

Harold G. Halcrow

**ECONOMICS OF  
AGRICULTURE**



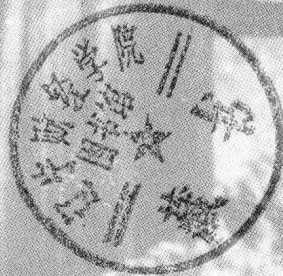


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# ECONOMICS OF AGRICULTURE

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## **ECONOMICS OF AGRICULTURE**

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# PREFACE

*Economics of Agriculture* is a text for a foundation course applying principles of economics to agricultural production, marketing, and public policy. It begins with the basic concepts of economics and agriculture, develops a broad view of the central economic problems of agriculture, and applies the concepts and principles to show how these problems are solved. There are no prerequisites at the college or university level.

This book presents a basic outline for studying the economic organization of agriculture. It is an introduction to more advanced courses in agricultural economics and may also be used by agricultural students in the physical and biological sciences who require an understanding of the major economic problems of agriculture. Others may wish to read it to supplement their study of economics, sociology, and other social sciences.

A general hypothesis underlying *Economics of Agriculture* is that efficient learning requires orderly loss of unnecessary information. The study emphasizes definitions and the generalizations of economic theory, using only enough detail from the real world to illustrate the given point. The objective is to build a broad, imaginative vision of reality, and to begin to teach the rigor of economic analysis that applies.

The economics of agriculture is a broad and expanding subject that should be of interest to people almost everywhere. The great advances in agricultural production and trade have been nearly matched by growth of the world's population. The greatly accelerating need for more food to meet current and future nutritional

goals is evident on every hand. The economic problems of agriculture are large indeed, and growing in importance.

The history of scientific and social progress clearly reveals, however, that well-stated problems yield to appropriate solutions. It is this thought that we carry with us as we proceed through the book. Study of our subject—we may all hope—will whet our appetites for more knowledge and accomplishment, to more nearly reach our own personal goals, and help to improve the society in which we live.

## Acknowledgments

Many writers, teachers, and students have contributed to this work. Although none is accountable for my shortcomings, many are worthy of acknowledgment and appreciation. I wish to thank especially my associates at the University of Illinois: S. W. Williams, L. P. Fettig, S. C. Schmidt, and M. M. Wagner, with whom I have shared the teaching of the course on which *Economics of Agriculture* is based; D. I. Padberg, who encouraged me to reenter this area of teaching; and S. W. Williams, L. P. Fettig, and E. R. Swanson, who aided in the review of parts of the manuscript. Much appreciation is also due to my secretary, G. J. Metheny, who competently typed the manuscripts and helped me in other ways.

A major part of the current literature related to this study is listed in the Bibliography. In addition, a large number of journal articles have served as indispensable background, and liberal use has been made of public documents. Publications of the United States Department of Agriculture have been especially helpful. The Department's annual *Handbook of Agricultural Charts* has provided a convenient model for several of the statistical figures, and I am deeply indebted to the Department's Chartbook Committee and its associates for the accuracy and abundance of this material. We should all benefit from the richness of data with which this area of study is endowed.

Photographs in the text that are not otherwise credited have been supplied by University of Illinois photographers, Paul Hixson and Larry Baker. My colleague Franklin J. Reiss supplied the photographs on pages 23, 197, 296, 297, and 320. The chapter-opening photographs for Chapters 2, 5, and 9 are by Marilyn L. Schrut, New York City; the other chapter-opening photographs are from the University of Illinois.

I will appreciate hearing from readers who have suggestions for improvement of future editions of this book.

**Harold G. Halcrow**

# CONTENTS

<b>PREFACE</b>	<b>xiii</b>
<b>1. SCOPE AND METHOD</b>	<b>2</b>
<b>In This Chapter</b>	<b>4</b>
<b>What Is Economics?</b>	<b>4</b>
Why Study Economics? □ Economic Decision Making □ The Economizing Process	
<b>What Is Agriculture?</b>	<b>6</b>
Definition □ Economic Sectors of Agriculture	
<b>How Is Economics Applied to Agriculture?</b>	<b>13</b>
<b>Summary</b>	<b>16</b>
<b>Important Terms and Concepts</b>	<b>16</b>
<b>Looking Ahead</b>	<b>17</b>
<b>Questions and Exercises</b>	<b>17</b>
<b>2. CENTRAL ECONOMIC PROBLEMS OF AGRICULTURE</b>	<b>18</b>
<b>In This Chapter</b>	<b>20</b>
<b>Goals</b>	<b>20</b>
Economic Progress and Growth □ Economic Stability □ Economic Justice or Equity □ Economic Freedom □ Economic Security	

