# Sweetening the Monopoly Pot

By PAUL PEACH

The sugar act of 1937 was signed by President Roosevelt on September 1 of that year. He made a statement at the time, to the effect that he was signing it with the tacit understanding ("gentleman's agreement") that in the future the sugar lobby would stop being so greedy. He used the expressions "monopoly" and "unholy alliance" and reminded Congress that he had a duty to the American housewife as well as to the sugar interests. In the nasty situation he found "one ray of hope"—namely, that the privileges granted in the bill would expire in 1940. He had "assurances from responsible leaders" of the Senate and House that in the future they would show more consideration for the consumer.

On October 15, 1940, he signed a bill which extended the provisions of the act for another year.

Americans use less sugar now than before the depression, but it still adds up to a hundred pounds per capita per year. According to Secretary Wallace (now Vice-President Elect) the protective devices of the 1937 sugar act are the equivalent of a tariff of $2.65 a hundredweight. From this it appears that the American sweet tooth costs each year some $600,000,000, of which half goes for sugar and the other half for—well, for something, no doubt.

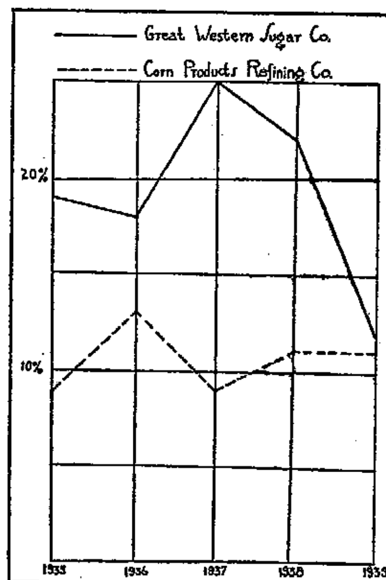
Originally this $300,000,000 sugar plum was maintained by tariffs; the Smoot-Hawley act imposed a duty of 2c a pound on Cuban sugar, 2½c on sugar from other countries. The Cuban duty was eventually lowered to nine-tenths of a cent by a trade agreement. In the meantime, world production of sugar increased so much that the price for raw sugar fell to less than a cent a pound, and at last, in March, 1937, Senator Adams of Colorado admitted that "the American sugar industry could not survive with a tariff as its only defense against the invasion of offshore sugars." In the category of offshore sugar he probably meant to include not merely that from foreign countries, but that from Puerto Rico, Hawaii and the Philippines as well. In May, 1937, an international agreement among sugar producers bound them to cut production for five years; the United States agreed to continue to buy Cuban sugar (to prevent the Cuban crop from coming into the world market and further depressing the price) and not to increase the tariff. The sugar act of 1937 followed. It established a quota system, a processing tax and bounty payments. The sugar market was divided roughly into 13 pieces: 2 to the Philippine Islands, 4 to Cuba, 3 to the western beet growers, and 4 to Louisiana, Puerto Rico, Hawaii and the Virgin Islands. Foreign sugar not Cuban was practically embargoed.

The beet sugar industry, most vitally concerned with the legislation under discussion, is pretty healthy now, because of copious transfusions; but nowhere in the world has it managed to survive without government help. In 1924 England, mindful of wartime shortages, decided to encourage its beet sugar producers. By means of a tariff and a cash subsidy which together amounted to about 8c a pound it succeeded in causing a considerable diversion to beets from other crops. The total acreage of cultivated lands, however, declined; and since in England beets are grown, not on marginal land, but on relatively high grade land, it seems probable that the total production of foodstuffs suffered. After four years, the bounties were substantially reduced. The beet industry reached a peak in 1930 and then began to decline. The cost to the British for the first ten years (the act was extended in 1934) was some $200,000,000. On the continent the industry was even more generously subsidized; it always ran well with the speedball, but couldn't even stand up without it. It reminds one a little of Dracula, the dead man who could still walk and talk as long as he could suck the blood of living people.

In the United States the immediate result of the Sugar Act and the treaty which preceded it was to confer considerable advantages upon the beet-sugar producers. Acreage increased one-fourth from 1937 to 1938, and production one-third; however, the total money value of the 1938 crop was up only 3 per cent. Earnings of the principal beet refiners took a sudden jump in 1937, but fell off in succeeding years.

