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SUBSIDIES IN THE AMERICAN ECONOMY

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The existence of subsidies is widely known, but their intent, use, or function is little understood. Farm subsidies have been widely publicized and criticized. Little is known or said by most people about hundreds of nonfarm subsidies which have operated to the advantage of individuals or business units for many years. Subsidies are so confusing probably because of several reasons.

First, the possible kinds are many. They may be proposed for or by consumers, producers, marketing agencies, the professions, or any combination of these or any segment of one or more of them.

Second, subsidies may be made available for a wide variety of purposes—to stimulate consumption, to stimulate production, to expand transportation, to encourage foreign trade, to encourage domestic industrial development, to make price controls effective, to reduce inequalities of income, to protect those disadvantaged by war, to stabilize the economy, to prevent inflation, to encourage risk taking, to protect industries basic to the general welfare, to redistribute income, to care for the needy, and others.

Third, the subsidy question is further complicated by a mixture of economic, political, moral, and social considerations.

Thus, we have a most complex and confusing situation. The public is “bombarded” with all sorts of statements—both true and false, both pro and con. In addition, the opinions of well-informed people differ greatly.

HISTORY OF SUBSIDIES

Subsidies are not new. They have often been called by some other name, but we have had many of them, both large and small. They have frequently been used under circumstances where the free market would not support the recipient without the subsidy. People who are unable to work or unable to find employment are paid subsidies, called relief or welfare payments. Subsidies have been paid to encourage the early development of the railroads, airlines, and for all types of water transportation. Subsidies helped to increase circulation of magazines and newspapers and to attract capital into enterprises involving more than usual risk. All of these businesses and hundreds more not cited either were not self-supporting or would not develop as rapidly as society wished without the subsidy. Many, if not all, still get subsidies, direct or indirect.

The subsidy is the oldest economic concept written into the laws of the United States. When the First Congress convened in 1789, one of its acts was to pass a tariff law. One objective was to protect and promote industrial development, and another was to raise revenue for the government. This legislation also established a special subsidy mechanism to encourage the development of an American merchant fleet. It stipulated that custom duties on goods imported into the United States on American vessels would be reduced 10 percent. In addition, a tonnage tax was imposed in favor of American shipping. This subsidy helped to build the maritime power of the new, struggling nation.

Private canal companies received substantial direct subsidies in the form of land grants from 1827 to 1866. Estimates are that government grants totaled 6.3 million acres or an area about the size of Maryland. The same group received other subsidies in the form of direct appropriations and loans. The objectives were to develop and expand markets for both agricultural and industrial goods and to develop the transportation system to encourage the settlement and growth of the country.

Railroad construction was subsidized by land grants between 1850 and 1871. During this period railroads received about 183 million acres, or an area larger than Texas.

The first mail subsidy was paid in 1845. Many millions of dollars have been spent for ocean and air mail subsidies. Objectives included the development of the transportation system and wider circulation of reading materials.

From these early beginnings subsidies of a direct or indirect nature have developed until their impact is felt by virtually all elements in our economic structure. Subsidies of a direct nature are included in the Bureau of the Budget's "Current Expenses for Aids and Special Services," which shows payments to agriculture, business, labor, home owners and tenants, veterans, international assistance, and general aids.

In addition, indirect subsidies provide for tariffs, public housing, rights to radio and television channels, and many other needs.

WHAT IS A SUBSIDY?

We have no officially recognized definition or unanimous or uniform agreement on what constitutes a subsidy. The definitions are probably as numerous as the people talking about subsidies. Understanding of the term "subsidy" is hampered by the reluctance of many beneficiaries to call them by their true name. Possibly many critics are benefiting from some type of subsidy called by some other name.

Definition of a Subsidy

The Bureau of the Budget avoids the use of the term “subsidy” whenever possible. The Budget of the United States Government in the section called “Current Expenses for Aids and Special Services” refers to financial aid or assistance given by the federal government to private individuals or organizations. This avoids the word “subsidy” but indicates that many people are recipients of government funds.

