United States Department of Agriculture

Economic Research Service

Agriculture Information Bulletin Number 664-37

May 1993

Issues for the 1990's: COMMODITY PROGRAMS

The Distribution of Direct Government Payments

Gerald Whittaker (202) 219-0801
Mary C. Ahearn (202) 219-0306

Issue. The Federal Government paid farmers $5.8 billion in direct cash payments in fiscal year 1992. Most participants receive small payments. But, a small number of producers—many of whom have relatively high net incomes—receive a large share of payments. This distribution of payments is an inevitable result of commodity programs designed to support income and control the supply of covered crops where payments are largely determined by production. Unlike 60 years ago when income support programs were initially designed, average farm operator household income is similar to that of all U.S. households and farmers have significantly higher average net worth, raising questions about the equity of commodity programs. Ways to target program benefits to reduce the share of government payments going to high-income farmers and to limit the amount of any single farmer are a continuing part of the farm policy debate.

Context. About a third of all U.S. farms receive Federal direct cash payments. Direct payments are paid under a variety of farm programs, but the bulk of payments are deficiency payments made under the commodity programs. Deficiency payments go to producers of feed grains, wheat, cotton, and rice who are eligible and choose to participate in the commodity programs. Deficiency payment amounts are based on the participating farmer's total covered production and the relationship between the higher of either the Commodity Credit Corporation (CCC) loan rate or market prices and a target price set by Federal policymakers. If the target price exceeds the market price, the producer receives a cash payment equal to the difference between the two prices times the amount of covered production. Larger farms generally have larger total production and net farm income. Because deficiency payments are based on production, large producers with high net income tend to receive larger payments than do small producers.

In 1991, half of the recipient farms received a payment of $4,400 or less; three-quarters received less than $11,484 (see figure). But the 5 percent that received the largest payments collected 31 percent of total payments made. Over 80 percent of the payments went to producers in the Lake States, Corn Belt, Delta States, and Plains.

Current law limits annual deficiency payments to a maximum of $50,000 per "person." But an individual may receive payments as three "persons"—directly, and by qualifying as, at most, two other "persons" under the statute. The maximum annual payment to an individual is $100,000. However, some other cash payments are excluded from these limitations, and several individuals (such as operator, spouse, children, partners, and others) may be involved in a single farming operation, pushing total payments to the farm well above $100,000.

Effects of farm programs extend well beyond payment recipients. Not only do farm programs provide more income to eligible participants, but, over time, this income has been capitalized into farmland values. Thus, the income and wealth of certain individuals, businesses, and farm-based communities are significantly affected by these programs. Commodity programs change the cost structure of livestock and poultry production where feed is purchased, and programs are linked in complicated ways to consumer food costs and agricultural exports. Because participation in these programs is voluntary, the effects of programs may vary due to changing participation rates.

At Stake. The current Federal budgetary pressure focuses attention on the cost and regressiveness of existing farm programs. However, there is no consensus on how to restructure the programs. Because over 16 percent of U.S. farm output is exported and many international competitors also

support their farming sectors, the effect of changes in U.S. domestic farm programs on international trade is an additional factor which must be considered. This issue affects the incomes of individuals, the capitalized value of commodity acreage bases, the economic base of communities, the Federal budget, and the operation of programs.

Alternatives. One set of options for revising commodity programs involves retaining the current program structure but excluding those producers from eligibility who are defined as "well-off." During the 1990 farm bill debates, congressional representatives and officials of the U.S. Department of Agriculture, Office of Management and Budget, and Congressional Budget Office discussed options that included limits based on farm size and a limit based on adjusted gross income as defined for tax purposes. The President's budgets for 1992 and 1993 recommended that payments be limited based on the level of off-farm income of $125,000 and $100,000 for those years. The current administration has also proposed to target payments based on off-farm income of $100,000. Another option is to preclude an individual from qualifying to receive payments as more than one person. While these options can reduce or eliminate payments to the highest income farms, it may be difficult to prevent producers from reorganizing their activities to avoid the limits.