It is interesting to compare the earnings of the leading beet refiner with those of another corporation of comparable character, the Corn Products Refining Co. Corn Products has been charged with monopolistic practices, but it has not been singled out for special legislative favors, and accordingly has to meet considerable competition; for example, Mazola (one of its products) competes with cottonseed oil and other shortenings. But both companies are similar in that each purchases from the farmer a harvested crop, and each converts that crop into completely refined products. The earnings of these companies for 1937 were approximately equal; but the

COMPARISON OF EARNINGS




Source: Moody's Manual.
Shows "Net Income to Surplus" as percent of total capitalization.

pampered darling of the sugar lobbyists (Great Western Sugar Co.) earned its 7½ million dollars on a total capitalization of 30 million dollars; the monopolistic ogre of the Corn Belt earned 8 millions on a total capitalization of 88 millions. That is, the sugar company's earnings were nearly three times as great (per dollar invested) as those of Corn Products.

Even with stimulants, Great Western could not maintain its position; by 1939 the gap had closed, and the earnings of the two companies were approximately equal. The differences over a five-year period are shown graphically in the figure.

The reason for all this is that the industry is an anachronism; it belongs with the horse-car and the mustache cup. Something can be said for keeping it alive in countries where a blockade might shut off foreign supplies; but it is a pity that America should still fool with this expensive, clumsy method for producing a necessity of life. In the first place, beets require far more labor in proportion to yield than most other food crops; this has led to wholesale evasions of child labor laws. The beet grower's economic status is primarily that of landlord; employment in the beet fields is seasonal, and attracts the migratory workers described in "The Grapes of Wrath."

Again, the process of extracting and refining the sugar is expensive and cumbersome, partly because the huge quantities of water used must be driven off by evaporation, partly because of the highly impure character of the juice, which necessitates repeated treatment with lime and subsequent filtration. The dried pulp is a by-product and is used for feeding cattle; it is mixed with molasses to make it palatable. Cane molasses is purchased for this purpose; beet molasses is inedible and practically useless, although it can be refined by a rather expensive process. The refineries operate only during the harvesting season—from two to four months. Cane sugar, on the other hand, is much easier to grow and to refine. It requires little cultivation, yields a relatively pure juice simply by being run through a wringer, leads to a molasses which can be eaten or converted into rum, and permits a refinery to run the year round.

The largest producer in America is the Great Western Sugar Co. which operates 22 factories (one a molasses refinery) and owns a small railroad, farm lands, and limestone deposits. It employs some 7,500 men during the season or "campaign." Next in importance is the American Crystal Sugar Co., with 10 mills, employing about 4,000. American Crystal owns 33,000 acres of farm land, operates the Ventura County Railway Co. (California) and controls water and irrigation rights; of fixed assets totaling $15,000,000 the land and water rights are estimated as one third. It also sells beet seed to the growers. These two companies are presumably competitors, but the name of Boettcher appears in the roster of officers and directors of each. Of course, in view of the restrictive provisions of the sugar act it is idle to talk about competition.

The beneficiaries of the act are, of course, the refiners and planters, who are granted a partial monopoly of the American market. Despite all this, the price of sugar began to fall early this year, possibly in anticipation of the imminent expiration of the law. The price of spot raw sugar hit a record low in midsummer, and the clamor for an extension of the life of the act became pretty loud. As we have seen, the demand was granted; sugar has now gone up slightly in price. Incorrigible optimists are advised to console themselves with the President's reflection of three years ago: it's only a temporary measure.

In feudal times, disputes were sometimes settled to the satisfaction of the king, the clergy, and the nobles. Anyone suggesting that such a settlement might not be satisfactory to the common people would have been thought a lunatic. In the light of this historical reminiscence it is hard to avoid cynicism as we read an editorial which appeared on July 23, 1937, in the Philadelphia Record. The editor admits that the sugar bill "isn't a perfect bill" but he recommends that it be passed without delay because it "satisfies beet sugar interests, American cane sugar interests, Cuban interests, and our eastern refineries." Perhaps it is naive to expect consideration for the consumer's interests. But if it is, then the crowning naiveté was that of President Roosevelt when he expressed the hope, on September 1, 1937, that if monopoly were given just a little more privilege it might be willing to behave itself.

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