For this discussion we are defining a subsidy as *any device whereby some individual, groups, or business units receive government funds or benefits from government actions over and above the exchange value of goods supplied or services rendered.*

Many governmental operations are not necessarily or basically subsidies since they produce goods or services for society. If these goods or services were produced by individuals or corporations, we would refer to them as business activities. Government—federal, state, and local—performs many services for all of society, such as education, police protection, fire protection, and national defense. All the people as taxpayers pay a share of the costs, and all presumably share, perhaps unequally, in the benefits from these types of government action. These normal functions of government are excluded in our definitions of “subsidy.”

Features of a Subsidy

Any subsidy under this definition has two essential features. The first feature is that *government has to be involved*. Government action or legislation may involve the collection, appropriation, and distribution of taxpayers’ funds to certain individuals, groups, or business units. The money for the direct subsidy may come out of current taxes, government savings, or additions to the government debt. Regardless of the government source of funds, its status as a subsidy is the same.

In another type of action government legislation may provide goods and services below the cost of operation, grant protection or privileges which give special advantages to some individuals, groups, or business units. This type of action may provide indirect subsidies or benefits to only some segments of the economy. This type of action either reduces the costs of operation or increases the profits of the beneficiaries. If such government activities were eliminated, those benefited either would have to reduce profits or wages or charge more for their product.

The second feature of a subsidy is that *income must be redistributed*. This is due to the lack of an economic “horn of plenty” from which we can draw the funds for subsidies. The cost must be borne by some-

one. If the costs were borne by the recipients in proportion to the benefits no redistribution would be involved, nor would this be a subsidy.

ALTERNATIVE METHODS OF GRANTING SUBSIDIES

Subsidies can be made available to various segments of the economy in several ways. These are as follows:

Direct Payment

A direct payment by government of taxpayers' funds can be made to individuals, producers, or distributors. Examples are veterans' bonuses, relief payments to the needy, wartime food subsidies, etc.

Purchase and Sale

The government can purchase all or a part of the output of the product to be subsidized and then give or sell it back to the industry or to consumers at a lower price than was paid. The loss from this type of transaction constitutes the subsidy. The Commodity Credit Corporation operations are an example of this method.

Operation at a Loss

When the government provides a service at a loss, we have another form of subsidy. The postal deficit is an example. This service reduces the expenses of publishers and advertisers, or provides reading material to consumers at costs lower than otherwise would have prevailed. No government funds are made available directly to individuals or business units, but many groups benefit indirectly.

Granting Protection or Privileges

Government legislation has provided certain privileges and protection (the tariff would be one illustration) for some groups. This is an indirect subsidy which provides immunity from some laws, or protects some industries from the effects of competition.

WHO GETS SUBSIDIES AND WHAT ARE SOME OF THE COSTS?

The subsidy question today is thrust before the public by "arguments" over farm price-support legislation. This legislation providing direct government payments to farmers is a relative newcomer at the subsidy "table" since this type of legislation was put into effect in an important manner only in 1933 with the passage of the Agricultural Adjustment Act. Legislative attempts were made previously to improve farm income, but they were either vetoed or short lived. We should recognize that price supports were not the first subsidy to agri-

culture. We might cite as an indirect subsidy the Homestead Act of 1862 which distributed land to farm people below market price.

People generally do not like to hear the word subsidy. This is partly because it is sometimes used in a derogatory manner. Some city residents and businesses believe only the farm group has received substantial aid from the government.

The question arises, then, regarding whether any group except agriculture is being subsidized today. To help answer this question we need only look at the Budget of the United States Government and examine the portion entitled "Current Expenses for Aids and Special Services."

This section includes direct government payments and some of the indirect subsidies like operational expenditures in excess of receipts. This section is a net operational table—not the total expenditures. Frequently discussions of subsidies deal with expenditures without considering the receipts from many operations. This operational table does not, however, include all assistance or subsidies given these groups by federal government actions. The Budget says, ". . . benefits accrue to various groups through tax provisions and other non-expenditure aids which are not included in this analysis."