<b>Production Possibilities</b>	<b>25</b>
Production-Possibilities Curve: p-p Curve, or p-p Frontier □ Law of Increasing (Relative) Costs □ p-p Frontier and Opportunity Cost	
<b>Production Possibilities with Expanding Resources and Advancing Technologies</b>	<b>31</b>
Food and Nonfood Production □ Capital Formation and Current Consumption of Food and Nonfood Products □ Law of Diminishing Returns	
<b>Measurement of Economic Growth</b>	<b>38</b>
Definition 1: Real National Output or Real National Income □ Definition 2: Real Output or Real Income per Capita □ Using the Two Measures of Growth	
<b>Summary</b>	<b>44</b>
<b>Important Terms and Concepts</b>	<b>45</b>
<b>Looking Ahead</b>	<b>46</b>
<b>Questions and Exercises</b>	<b>46</b>
<b>3. POPULATION AND PRODUCTION POTENTIALS</b>	<b>48</b>
<b>In This Chapter</b>	<b>50</b>
<b>Trends in Agricultural Production: Total and per Capita</b>	<b>50</b>
Agricultural Production in Developed and Developing Countries □ Consequences of Different Rates of Growth □ Production in the United States and Other Developed Countries	
<b>World Population Growth: Trends, Principles, and Projections</b>	<b>55</b>
Trends in World Population Growth: A Short Review □ Population—Principles and Theories of Growth	
<b>Implications of Economic Progress</b>	<b>62</b>
<b>Production Potentials: Land and Nonland Resources</b>	<b>65</b>
Alternatives Indicated by Equal-Product Curves □ Future Production Goals and Resource Requirements □ Principle of Infinite Substitutability	

<b>Summary</b>	<b>72</b>
<b>Important Terms and Concepts</b>	<b>73</b>
<b>Looking Ahead</b>	<b>73</b>
<b>Questions and Exercises</b>	<b>73</b>
 <b>4. PRODUCTION FUNCTIONS AND COSTS</b>	 <b>76</b>
<b>In This Chapter</b>	<b>78</b>
<b>Production Functions</b>	<b>78</b>
General Theory of Production □ Rational and Irrational Stages of Production □ Effects of Advances in Technology: Production Innovations □ Decisions in Agricultural Production □ Law of Comparative Advantage	
<b>Production Costs</b>	<b>100</b>
Opportunity Cost □ Explicit and Implicit Costs □ The Short Run and the Long Run □ Production Costs in the Short Run □ Production Costs in the Long Run	
<b>Summary</b>	<b>116</b>
<b>Important Terms and Concepts</b>	<b>117</b>
<b>Looking Ahead</b>	<b>117</b>
<b>Questions and Exercises</b>	<b>118</b>
 <b>5. COMPETITION AND DETERMINATION OF     OUTPUT</b>	 <b>120</b>
<b>In This Chapter</b>	<b>122</b>
<b>Economic Organization and Market Models</b>	<b>122</b>
Pure Competition □ Monopolistic Competition □ Oligopoly □ Monopoly □ Imperfect Competition: Buyers	
<b>The Purely Competitive Firm Firm     in the Short Run</b>	<b>131</b>
Total-Cost–Total-Revenue Approach □ Marginal-Cost– Marginal Revenue Approach □ Determining Equilibrium Output □ MC above AVC Is the Purely Competitive Supply □ Law of Supply □ Supply of the Firm and the Industry	



<b>The Purely Competitive Firm in the Long Run</b>	<b>143</b>
Simplifying Assumption □ Long-Run Equilibrium □ Market Price Equals Cost of Production	
<b>Summary</b>	<b>146</b>
<b>Important Terms and Concepts</b>	<b>147</b>
<b>Looking Ahead</b>	<b>148</b>
<b>Questions and Exercises</b>	<b>148</b>
 <b>6. SUPPLY AND DEMAND</b>	 <b>150</b>
<b>In This Chapter</b>	<b>152</b>
<b>Supply</b>	<b>152</b>
Example of a Supply Curve □ Changes in Supply □ Determinants of Supply	
<b>Demand</b>	<b>158</b>
Example of a Demand Curve □ Law of Demand □ Law of Diminishing Marginal Utility □ Utility-Maximizing Rule □ Individual and Market Demand □ Determinants of Demand □ Law of Demand Applied to Resources □ Determinants of the Demand for Resources	
<b>Market Equilibrium</b>	<b>177</b>
<b>Effects of Changes in Supply and Demand</b>	<b>178</b>
<b>Summary</b>	<b>180</b>
<b>Important Terms and Concepts</b>	<b>180</b>
<b>Looking Ahead</b>	<b>181</b>
<b>Questions and Exercises</b>	<b>181</b>
 <b>7. ELASTICITY OF DEMAND AND SUPPLY</b>	 <b>184</b>
<b>In This Chapter</b>	<b>186</b>
<b>Concepts and Determinants of Elasticity of     Demand</b>	<b>186</b>
Basic Concept of Elasticity of Demand □ Categories of Elasticity of Demand □ Measurement of Elasticity of Demand □ Two Special Cases □ Determinants of Elasticity of Demand □ Elasticity of Demand for Resources	

