Lugar’s Sugar Fix

By Robert Costa

Posted on March 21, 2011 3:11 PM

Sen. Richard Lugar of Indiana, a member and former chairman of the Senate Agriculture Committee, would like to sour Big Sugar’s sweetheart deal.

Lugar tells NATIONAL REVIEW ONLINE that he will soon introduce legislation to repeal the industry’s cushy arrangement with Beltway bureaucrats and “get the government out of sugar.” His bill, he says, will attempt to axe government-mandated tariffs, quotas, subsidies, and related price-inflating mechanisms.

“I’m energized to take on the sugar program again because many more Americans understand that they personally pay the costs of government overreach,” Lugar says. “It’s time to leave Franklin Roosevelt’s farm policies behind us.”

Lugar’s FDR mention refers to the Jones-Costigan Act of 1934, which first set up a control system for cane sugar and sugar beets. But the sugar ties between Washington and producers go far beyond that. According to a Cato Institute study, “the federal government guarantees a minimum price for sugar in the domestic market by maintaining a system of preferential loan agreements, domestic marketing quotas, and import barriers.”

Here is how Cato explains the current price-support system for Big Sugar:

> To set artificially high sugar prices, the USDA operates a complex loan system. The agency makes loans to sugar processors, with processors using their sugar as collateral. In return, processors agree to pay sugar growers minimum prices set by the USDA. If the market price of sugar rises, processors sell their product on the market and pay back the loan. If the market price of sugar falls, processors are allowed to forfeit their collateral sugar to the government and not repay the loan. Alternately, they can repay their loan at a reduced rate. Either way, the effect is to guarantee minimum prices to processors and growers based on the loan rates set by the government. In addition, the federal government occasionally pays producers to discard their inventory to reduce “oversupply” on the market.

As fiscal hawks rise on Capitol Hill, the senior Indiana Republican sees ample opportunity to pass agricultural reforms and is confident that he can build a coalition behind the effort. He has been preparing his legislative roll-out, behind the scenes, for months. He wants to remind voters that they are often paying more than double the world's sugar price in order to prop up an industry that is driving jobs in the candy business and others — the Hoosier State is home to numerous manufacturers — out of the country. Frances B. Smith has pointed out on NRO that both the Government Accountability Office and the OECD estimate that the sugar program, on average, has cost consumers over $1 billion per year.

Before the 2010 midterms, Lugar predicted that agricultural subsidies would be put on the front-burner if Republicans made major gains. "Cutting sugar subsidies was an early vote I took when I came to the Senate in 1977," he recalls. "Since that time, I've authored various bills to end the sugar program and reform the entire Farm Bill subsidy system. Those bills could have saved taxpayers tens of billions of dollars, but usually I found myself nearly alone when push came to shove on voting in favor of reform."

Lugar tells us that his upcoming sugar legislation will be the first salvo in his renewed battle to reform agricultural subsidies. In many ways, the fight could be a bellwether for further agricultural reforms, since sugar remains one of the most high-profile subsidy programs.

"I still manage my family's 604-acre farm, so I know the challenges of competing," Lugar says. "But I also know that a government program expressly for the purpose of inflating prices is not the answer. Every American pays more for food because of this program, and many Indiana businesses like small bakers and confectioners are harmed as well."

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