Expenditures that yield benefits to all society over a period of time are considered an investment rather than a subsidy. This investment includes the physical assets and broad development programs. It includes such expenditure items as research and development, education, and health, and additions to state and local assets. Also, excluded as subsidies are administrative and other costs connected with defense, foreign affairs, law enforcement, tax collection, interest payments on debt, and other normal functions of government.

Some expenditures yield only immediate benefits to specific economic groups. They are included in "Current Expenses for Aids and Special Services," and some are considered subsidies in this analysis. This section contains the administrative and other operating expenses as well as maintenance costs of physical assets and other current expenditures which primarily provide aids or special services to one or more specific economic groups. Veterans' payments and international aids are not considered subsidies in this analysis.

The amounts reported by the Bureau of the Budget in this section reveal some interesting facts. An analysis of the ten fiscal years 1950

to 1959 shows that many benefited to a greater extent than agriculture, and that many segments of our population get a small piece of the pie.

During the 1950-59 period, we find that agriculture received (in unadjusted dollars) about 15.8 billion dollars, business 8.9 billion dollars, labor 2.8 billion dollars, veterans 46.7 billion dollars, and general aids 17.8 billion dollars in subsidies. Dollars are discussed in this report only in terms of unadjusted dollars. One large group of people aided by government is currently paying more into the Treasury than they receive. This group includes the home owners and tenants who have a "surplus" of about 923 million dollars in the ten-year period under study.

TABLE I. CURRENT EXPENSES FOR AIDS AND SPECIAL SERVICES
FOR FISCAL YEARS 1950-1959

Year	Agri- culture	Business	Home Owners and Tenants		Veterans	General Aids ¹	Total
			Labor				
<i>Millions</i>							
1959 ²	\$ 3,016	\$ 602	\$ 353	\$— 17 ³	\$ 4,878	\$ 3,629	\$12,461
1958 ²	3,478	1,264	344	— 19	4,897	2,043	12,007
1957	3,564	1,012	333	— 54	4,679	1,763	11,297
1956	1,846	1,066	412	— 89	4,673	1,640	9,548
1955	1,074	757	269	—105	4,375	1,608	7,978
1954	540	648	216	—116	4,185	1,646	7,120
1953	305	934	215	—123	4,178	1,506	7,015
1952	463	1,041	200	—129	4,710	1,364	7,649
1951	905	809	197	—160	4,515	1,327	7,593
1950	601	789	228	—111	5,583	1,264	8,354
Total	\$15,792	\$8,922	\$2,767	\$—923	\$46,673	\$17,791	\$91,022

¹Includes aid for those on relief, aged, blind, disabled, dependent children, school lunch, hospital and medical care along with aids to Indians.

²Estimate.

³A minus (—) sign indicates receipts in excess of expenditures.

SOURCE: The Budget of the United States Government, Fiscal Years 1950-1959.

Total subsidies in the ten-year period have amounted to over 91 billion dollars. Using as a base the average civilian population for the same ten-year period, we find the total net expenditures in the form of subsidies to be \$564.86 per capita or \$56.49 annually for each man, woman, and child.

For the ten-year period the per capita costs or taxpayers' funds distributed to two major groups exceed those for agriculture while three major groups have costs below agricultural subsidies. The breakdown of per capita costs or the necessary taxes for some of the categories in the budget's "Current Expenses for Aids and Special Services" for the ten-year period can be seen in the following table.

TABLE 2. AVERAGE COST PER CAPITA OF SUBSIDIES FOR SIX GROUPS, 1950-59

Group	Cost per Capita 1950-59
Agriculture	\$98.00
Business	55.37
Labor	17.17
Home owners and tenants	-5.73 ¹
Veterans	289.64
General aids	110.41
Total	\$564.86

¹A minus (—) sign indicates receipts in excess of expenditures.

SOURCE: Table 1 and July 1 annual population from Current Population Reports.