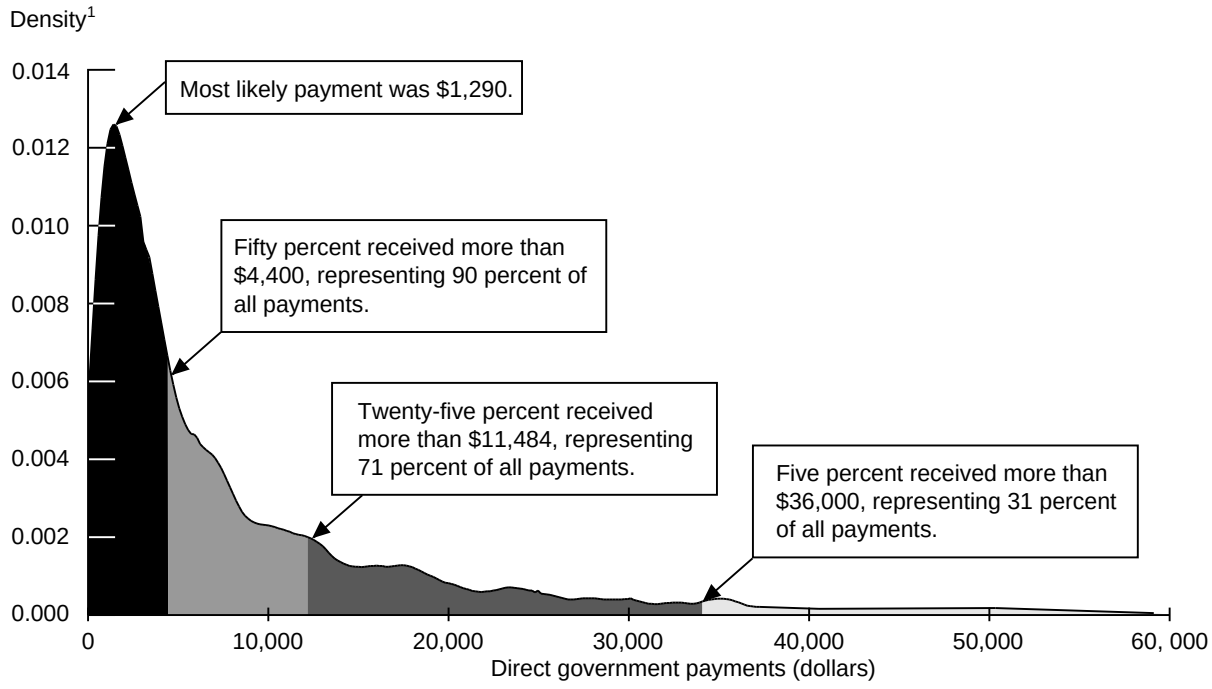
Another option builds directly on actions taken in the 1990 farm act to gradually reduce the role of commodity programs in production decisions. Such an option might reduce some combination of target prices, loan rates, and base acreage eligible for payments. This would likely lead to a reduction in participation in programs and change payment distribution, since some categories of farms would find it more profitable not to participate.

Agenda. Resolution of the international trade negotiations, public pressures to reduce the Federal budget deficit, and the upcoming farm bill debates will all lead to discussions on ways that farm programs can be changed to target payments to those most needing assistance.

Information Sources. Two U.S. Dept. of Agriculture, Economic Research Service, reports: Mary C. Ahearn and others, *The Economic Well-Being of Farm Operator Households, 1988-90*, AER-666, Jan. 1993 and Mary C. Ahearn and Janet Perry, "Change Proposed for Farm Payment Limits," *Agricultural Outlook*, Apr. 1993.

Distribution of direct government payments, by payment size, 1991

Most farms receive relatively small payments.



[1] Density describes the number of observations at a given level of payment.