<b>Concepts and Determinants of Elasticity of Supply</b>	<b>205</b>
<ul style="list-style-type: none"> <li>Determinants of Elasticity of Supply □ Visualizing Time Periods in Supply □ Measurement of Elasticity of Supply □ Time and Other Determinants of Supply Elasticity □ Persistence of Low Farm Income Related to Inelastic Supply with Falling Farm Prices □ Periodic Cycles in Production and Prices</li> </ul>	
<b>Summary</b>	<b>221</b>
<b>Important Terms and Concepts</b>	<b>222</b>
<b>Looking Ahead</b>	<b>222</b>
<b>Questions and Exercises</b>	<b>222</b>
 <b>8. AGRIBUSINESS COMPETITION IN PRODUCTION AND MARKETING</b>	 <b>224</b>
<b>In This Chapter</b>	<b>226</b>
<b>Basic Theory of Imperfect Competition</b>	<b>226</b>
<ul style="list-style-type: none"> <li>Determination of Price and Output: A Basic Model □ Elasticity of Demand □ Determination of Output □ Social Cost of Imperfect Competition</li> </ul>	
<b>Competitive Structure of Agribusiness</b>	<b>235</b>
<ul style="list-style-type: none"> <li>Short-Run Profits and Losses and Long-Run Equilibrium □ Oligopoly and Monopolistic Competition in Processing-Marketing □ Effects of Concentration on Net Profits of Food Firms □ Profit Rates of Food-Manufacturing Firms Related to Concentration and Advertising-to-Sales Ratios □ Oligopoly and Monopolistic Competition in Farm Machinery and Equipment □ Concentration in Fertilizers and Chemical Pesticides □ Analytical Complexities of Oligopoly: Mutual Interdependence □ Development and Growth of Oligopoly-Type Firms</li> </ul>	
<b>Production and Marketing Strategies of Agribusiness</b>	<b>245</b>
<ul style="list-style-type: none"> <li>Meats and Poultry Products □ Grains and Cereals □ Milk and Dairy Products □ Processed Fruits, Vegetables, and Specialties □ Sugars and Confectionary; Oils and Oil Products □ Role of Farmers' Cooperatives in Agribusiness □ Production and Marketing Contracts □ Vertical Integration</li> </ul>	

<b>Summary</b>	<b>254</b>
<b>Important Terms and Concepts</b>	<b>255</b>
<b>Looking Ahead</b>	<b>255</b>
<b>Questions and Exercises</b>	<b>256</b>
 <b>9. FARM INCOME: PROBLEMS AND PROGRAMS</b>	 <b>258</b>
<b>In This Chapter</b>	<b>260</b>
<b>Dimensions of the Problem</b>	<b>260</b>
Productivity as Output per Unit of Input □ Changes in Relative Prices □ Changes in Supply and Demand in Two Markets □ Explaining the Problem with Farm Income in Terms of Productivity and Price □ Average Family Income from Farming □ Distribution of Farm Family Income □ Profile of a Small Farm □ Summary: The Problem of Income	
<b>Farm Price and Income Programs</b>	<b>275</b>
Option 1: Reduction and Control of Supply □ Option 2: Supplements to or Subsidization of Demand □ Option 3: Direct Payments to Farmers, or a Producer-Consumer Price Differential	
<b>Evaluation of Programs</b>	<b>284</b>
Political Successes and Failures □ Programs for Limitation of Crops □ Soil Bank Program □ Nonrecourse Loans □ Marketing Quotas □ Federal Marketing Agreements and Orders	
<b>Summary</b>	<b>291</b>
<b>Important Terms and Concepts</b>	<b>292</b>
<b>Looking Ahead</b>	<b>293</b>
<b>Questions and Exercises</b>	<b>293</b>
 <b>10. INTERNATIONAL TRADE AND DEVELOPMENT</b>	 <b>296</b>
<b>In This Chapter</b>	<b>298</b>
<b>Economic Basis for Trade</b>	<b>298</b>
Trade Transformation of the 1970s □ Traditional Farm Problem Related to Trade □ Overvaluation and Devaluation Illustrated □ E.C. Import Levy and Its Effects	

