

Agricultural-Business Outlook

farmers must understand and apply economic principles to the business of modern agricultural production by scientific means

Jerry Foytik

Factors that characterize industrial manufacturing — specialization, standardization, mechanization, large-scale operations, anticipatory demand, and profit-expectations—play an equally important role in present-day agriculture in California.

Functions of processing, storing, and merchandising have been transferred—in large measure—to off-the-farm business entities. Simultaneously, other off-the-farm functions have arisen. Implements, tractor fuel, fertilizers, feed supplements, pesticides, and other farm supplies are manufactured elsewhere.

Farmers are much less self-sufficient than formerly. They are specialized commercial producers, who concentrate their efforts upon producing a few commodities for a money market—a market which may be thousands of miles away.

Improving production methods is still an important aspect of farming, but the modern farmer must know a great deal about business as well as farming. Many businesses handle farm supplies or agricultural products, and their technical and business workers should be informed about agriculture as well as business.

The agricultural industry includes a highly developed business system for channeling supplies to the farmer and for processing and marketing farm products.

The line of demarcation between agriculture and business is becoming increasingly indistinct. Consequently, agriculture—acting alone—cannot solve the chronic problem of the cost-price squeeze resulting from excessive supplies and limited markets.

There are many causes of the problem. Farm production tends to expand faster than demand because of the joint efforts of farmers, researchers, and manufacturers of agricultural supplies to increase production of food and fiber. Farm managers tend to be unwilling or unable to tailor production to demand when the two are out of balance. Farm supply prices tend to change slowly relative to farm commodity prices and when commodity prices fall, supply prices establish floors against which the price-cost squeeze presses. Demand for farm commodities tends to be relatively inelastic because of the inherent nature of the demand and the impact of processing and merchandising agencies.

Generally the farmer gets less than half—an average of 43.4% since 1910—of the retail price paid by consumers. He is harmed when a reduction in his share represents depressed retail prices. However, if the decrease is due to other shifts—more storage to increase off-season consumption, more transportation to reach distant markets, or more processing to supplement fresh use—the farmer may benefit.

High marketing costs do not imply inefficiency. It cannot be concluded that produce markets are more efficient than is the distribution of processed products merely because the farmers' share is 37% on fresh produce as against 20% on processed fruits and vegetables. No one really knows whether marketing charges are too high. The housewife's demand for added services does increase the marketing bill.

It costs money—lots of it—to process, store, transport, and sell commodities. If the marketing margin is to be reduced significantly, some functions and services now rendered by marketing agencies must be eliminated or these distribution activities must be performed more economically. The spectacular gains in productive efficiency—especially during the past century—have not been duplicated in marketing. Securing a substantial reduction in the marketing bill presents a real challenge for the years ahead.

The increasing interdependence of agriculture and business in buying production items and in selling commodities, and the cost rigidities involved in producing and distributing farm products indicate that research needs to be reoriented to agricultural-business lines.

The Bureau of Census estimates that there will be 205 to 230 million people in the United States 20 years hence. This would provide 40 to 60 million more people to be fed. Changes in the composition and geographic distribution of our national population have occurred and will continue—probably—along the patterns evidenced recently. Increased urbanization, increased aging, and increased geographical concentration of the population appear likely.

The national economy is more productive because of improved technology, increased investment in capital goods, and greater efficiency of the labor force.

There has been a revolution in agriculture within a generation. The use of airplanes for seeding and pest control, the development of new equipment, the continued development in methodology, and the introduction of better plant varieties are examples of changes occurring constantly at the farm level. Similar innovations have been—and are—taking place in processing and marketing farm commodities such as the introduction of canned fruit and vegetable juices, canned baby foods, and a wide array of frozen and kitchenized foods. Soon, dehydrated meats, powdered juices, and fresh foods preserved by irradiation and antibiotics will be available.

Business and farming aspects are so comingled in the affairs of individual producers that each producer must know his agriculture and be a trained businessman. The farmer must understand and apply economic principles to his daily decisions. He cannot afford mistakes.

Because business plays a decisive part in determining the volume of agricultural production, it is feasible to expect research to develop techniques and devices providing economic stability within agriculture that will be comparable to those which industry has achieved.

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