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Economic Research Service

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Issues for the 1990's: COMMODITY PROGRAMS

Government Support for the U.S. Tobacco Industry

Verner Grise (202) 219-0890

Issue. The tobacco price support-production control program limits production, using quotas and allotments, and guarantees growers minimum prices. The program is mostly self-supporting in that growers and tobacco buyers pay assessments to cover Federal losses in operating the price support program. Only administrative and some other miscellaneous costs are borne by the U.S. Treasury. The primary effect of the program is that it raises prices of leaf (thus tobacco product prices) and controls production. Consumer prices are slightly higher and consumption lower than without a program. Should price supports be lowered so that U.S. tobacco becomes more competitive in world markets? Should the U.S. Government administer a Federal tobacco program that costs taxpayers even small amounts, given the strong association between tobacco use and illness? Should Federal tobacco product excise taxes be raised sharply to partially fund health care reform?

Context. Government programs influencing the supply and price of U.S. tobacco began with the Agricultural Adjustment Act (AAA) of 1933. The 1938 AAA authorized marketing quotas and the 1949 AAA authorized price supports. These acts remain as the foundation of current programs despite numerous amendments.

Several laws enacted in the 1980's substantially altered the tobacco program. Two with especially important effects on the tobacco industry continue to generate debate. The first law, the No Net Cost Tobacco Program Act of 1982, was mandated by the Agriculture and Food Act of 1981. Price support eligibility required producers (also manufacturers in later legislation) to pay assessments into a Commodity Credit Corporation account to cover program losses. This law sharply limited, but did not eliminate, government expenditures associated with the tobacco program. Net Federal Government expenditures on tobacco in recent years have ranged between $25 million and $50 million. The U.S. tobacco crop is valued at about $3 billion. The second law, the Tobacco Program Improvement Act of 1985, modified price supports and production controls. Price supports were reduced in the mid-1980's and a new formula was adopted for setting future supports and production quotas. These measures were designed to make U.S. growers more competitive in world markets. Despite the changes, U.S. price supports are rising and cigarette manufacturers are substituting cheaper foreign-grown tobacco for U.S.-grown leaf.

U.S. tobacco and tobacco products have been exported for many years. The United States has never imposed import quotas on tobacco. A successful General Agreement on Tariffs and Trade would expand exports of U.S. leaf and cigarettes by reducing subsidies and removing trade barriers in competitor countries. The domestic program would not have to be modified.

At Stake. Views conflict on whether the Federal Government should administer a tobacco program that costs taxpayers even a small sum or whether current procedures for determining price supports and production levels are appropriate. Despite small outlays and the price-enhancing, production-curtailing effect of the Federal tobacco program, some health organizations and members of Congress object to any Federal support of a commodity that has a very strong statistical association with lung cancer, heart disease, and other serious illnesses. Changes are of keen interest to health advocates because of the statistical relationship between tobacco use and poor health.

Changes in the tobacco program affect incomes of tobacco growers and input suppliers, and purchase levels and strategies of tobacco companies. Proponents of the program generally agree that 1985 program provisions worked well during the late 1980's and early 1990's. However, there is growing concern that U.S. tobacco may again be over-priced in the world market. Price supports have risen

and there has been a rapid shift in the United States to discount-brand cigarettes. This shift is causing cigarette manufacturers to shift to cheaper foreign-produced leaf and stems. This shift, coupled with growing production of improved leaf overseas and technological advances that permit the manufacture of high-quality cigarettes with less leaf, raises questions about whether the current support program should be modified. There is debate about whether U.S. price supports should be lowered or if other changes such as limiting use of imported leaf in cigarette blends should be adopted to capture a greater share for the U.S. market. There are concerns about whether new legislation should be sought given the considerable opposition to support for tobacco of any kind.

Alternatives.

(1) Continue current program. Production would likely decline gradually and size of operating units would increase. Choosing this alternative might eliminate the need for congressional debate and could block modifications such as shifting to grower and/or manufacturer payment of all Federal program administrative and other costs associated with the tobacco price support program.

(2) Modify the program by reducing price supports 25-30 cents per pound. Total production would likely increase because of increased use of lower priced leaf. Less efficient producers would quit. Quota rental rates would decline. Imports would decline and exports increase.

(3) Modify program by limiting imported leaf use in U.S. manufactured cigarettes. Total production would increase or production decreases would be curtailed depending on how much imported leaf was permitted. Imports would decline or growth would be curbed.

