MERCATUS CENTER
George Mason University
Bridging the gap between academic ideas and real-world problems

RESEARCH SUMMARY

THE EVOLVING ROLE OF THE USDA IN THE FOOD AND AGRICULTURAL ECONOMY

Since its inception more than a century and a half ago, the US Department of Agriculture (USDA) has experienced enormous growth in both size and complexity—as has the industry it seeks to serve. Today the USDA is among the largest federal employers and its 2014 budget exceeded $160 billion. Its spectrum of activities span from the protection of rural farm interests to urban food assistance. Consequently, the department is the target of a wide range of interest groups besides farmers, including food assistance advocates and advocacy groups interested in issues such as obesity, animal welfare, food safety, the environment, and more. The disparate agendas of these groups make it difficult for Congress to assemble a unified policy package each time USDA's programs are due for reauthorization. The latest reauthorization, the Agricultural Act of 2014, was signed into law two years late in February 2015.

In a new study for the Mercatus Center at George Mason University, economist Jayson L. Lusk documents the changes in American agriculture since the USDA's inception and the expansion of the department's mission. Much of the USDA's regulation is outdated, wasteful, and conflicting.

To read the entire study and learn more about its author, please see "The Evolving Role of the USDA in the Food and Agricultural Economy."

CHANGING INDUSTRY, CHANGING DEPARTMENT

American Farming Has Changed Drastically since 1862

- In 1900, 40 percent of Americans worked on farms. Today, a mere 1 percent do.
- Despite massive growth in output, agriculture accounts for less than 1 percent of US GDP today.
- Whereas farm households previously earned less than the average US household, today they earn over $20,000 more than the average household and have nearly triple the average household's net worth.

For more information, contact
Camille Walsh, 703-993-4895, cwalsh@mercatus.gmu.edu
Mercatus Center at George Mason University
3434 Washington Boulevard, 4th Floor, Arlington, VA 22201

- Farm households today are more financially diversified than in the past and depend on agriculture for less than a quarter of their income.

The USDA’s Responsibilities Have Also Changed Drastically since 1862

- When the USDA was established in 1862, its stated mission was to collect foreign seeds and distribute them to farmers.
- In 1906, Congress passed laws requiring the inspection of meat, poultry, and eggs, and the USDA was tasked with enforcing food safety.
- During the Great Depression, the USDA mandated price floors and bought surplus crops. This unintentionally encouraged overproduction, lowering food prices, and the USDA quickly exhausted its $500 million budget.
- As part of the New Deal, farmers were given subsidies for not planting crops.
- Under Lyndon B. Johnson’s administration, the USDA began to oversee food stamp and commodity distribution programs, and a large increase in spending ensued.

The USDA’s Outdated Farm Policies Continue to Affect Production

In the United States fewer, larger farms now produce more with less labor than in the past, and farmers are in better financial standing relative to other workers, but USDA farm policy continues to subsidize farmers—often via programs tied to Depression-era polices. For example, it was only in 2015 that the Supreme Court struck down an order from the 1940s regarding raisin marketing, which Justice Elena Kagan described as “the world’s most outdated law.”

THE USDA TODAY

Much of current USDA spending goes toward farm subsidies and food assistance programs such as the Supplemental Nutrition Assistance Program (SNAP).

Farm subsidies can have unintended effects:

- Offering an agricultural subsidy creates an incentive to produce more. In the case of farming, much of the benefit from subsidies is captured by landowners or holders of seed patents rather than by small farmers. The overall result is an inefficient use of resources.
- Research suggests that subsidies actually harm some farmers and consumers. By encouraging the production of commodity crops, subsidies reduce fruit and vegetable production, leading to higher prices for consumers.

Early food assistance programs were designed to alleviate farm surpluses, but there is little evidence that child nutrition, school lunch, or food stamp programs actually increase farm prices:

- It is estimated that for every dollar spent on SNAP, farmers benefit by less than one cent.
- However, research suggests that SNAP spending does reduce food insecurity.

ECONOMIC CONSIDERATIONS

Much of the USDA's activity is justified by the claim that it corrects market failures and ensures that markets remain competitive and do not create unnecessary costs. In fact, most USDA activities have little to do with addressing "unfair" competition. In cases where unfair competition does exist, there are already a variety of federal laws under which victims can sue for redress.

- *USDA farm policies sometimes reduce competition in the market*. A number of USDA actions, such as marketing orders (regulations), actually seek to promote market power and reduce competition. Some marketing orders allow commodity organizations (essentially trade associations) to control supply, which raises prices and harms consumers. Also, agricultural cooperatives are exempt from antitrust law, even though they coordinate business activities in a way that can reduce competition.

- *As public choice theory predicts, farm policy is influenced by political interests*. The costs of agricultural subsidies are diffused and go unnoticed by taxpayers, but the payouts are concentrated on a smaller, better-organized group of farmers who can lobby for redistributive policies. Research has found that legislators who receive donations from pro-farm groups tend to vote in favor of such redistributive policies.

CONCLUSION

The size, budget, and responsibilities of the USDA have grown tremendously since its inception. The department today takes on an array of varied and often conflicting tasks. Research suggests that much of the agricultural regulatory apparatus has become outdated as the industry has evolved radically over time. This situation presents opportunities to reform the USDA in order to meet today's challenges.