Another way to look at the federal budget expenditures from 1950 through 1959 is to examine the average amount received from government by each unit in the group. We find that each farm, on the average, has received \$309.65—the highest per unit subsidy. Of course, many farmers have received none, or very little, while others have received many times this amount. The same would be true within each of the other groups. The estimated average amount received in direct aids by various groups is shown in Table 3. Farms and businesses in the table may represent several citizens while the wage and salary workers and the veterans are individual citizens.

TABLE 3. ESTIMATED AVERAGE SUBSIDY RECEIVED PER UNIT FOR THE TEN-YEAR PERIOD, 1950-59

Group	Average Number of Units	Average Subsidy Received per Unit
	<i>Millions</i>	
Farms	5.1	\$309.65
Businesses	4.2	212.43
Wage and salary workers, excluding government	42.2	65.57
Veterans	20.7	225.47

SOURCE: Table 1, Statistical Abstract and USDA Statistical Bulletin 246.

EVALUATION OF SUBSIDIES

An individual attempting to evaluate subsidies must first consider the objectives of the program. The objective can vary with each program. It may be to increase production of certain goods or services that society feels are desirable for the general welfare or it may be to improve incomes of certain groups, or it may be to help the needy.

Once the program objective is clarified then some evaluation can be made. Such questions as these and possibly others need to be answered:

1. How well does the program meet its objective?
2. What are the benefits of the program?
3. What are the effects on consumers' prices and taxes?
4. Does the program objective agree with the individual objectives?

Many people can be found on both sides of the subsidy question. Views are often influenced by the particular position of the individual or by his particular objectives. Some of the major arguments or reasons both for and against subsidies are summarized below:

For Subsidies

1. Payment of direct subsidies or indirect action can stimulate production of commodities without raising the price level.
2. Subsidies can raise income to producers or influence consumption without raising the distributor's margin.
3. Subsidies can be useful in attaining socially accepted goals, i.e., care of needy, or economic stability, or any goal society deems desirable as national policy.
4. Resource adjustment can be encouraged and accelerated.
5. A redistribution of income is encouraged which equalizes purchasing power.
6. In a rapid inflationary period when prices and wages are rising, subsidies may save the government and consumers a great deal more than the cost to taxpayers by curtailing the rise in prices.

Against Subsidies

1. Subsidies could delay resource adjustment which created the demand for the original subsidy.
2. They encourage government rules and regulations which suppress a certain amount of freedom.
3. Taxes must be collected by government to pay for them or they must be added to the national debt.
4. Additional government personnel may be required to administer the subsidy program.
5. Subsidies once established create a precedent and bring demands for more subsidies.
6. Their use as a mechanism to influence allocation of resources substitutes a government bureau for a market.

Note that most of the above pro and con statements are related to someone's objective.

Some Safeguards in the Use of Subsidies

Subsidies have been utilized to a moderate extent in the United States. Some recommended safeguards in their use are probably in order. In this regard, Jules Bachman in an article, "The Lessons of Wartime Experiences," said:

The real danger lies in the abuse of subsidies rather than in their limited use. Unless the conditions under which subsidies can be paid are carefully restricted politically, the path of least resistance could easily become accessions to demand . . . through subsequent subsidy programs. To some extent this has happened with farm products. . . . Safeguards can be established to prevent abuses. Whenever subsidies are used, certain safeguards can and should be adopted. These include: (1) restriction of subsidies to essential products; (2) adoption of all possible steps to reduce costs; (3) profits of recipients should not be excessive; (4) price adjustments at other stages of production or distribution should be adopted instead of subsidy payments if at all possible; (5) provision for their termination as soon as conditions make this possible.¹

CONCLUSION

Most subsidies were established to serve a useful purpose. Some have outlived their usefulness. Some subsidy devices and arrangements have been abused. Many of them have served a socially accepted function. The effects of subsidies permeate our society, and few segments of our economy are completely unaffected by them.

In view of the diversity of these subsidy programs, either condemnation or praise of federal subsidies as such is unrealistic. Each particular program which contains an element of subsidy must be judged independently, taking into account the economic, political, moral, and social conditions prevailing at the time.

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