(4) Eliminate the tobacco program. Some U.S. growers would go out of business. U.S. production would likely expand. Land prices would decline because quota values would be lost. Leaf costs would decline and cigarette and other tobacco product prices would likely be slightly lower. Imports would fall and exports would rise. Consumer prices might decrease and consumption of tobacco products increase.

Agenda. The tobacco program, under permanent legislation, is not subject to reauthorization in the 1995 farm bill. Whether legislation will be sought by growers or opponents of the tobacco program to modify the tobacco program or to eliminate it is uncertain. Growers may seek legislation because of increasing imports and prospects for declining U.S. marketing quotas and increases in no-net-cost assessments. Despite relatively low net government outlays on tobacco, it is uncertain if opponents of the tobacco program will seek legislation. However, it is almost certain that Congress will consider bills to raise the cigarette excise tax from the present 24 cents per pack of 20.

The administration is considering proposing increases in cigarette taxes of $1-$2 per pack to help finance national health care. Proponents claim a big jump in the Federal cigarette excise tax to help finance health care costs is justified because of the strong statistical association between smoking and various diseases. Opponents argue that a big jump in cigarette excise taxes places an unfair tax burden on cigarette smokers. Also, a jump in cigarette excise taxes would reduce U.S. consumption as much as one-third and would result in loss of jobs and income throughout the Nation and especially in tobacco growing areas.

Information Sources. U.S. Dept. of Agriculture, Economic Research Service, *Tobacco Situation & Outlook Report*, various issues. *Tobacco Programs of the U.S. Department of Agriculture: Their Operation and Cost*, CRS Report for Congress, 92-480 ENR, Library of Congress, June 8, 1992.

U.S. cigarette use

Domestic cigarette consumption has declined as cigarette exports have climbed.

Year	Consumption	Exports
	Billion cigarettes	
1984	600.4	56.5
1985	594.0	58.9
1986	583.8	63.9
1987	575.0	100.2
1988	562.5	118.5
1989	540.0	141.8
1990	525.0	164.3
1991	510.0	179.2
1992[1]	498.0	205.6

[1]Preliminary.

United States Department of Agriculture

Economic Research Service

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Issues for the 1990's: COMMODITY PROGRAMS

Commodity Program Entitlements: Deficiency Payments

Sam Evans (202) 219-0840

Issue. Federal budgetary outlays for commodity income and price support programs are expected to be sharply higher in 1993. This will bring farm program spending under closer scrutiny as Congress and the executive branch look for ways to reduce the budget deficit. Deficiency payments, which compensate farmers for differences between target prices and market prices for grains and cotton, account for more than one-half of commodity program spending. A number of options to reduce outlays for deficiency payments are being suggested by policymakers. Economic implications for agriculture may differ by option.

Context. Deficiency payments are entitlements; that is, spending is determined by rules that define eligibility and govern benefit levels rather than by the annual appropriations process. USDA and Congress have no control over deficiency payment outlays once annual programs are announced. Outlays under an announced program are determined by the extent of participation in the program and the market price level.

Producers of wheat, corn and other feed grains, cotton, and rice are eligible for deficiency payments whenever the target price for the commodity exceeds the average market price during a specified time period. To be eligible for deficiency payments and other program benefits, producers must participate in any acreage reduction program (ARP) in effect for the commodity.

The deficiency payment to a producer equals the deficiency payment rate for the commodity (target price minus market price) multiplied by the farm's program production (per acre program yield for the farm times payment acres). Under current law, payment acres generally equal 85 percent of the farm's established acreage base for the crop, less any land that must be idled to comply with the ARP.

The unpredictable nature of entitlement spending is illustrated by forecasts for fiscal 1993. Commodity program outlays for 1993 were forecast at $11.7 billion by the Office of Management and Budget in early 1992; by January 1993, the forecast had risen to $17.1 billion. The increase was due in part to larger deficiency payments for corn and cotton, as market prices were lower than had been expected. Commodity program outlays in fiscal 1993 likely will be the largest since 1987 and 75 percent more than fiscal 1992 outlays.

