

While agricultural subsidies may seem large, fossil fuel subsidies are gargantuan

We were recently struck by a paper that was referenced in a recent column by Nobel Prize Economist Paul Krugman (<https://tinyurl.com/rurbkde>) that discussed the subsidies that we directly and indirectly pay to the fossil fuel industry. The IMF Working Paper, “Global Fossil Fuels Subsidies Remain Large: An Update Based on Country-Level Estimates” by David Coady, Ian Parry, Nghia-Piotr Le, and Baoping Shang (<https://tinyurl.com/y2ccas4d>) “updates estimates of fossil fuel subsidies, defined as fuel consumption times the gap between existing and efficient prices (i.e., prices warranted by supply costs, environmental costs, and revenue considerations), for 191 countries.” For the US, alone, the subsidy was estimated to be in the range of \$649 billion per year.

We were intrigued by the calculation of such a large subsidy for the fossil fuel industry because one of the charges that is laid against the farm program is that it subsidizes farmers while other industries have to stand on their own and compete in the free market. As it turns out, like a lot of other things in life, it’s a little more complicated than that.

The subsidies that Coady et.al. are talking about are unpaid environmental and health costs above the price that result from the use of fossil fuels. According to the International Monetary Fund (IMF) authors, “by [subsidy] component, underpricing for local air pollution is still the largest source (48 percent in 2015), while that for global warming is similar to earlier estimates (24 percent), followed by broader environmental costs of road fuels (15 percent), undercharging for general consumption taxes (7 percent) and for supply costs (7 percent).”

Though some readers may disagree with the accuracy of the calculations, even allowing for a margin of error, the extent of the fossil fuel subsidies society pays certainly remain large. In addition, US fossil fuel industries receive a variety of tax preferences.

But we need not stop with the fossil fuel industry. Many other industries receive subsidies in various forms from the extension of the copyright period (the co-called Mickey Mouse Protection Act), to patents to tax increment financing that induces businesses to relocate or expand in a particular area. In the agricultural input industries, lax enforcement of antitrust laws have allowed consolidation to the point that the remaining oligopolistic firms can charge higher prices for the seeds and chemicals farmers purchase. When farmers go to sell their production, they face a similarly restricted market as the result of consolidation.

The point here is not to argue about the details of the subsidies enjoyed by each industry, but to make the point that agriculture is not alone in seeking governmental support. One thing that makes governmental support of agriculture more visible is that the federally appropriated portion of agricultural subsidies (which by definition, we should caution, does not include agriculture’s unpaid societal environmental costs) come up for a very public vote every four or five years, while many business subsidies can continue unchallenged for decades at a time.

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