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To Market, To Market To Analyze Farming Subsidies

Laura Lee Hoyt, University of Texas at Tyler

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Introduction

What are farm subsidies?

Farm subsidies are monetary distributions from the USDA to farmers and farm-owners in the U.S. intended to support the agricultural industry.

Who receives farm subsidies?

In the 1930s, at the inception of US farm subsidies, subsidies were distributed among 25% of the country's population, who lived on 6 million small farms. Nowadays, those subsidies are directed to 2% of the U.S. population who live on farms, with 10% of those people receiving 17% of the subsidies.

Methodology

This study was conducted as a comparative analysis of expert testimony.

Social Relevance

• The U.S. pays approximately $20 billion to farmers in direct subsidies per year.

•These subsidies pre-date the Great Depression.

•In the 1930s, 25% of the country's population resided in the nation's 6 million small farms. In 1997, 157,000 large farms contribute 72% of farm sales, with only 2% of the U.S. population residing on farms.

• From 2003-2005, the top 1% of beneficiaries received 17% of subsidy payments.

•Farm subsidies have cost an estimated $256 billion since 1995

Research Questions

•What are the underlying economic concepts involved in farming subsidies?

•Do these concepts support or undermine the implementation of farming subsidies?

Findings

1. **Market Economy**- Crops do not lend themselves to a monopolistic market because of the lack of differentiation. Thus farming is much more regulated by supply and demand, when unsubsidized, than other industries.

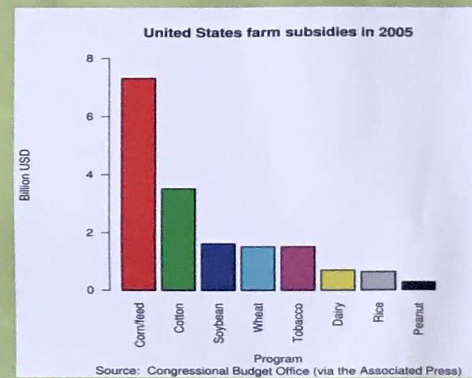
2. **Subsidy**- Government expenditures in an effort to support businesses or individuals. Shifts the supply curve to the right by reducing the price of a good and encouraging consumption.

3. **Positive Externality**- "Spillover" benefits affecting a party that did not intentionally incur the benefit (e.g. vaccines and education).

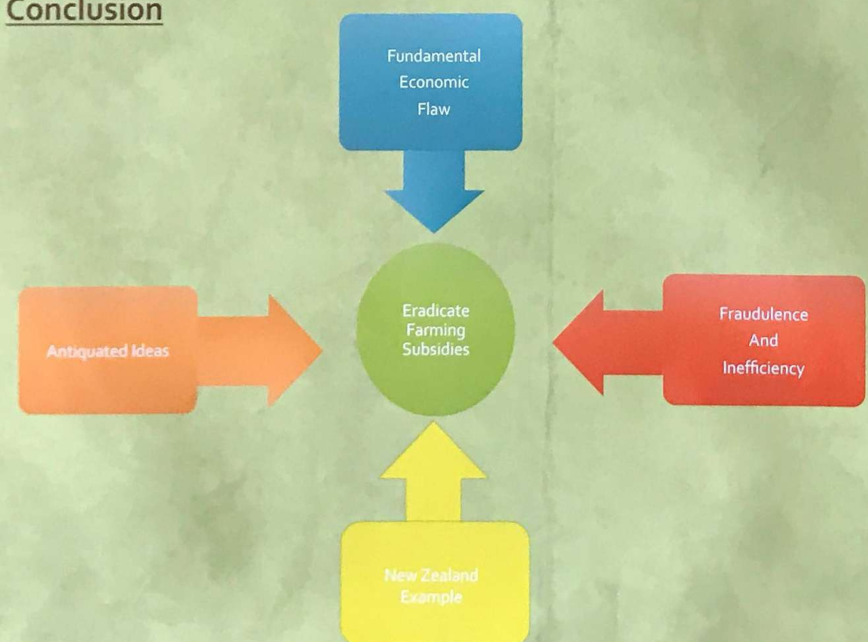
4. **Market Failure**-In the case of positive externalities, a failure of perfect competition is that supply and demand only accounts for benefits incurred individually. Thus, Supply/Demand does not set a justified price for products with positive externalities.

5. **Negative Externality**- "Spillover" cost or harm which affects more people than the one who initiates the cost. Pollution is an example because it creates harmful societal and environmental effects

6. **Price Floor**- A government-imposed cost for a product which sits above market-determined equilibrium. Price floors are issued in an attempt to increase the incomes of those selling the products.



Conclusion



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