At Stake. Farm income is affected by deficiency payments. Income from production of program crops will decline if deficiency payments are reduced. Deficiency payments are expected to exceed $9 billion in fiscal 1993, an amount equal to 30 percent of cash market receipts from grain and cotton crops. Since deficiency payments are regionally concentrated, cuts in payments can affect rural communities.

Alternatives. Government could act to reduce deficiency payments in various ways. Some actions may be done administratively; others would require legislation. Deficiency payment rates may be lowered by a legislated reduction in target prices or by administrative actions to raise market prices. Administrative actions include raising ARP requirements and price supports (loan rates) to the higher end of their allowed ranges. Higher ARP's raise market prices through cuts in production and also

reduce the amount of acres eligible for deficiency payments. Higher loan rates lower deficiency payment rates when U.S. market prices are at or near loan rate levels. However, raising loan rates above world prices would make U.S. commodities less competitive, may increase Commodity Credit Corporation outlays for marketing loans, increase the costs of export promotion programs, and lead to costly stockbuilding in the United States. Higher ARP's also would cut the U.S. export market share and increase the costs of export programs.

Acreage eligible for deficiency payments also may be reduced by legislation to expand the provision in the Omnibus Budget Reconciliation Act of 1990 that made 15 percent of each program crop acreage base ineligible for deficiency payments. This change was intended to reduce program spending and to increase producers' planting flexibility. A producer is permitted to plant any program crop or oilseed on unpaid base acreage and by doing so maintain the base for future program benefits. The 15-percent unpaid base acreage is commonly called "normal flex acres" or NFA.

Reducing deficiency payments either by cutting target prices or by increasing the NFA percentage has fewer economic side effects than other options discussed above. The effect of a percentage cut in target prices on deficiency payment rates, and thus outlays, is difficult to predict. For example, a 3-percent cut in target prices would lower the payment rate by 10 percent when the commodity market price is 70 percent of the target price, and by 30 percent when the market price is 90 percent of the target price. Because the ratio of market price to target price may vary substantially across commodities, a general reduction in target prices may be an unwieldy option for achieving a specified cut in deficiency payments.

Reducing payment acres by raising the NFA percentage may be a more straightforward method for attempting a specified cut in deficiency payments. Moreover, deficiency payments would be smaller under this option, compared with the target price option, in the event of an unexpected drop in market prices: the additional deficiency payment rate would be paid on a smaller quantity. This option would enhance market orientation of U.S. crop production as market prices would guide farmers' planting decisions on a larger acreage. However, ARP participants may shift to production of nonprogram crops on the unpaid base acres, thereby lowering prices of nonprogram crops.

From the taxpayers' standpoint, the potential for large deficiency payment outlays is present each year due to the entitlement status of the payments. This potential would exist, though to a lesser degree, even if target prices were reduced or payment acres were cut further through an increase in the NFA percentage. An unanticipated drop in market prices would raise deficiency payment rates and outlays above forecasts. Either of the options would reduce payment outlays from the level they otherwise would be, but there would be no guarantee that they would stay within budgeted amounts. This could lead to a proposal to end entitlement status and limit outlays to an appropriated level.

Agenda. The Clinton administration has proposed that the NFA percentage be increased to 25 percent beginning in 1996. This issue will be debated at both the executive and legislative levels.

Information Source. Congressional Budget Office, *Reducing the Deficit: Spending and Revenue Options*, Feb. 1992.

United States Department of Agriculture

Economic Research Service

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Issues for the 1990's: COMMODITY PROGRAMS

Acreage Reduction Programs

Sam Evans (202) 219-0840

Issue. Because government-set target prices for wheat, feed grains, rice, and cotton exceed market prices, acreage reduction programs (ARP's) are needed to limit Federal budget outlays and to prevent the buildup of surplus government stocks. However, by reducing production and raising market prices for grains and cotton, ARP's make these U.S. commodities less competitive in world markets. The tradeoff between competitiveness in global markets and limiting government exposure remains an issue.

