sugar could help offset those increased costs.

For those of you who have taken economics courses, the U.S. sugar program is a classic public choice case of concentrated benefits and dispersed costs: of how special interests can trump the public interest. A small number of sugar producers receive enormous benefits, while the costs are spread across the U.S. economy, hitting consumers and the sweetener-using industries.

It’s very encouraging that the Sugar Reform Caucus is taking the lead to reform this egregious program with pro-consumer legislation. Bills introduced in both the House and the Senate address the problems of this central planning scheme that restricts the sugar supply, fixes the price at high levels, and keeps out competition.

In these tough economic times, with high unemployment levels, consumers deserve a break from the hidden taxes of the U.S. sugar program. At CEI, we say that to help get the economy moving, one doesn’t need to teach the grass to grow. We just have to remove the rocks. The sugar program is one of those burdensome rocks that is now receiving the attention it deserves. We’re involved in the reform efforts, and I urge you to get involved too.