UNIVERSITY OF MINNESOTA

Department of APPLIED ECONOMICS

Agricultural and Applied Economics Seminar

Agricultural Subsidy Incidence: Evidence from Commodity Favoritism

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12:00 – 1:30 pm

119 Ruttan Hall

We use county-level data in the United States to estimate the incidence of direct payments on cash rental rates. Direct payments were fixed subsidies not tied to price or production—thus, standard theory suggests direct payments should be fully reflected in rents. Our econometric model exploits variability in direct payments due to variation in the proportion of cropland with cotton or rice base acres while controlling for expected market returns. Cotton and rice base acres received substantially larger direct payments, arguably because cotton and rice—historically produced in the South—are politically favored compared to commodities produced in other regions. Estimates from two-stage least squares indicate that roughly $0.81 of every dollar of direct payments accrues to landlords through higher rental rates in the long run. We also construct revised standard errors that account for potential violations of the exclusion restriction. Most previous literature exploits changes in subsidies over time or differences in subsidies across areas producing the same set of commodities. Our estimate of the incidence of direct payments on rental rates is larger than most previous literature because we exploit large, persistent differences in subsidies.