Context. The precedent for idling acreage was set in the 1930's and was heavily used in the late 1950's, the 1960's, and sporadically in the 1970's. ARP's were authorized by the Agriculture and Food Act of 1981 to replace acreage "set-aside" programs used in the 1970's. In contrast to set-asides, ARP's allow the government to implement acreage control by idling land on a commodity-specific basis. Although participation in ARP's is voluntary, producers must participate to be eligible for program benefits, such as deficiency payments. Deficiency payments, which are based on the difference between the target price for a program crop and its average market price during a specified time period, constitute the bulk of government spending on program crops. ARP's limit deficiency payment outlays by cutting the acreage eligible for payments and the deficiency payment rate (by raising market prices).

There was little initial debate over the use of ARP's to cut production of grains and cotton. Rising target prices and high price supports under the Agriculture and Food Act of 1981 caused U.S. production of program crops to far exceed market demand. The result was massive stocks accumulation in the United States and escalating government costs.

The Food Security Act of 1985 set U.S. agriculture on a more market-oriented course. For example, price supports were reduced. This action allowed U.S. market prices to fall toward world price levels. However, this caused larger differences between target prices and domestic market prices, which intensified the need for ARP's to limit government outlays for deficiency payments.

Several developments have brought into question the regular use of ARP's to reduce production. They include the drawdown of grain stocks from the high levels of the mid-1980's and the removal from production of 23 million acres of grains and cotton base enrolled in the 10-year Conservation Reserve Program (CRP). In addition, the Omnibus Budget Reconciliation Act of 1990 (OBRA) made 15 percent of each program crop acreage base ineligible for deficiency payments. The 15-percent unpaid portion of base acres is known as "normal flex acres" or NFA. The NFA provision makes the added taxpayer costs of smaller ARP's less burdensome. These developments allowed USDA to implement smaller ARP's in recent years. As a result, cropland idled under annual programs declined from an average of 53 million acres in 1986-88 (one-fourth of the program crop base) to 19 million acres in 1992.

Increased focus on the effects of ARP's has been associated more recently with the "GATT triggers" in the 1990 OBRA. Under this provision, USDA may waive minimum ARP requirements mandated for 1993-95 crops if the United States had not entered into a General Agreement on Tariffs and Trade (GATT) agreement by June 30, 1992. Because there was no agreement by that date, the Secretary of Agriculture has additional discretionary authority in setting ARP levels.

At Stake. Program crop producers, taxpayers, and consumers are directly affected by ARP's, as effects ripple throughout the economy. The tradeoffs are illustrated by a study conducted by the Economic Research Service in early 1992. The short- to intermediate-term effects of ARP's were measured by comparing a scenario of "high ARP's" (10 percent for the grains and 15 percent for cotton) to a scenario of zero-percent ARP's for all program crop commodities.

The ERS study indicated total annual plantings of program crops could average 13-14 million acres larger during 1993-95 under zero-percent ARP's, compared with the higher ARP case. U.S. exports of grains and cotton would be larger under zero-percent ARP's, and market prices would be lower. Domestic consumers would benefit as they could buy more at lower prices, but government outlays for deficiency payments would be several billion dollars more each year.

U.S. net farm income, while greater under the zero-percent ARP case, would rise less than deficiency payments. Income from production of program crops would be larger, while income from nonprogram crops, such as soybeans, would be smaller due to lower prices. Net income from livestock production would be higher under zero-percent ARP's, mainly due to lower feed costs. Livestock production would expand slightly and meat prices would be lower. Agribusiness and local economies would benefit from higher levels of production and marketings under zero-percent ARP's.

Alternatives. The Food, Agriculture, Conservation, and Trade Act of 1990, which covers crops produced through 1995, links ARP percentage levels for a program crop commodity to its estimated ending stocks-to-use ratio for the marketing year. The stocks-to-use ratio is an indicator of surplus; generally, the larger the ratio, the higher the required ARP percentage.

