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## Sugar in Puerto Rico

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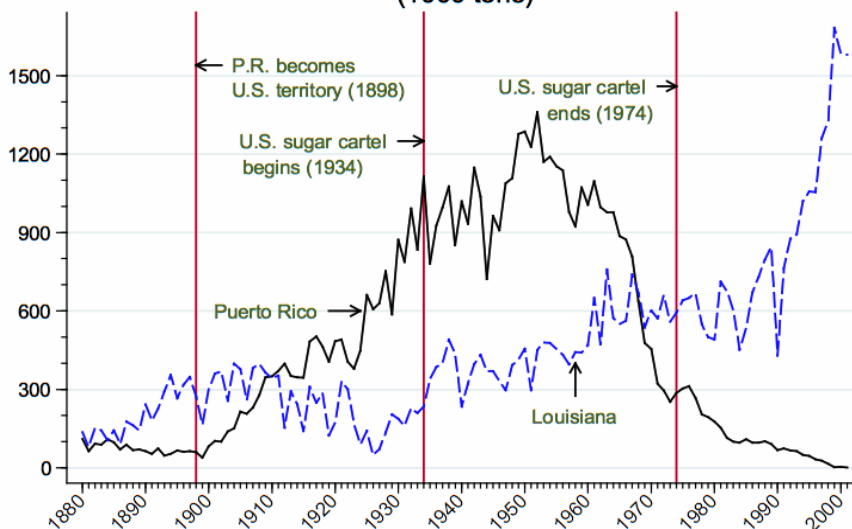
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My class is fascinated with the US sugar industry. Perhaps I went overboard with the examples, but it's good value. And I just stumbled across another case: Jim Schmitz and others have a nice paper on the demise of the Puerto Rican sugar industry. It's a great example of productivity-killing institutions run amok.

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While we're on the topic of the US sugar industry, there's an interesting example of government policies that destroyed an important part of the industry, rather than providing it with lavish subsidies. The case is the Puerto Rican sugar industry, which in the 1950s was about 3 times larger than the Louisiana sugar industry. The industry in Louisiana has grown by a factor of 5 since then, whereas the industry has completely shut down in Puerto Rico.

**Figure1**  
**Sugar production in Puerto Rico and Louisiana**  
(1000 tons)



Was this also the consequence of a US federal government sugar program? Apparently not! The local Puerto Rican government seems to be the culprit. Through systematically destroying incentives for efficiency in the industry (eg, restricting the size of farms, restricting the mechanization of sugar farming, and by favoring unions in industrial relations laws), they have destroyed a comparative advantage, especially given the price supports in the US, and in the process destroyed the jobs, income, and prosperity that such a comparative advantage could have afforded them.

If you're interested, this paper "What Ever Happened to the Puerto Rican Sugar Manufacturing Industry?" from the Minneapolis Fed has the details.