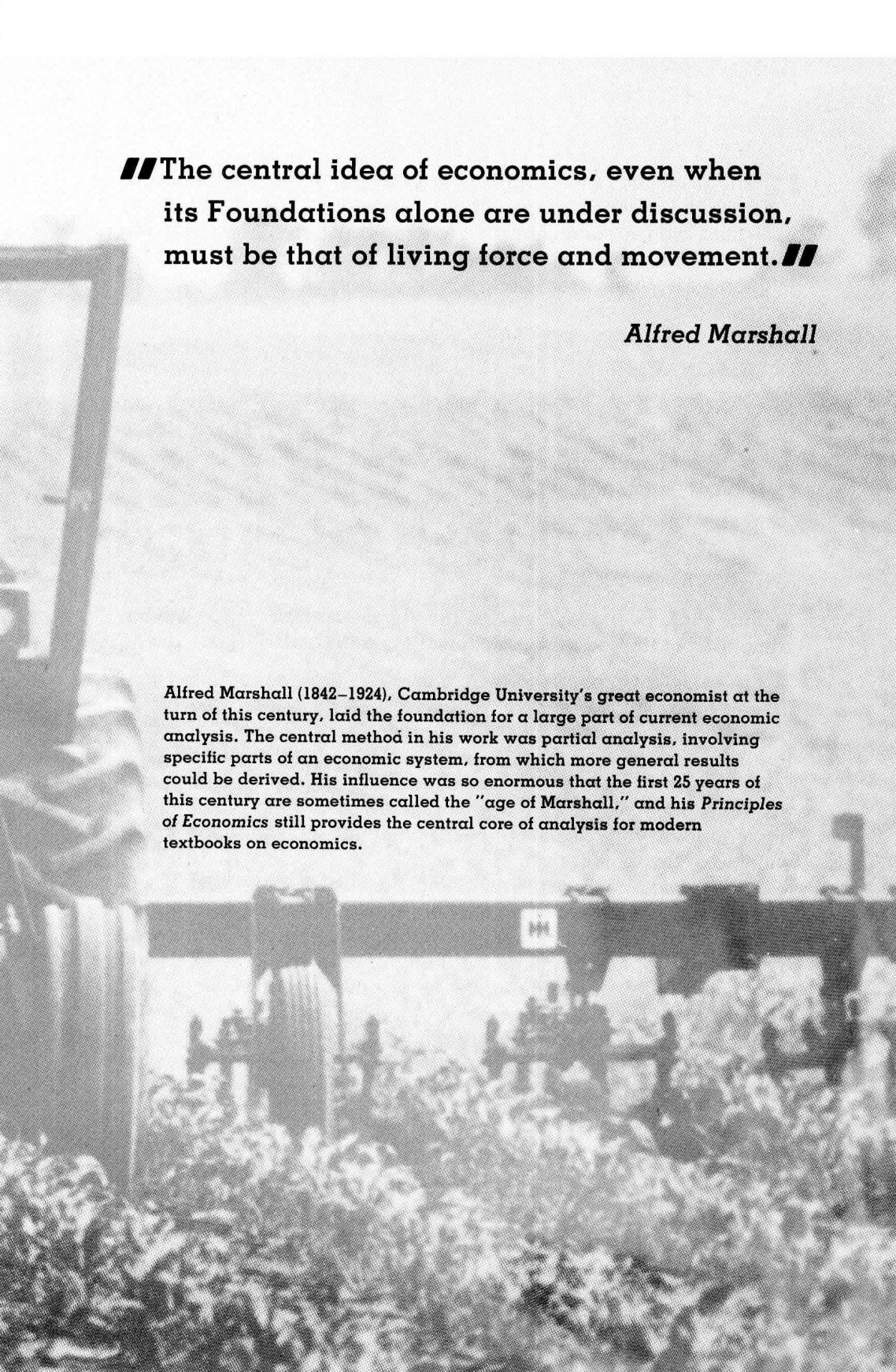
<b>International Trade Policies and Agriculture</b>	<b>315</b>
Reciprocal Trade Agreements and G.A.T.T. □ E.C.C., or Common Market □ The "Kennedy Round" □ The "Tokyo Round"	
<b>Economic Progress, Stability, and Growth</b>	<b>320</b>
World Demand for Food in the Long View □ Economic Progress Based on Disequilibria □ High Costs of Protecting Obsolescence in Agriculture □ Economic Stability for Agriculture Related to Trade □ In the Longer Term	
<b>Summary</b>	<b>330</b>
<b>Important Terms and Concepts</b>	<b>331</b>
<b>Looking Ahead</b>	<b>331</b>
<b>Questions and Exercises</b>	<b>332</b>
<b>APPENDIX: CONVERSIONS</b>	<b>333</b>
<b>GLOSSARY: DEFINITIONS OF TERMS, RULES, AND LAWS</b>	<b>335</b>
<b>BIBLIOGRAPHY</b>	<b>366</b>
<b>INDEX</b>	<b>373</b>