Without the GATT triggers, USDA has limited discretion in setting ARP requirements under provisions of the 1990 farm law. For example, the ARP for wheat may be 10-20 percent if the estimated stocks-to-use ratio is more than 40 percent; the ARP may be 0-15 percent if the estimated ratio is 40 percent or less. The GATT triggers allow USDA to implement zero-percent ARP's during 1993-95, without regard to stocks-to-use ratios.

A focus solely on the Federal budget deficit would support setting ARP levels at the high end of the permitted range. However, some argue that the economic costs of using ARP's to limit government spending on farm programs are too high. They say that productive resources are left idle, export market share is lost, and costs of export programs are greater. Supporters of this view suggest other options for cutting farm program spending, such as an increase in the NFA percentage or a reduction in target prices.

Agenda. Without a GATT agreement, USDA has wide discretion in setting ARP levels for 1993-95 crops. The 1995 farm bill can be expected to set ARP policy for the rest of the decade. Another factor is that CRP contracts will begin to expire in 1996. Most of the enrolled program crop base could be returned to production and be eligible for deficiency payments, unless there are incentives to the contrary. Nevertheless, the case for using ARP's would weaken if one or more of the following occurs: target prices are reduced or further cuts in payment acres are made, a GATT agreement is reached with a concomitant rise in U.S. exports, research on new uses of farm products leads to an expanded acreage of alternative crops, and food safety or water quality concerns lead to a substitution of land for yield-boosting chemical inputs.

Information Source. U.S. Dept. of Agriculture, Economic Research Service, *The 1990 Farm Act and the 1990 Budget Reconciliation Act*, MP-1489, Dec. 1990.

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Issues for the 1990's: COMMODITY PROGRAMS

Government Support for the U.S. Sugar Industry

Ron Lord (202) 219-0888
Fred Gray (202) 219-0888
Bill Moore (202) 219-0085

Issue. The U.S. sugar program maintains a high domestic price by restricting supply on the domestic market with import quotas (enforced by high tariffs for imports above the quotas) and standby controls on sales of domestic sugar. This program supports sugarbeet and sugarcane grower prices through high consumer prices. Indirect benefits go to sugarbeet and cane processors, and producers of sugar substitutes. Costs and benefits of the program are often debated, particularly as farm acts expire.

Context. Many other countries also insulate their domestic sugar markets from the world market. The widespread government intervention increases the volatility of the world price and tends to cause persistently low world prices, although recent global trends in privatization and liberalization have reduced world price volatility.

The U.S. Government controlled the U.S. sugar market with domestic production quotas and import quotas under the Sugar Act from 1934 until the act expired in 1974. The 1981 farm act instituted a minimum nonrecourse loan rate for sugar, which rose from 16.75 cents a pound in 1981 to 18 cents in 1985, a level maintained in the 1985 and 1990 farm acts. Loans go to processors who in turn agree to pay minimum prices to growers of sugarbeets and sugarcane. By law, the government must try to keep sugar prices high enough so that processors do not forfeit their stocks to the Commodity Credit Corporation. Import quotas are used to limit imports to the United States in order to maintain prices at levels sufficiently high to avoid forfeitures.

To guarantee quota-holding countries a minimum market share, and to maintain supplies of raw cane sugar for domestic refiners, the 1990 act includes a provision that would allow for domestic marketing allotments (limits on the amount of domestically produced sugar that can be sold) if imports are likely to fall below 1.25 million tons. Separate allotments would be announced for the beet and cane sugar segments of the domestic industry if allotments were announced. Any shortfall could not be made up by the other segment, but would have to be given to imports.

The current Uruguay Round negotiations of the General Agreement on Tariffs and Trade (GATT), if successful, could lower the high duty (currently 16 cents a pound) by 15 percent, but it is unlikely that much over-quota sugar would be imported even at the lower level given current and likely world prices. The proposed North American Free Trade Agreement (NAFTA) would largely preserve the status quo for the first 6 years; thereafter, Mexico could gain increased access to the U.S. market.