# **ECONOMICS OF AGRICULTURE**



# 1. SCOPE AND METHOD





**//The central idea of economics, even when  
its Foundations alone are under discussion,  
must be that of living force and movement.//**

*Alfred Marshall*

Alfred Marshall (1842–1924), Cambridge University's great economist at the turn of this century, laid the foundation for a large part of current economic analysis. The central method in his work was partial analysis, involving specific parts of an economic system, from which more general results could be derived. His influence was so enormous that the first 25 years of this century are sometimes called the "age of Marshall," and his *Principles of Economics* still provides the central core of analysis for modern textbooks on economics.

**T**he principles of economics applied generally to agriculture are the essence of our study. It is appropriate, therefore, to start with a statement on the scope of our subject and the methods that apply. We shall begin with three questions: What is economics? What is agriculture? How is economics applied to agriculture?

## **IN THIS CHAPTER**

1. You will learn some of the basic concepts and uses of economics.
2. You will be able to visualize the economic scope and organization of agriculture.
3. You will see how economics is applied to agriculture.

## **WHAT IS ECONOMICS?**

**Definition: Economics is a scientific discipline concerned with the allocation of limited resources to satisfy unlimited wants.**

The study of economics deals with *what* shall be produced, *how* it shall be produced, and *for whom* it shall be produced. Thus it deals with the principles of production and allocation of resources, the rules that producers must follow in organizing and managing resources. It involves prices because prices allocate resources and distribute incomes. If you want more of something, you offer a higher price. If you raise the price of something high enough, people will find a substitute for it.

Economics deals with marketing because things must get to where they are wanted, when they are wanted, and in the form that is desired before they can satisfy wants. The study of economics involves questions of income distribution: Who shall get what, and how much? It includes the influence of government on what shall be produced, how, and for whom. In short, economics deals with the human condition and how it can be improved. Economics is a system of study showing how the efficiency of our economic system can be improved, and how a person may find the best place in it.

## **Why study economics?**

There are many reasons. Perhaps the most immediate is the idea of personal interest. Everyone makes economic decisions, and few if any of us can avoid making some important ones. How to allocate our scarce resources of time, talent, and money is a crucial part of

economics. The study of economics helps us make more rational decisions about earning a living, saving and spending money, the costs and uses of our time, the allocation of our talents between work and play, and the development of our talents for the life ahead. In fact, the functioning of our entire economic system and society depends on the degree to which we as citizens and responsible people are economically literate, interested, and well informed.

## **Economic decision making**

Economics, as has been noted, is concerned with the allocation of scarce resources to maximize benefits, choosing among competing wants. There are a few basic concepts, such as allocation, scarcity, goals, and time.

### **ALLOCATION**

Allocation comprises the idea of putting resources and products to their best use. Economists tend to call anything that satisfies economic wants a *good*. Free goods are things that do not command a price. Economic goods are things that have value in exchange or may be obtained for a price. Prices, then, allocate these goods.

### **SCARCITY**

There simply are not enough resources or goods to satisfy all the desires that people may have. The idea of scarcity enters into practically all economic decisions.

### **DELIBERATELY ESTABLISHED GOALS**

*Wants compete for the scarce resources. Economics provides tools to help us decide what kinds of resources and how much to use, even though the establishment of goals takes us beyond economics, into value judgments of what we want to be and do.*

### **TIME**

All goods have a time dimension. Individuals must choose, and a society must choose, between consumption and saving, and determine the investment of savings for future use. The more we save now, the more we should have for later. What is “rational” is what *maximizes satisfaction over time*.