The sweetener market in the United States is both a high-volume and high-value market, with broad participation of U.S. agriculture. Annual U.S. beet and cane sugar sales of about 9 million tons, raw value, have a value of about $4.5 billion. Corn sweetener sales of over 6 million tons have a value of over $3 billion. There are about 12,000 sugarbeet farmers in 14 States. There are about 1,000 sugarcane farmers, although over half of U.S. sugarcane is grown by large integrated processing companies that grow their own cane. Corn sweeteners currently use about 8 percent of the corn grown by the Nation's 625,000 corn farmers.

At Stake. Beneficiaries of the program include U.S. sugarbeet and sugarcane growers and processors, and producers of alternative sweeteners, mainly corn processors. Countries that import world-priced sugar also gain since the extra U.S. sweetener supply induced by the U.S. sugar program lowers U.S. import demand, which lowers the world price. Foreign producers of sugar-containing

products who can export to the United States benefit too, since their products are more competitive. Effects on the 40 quota-holding countries that receive the U.S. price (a premium above the world price) vary by country, since the higher price is offset by a smaller volume. Those who would benefit if sugar prices received less support include consumers, U.S. sweetener buyers, cane sugar refiners (whose volume would expand as imports rose), and countries exporting to the world market. Studies have estimated the U.S. consumer cost at as high as $3 billion a year. The net social cost has been estimated to range from $500 million to $1 billion.

Alternatives.

(1) Continue current program. Except for cane producers in Hawaii and beet producers in California, most producers would continue to expand, and consumption would likely continue trending up slowly. If U.S. production continues to expand, as is likely, imposition of domestic marketing allotments is possible.

(2) Lower loan rates. Lower loan rates would affect production in Hawaii and California the most. Production in other States would be more likely to be maintained or even increased, depending, of course, on how much prices declined. Consumption would rise marginally faster, in part because lower priced sugar would be more competitive with alternatives such as high fructose corn syrup.

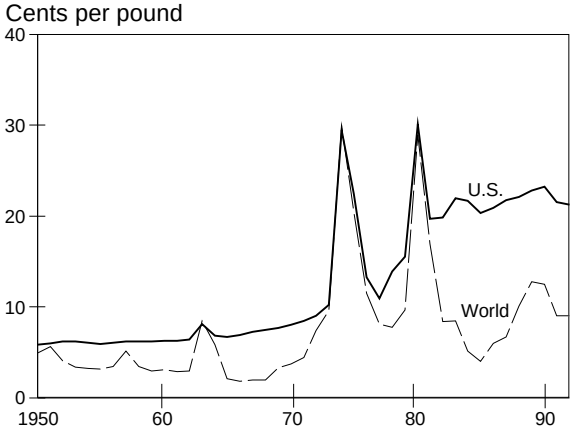
(3) Drop price supports; switch to direct income support. Under this alternative, the program could be targeted more directly to sugarbeet and sugarcane growers, and not have to involve processors as it does now. The U.S. market price for sugar would be the unsupported price, as in Canada.

(4) Eliminate the sugar program. Some U.S. producers would likely go out of business. Production would likely decline and U.S. consumers should see lower prices, but would be more dependent upon foreign producers for supplies and subject to historically more volatile world prices.

Agenda. The support program and loan rate in the 1990 farm act cover the 1991/92-1995/96 sugar crops. The tariff-rate quota system is implemented under permanent authority of the Harmonized Tariff system. We can expect the sugar program to be part of the debate when a 1995 farm act is developed. Some groups may propose legislation to eliminate the provision for domestic marketing allotments before the next farm bill.

Information Sources. Two U.S. Dept. of Agriculture, Economic Research Service, reports: *Sugar and Sweetener Situation and Outlook Report*, quarterly, and R. Barry, L. Angelo, P. Buzzanell, and F. Gray, *Sugar: Background for 1990 Farm Legislation*, AGES 9006, Feb. 1990. Also see: Library of Congress, *Sugar Policy Issues*, CRS Issue Brief, May 27, 1992.

World and U.S. raw sugar prices
Reflecting U.S. policy, U.S. sugar prices have been relatively stable since the early 1980's, whereas world prices remain more volatile.



U.S. sugar production and net imports
Growth in domestic sugar production has led to greater self-sufficiency and reduced import needs.