

The Scope and Importance of Agribusiness

AMERICANS enjoy a high standard of living because of the abundance of inexpensive agricultural products. Most Americans do not have to worry about having enough food to eat or clothes to wear because of an agribusiness system that is the best in the world.



Objective:



Describe agribusiness, and determine the scope of the agriculture industry.

Key Terms:



agribusiness

agribusiness input sector

agribusiness output sector

agriservice

agriservices sector

exports

gross domestic product

imports

input

marketing

output

private agriservices

private sector

production

production agriculture

production efficiency

public agriservices

public sector

value-added products

Agribusiness and Society

Agribusiness includes all the activities within the agricultural food and natural resource industry involved in the production of food and fiber. Individual agribusinesses may sell items to farmers for production; provide services to other agricultural businesses; or be engaged in the marketing, transportation, processing, and distribution of agricultural products.

Agriservice is activities of value to the user or buyer. The activities are an intangible product.

Marketing is providing the products and services that people want when and where they want them.

Agribusiness provides people with food, clothing, and shelter. It also provides jobs for millions of people in science, research, engineering, education, advertisement, government agen-

cies, trade organizations, and commodity organizations. Agribusiness pertains to the public and private sectors. The **public sector** is the economic and administrative functions of dealing with the delivery of goods and services by and for the government. The **private sector** is the part of the economy associated with private profit and is not controlled by government.

PRODUCTION

Agribusinesses process inputs into outputs. An **input** is a resource used in production. An **output** is the result of the production process. **Production** is the act of making products, such as goods and services.

Production Agriculture

Without production agriculture, agribusiness would not exist. **Production agriculture** refers to the use of land to produce goods. There are approximately 2.3 billion acres of land in the United States. Of this land, 21 percent is used for crops, 25 percent is used for livestock production, and 30 percent is used for forestry purposes.

As a result of the advancements made in agriculture over the years, the American farmer now produces enough to feed and clothe 150 people. According to the USDA, expenditures on food (as a share of disposable personal income) have decreased from a high of 25.2 percent in 1933 to a low of 9.7 percent in 2004. Those figures grew slightly to 9.8 percent for 2005, 2006, and 2007.



FIGURE 1. The American farmer produces enough food for roughly 150 people. (Courtesy, Agricultural Research Service, USDA)

THE SCOPE AND THE ECONOMIC IMPACT OF THE AGRICULTURE INDUSTRY

Agriculture is the foundation of civilization. Domestication of plants and animals for agricultural purposes allowed humans to settle in villages. As societies have developed, agriculture has remained important on the local, state, national, and international levels.

Local Economies

Agriculture is a substantial contributor to local economies. Economic output and value-added economic impacts can be substantial. Important non-traditional economic impacts of local agriculture are created through tourism, wildlife viewing, fisheries, hunting, and recreation. Many people are engaged in full-time employment tied directly or indirectly to agricultural activities. Agricultural land and agribusinesses provide taxes to support government services.

State Economies

Agriculture is one of the largest industries in many states. The agriculture industry generates large cash receipts within most states and provides many jobs. In addition, agriculture has a large economic multiplier effect, so it contributes positively to other sectors of the economy.

U.S. Economy

Agribusinesses in the United States produce a variety of **exports** (agricultural commodities shipped outside of the United States). Grains, tobacco, cotton, and vegetables are examples. According to the USDA, the United States exported 115.45 billion dollars worth of agricultural products in 2008.

The United States also imports a variety of agricultural products. **Imports** are agricultural products brought into the United States from other countries. In 2008, the United States imported 79.32 billion dollars of agricultural products.

World Economy

For much of the world's population, agriculture is a subsistence activity. Roughly 90 percent of the food produced in the world is consumed in the country producing it. However, trade of agricultural goods on a global basis has increased. Trade lowers costs of agricultural goods and widens choices. Trade, along with aid and technology, can enlarge agriculture's role in the global economy, resulting in greater food security, economic development, and environmental sustainability.

THE IMPORTANCE OF THE AGRICULTURE INDUSTRY TO SOCIETY

Agriculture accounts for 17 percent of U.S. economic output, making it America's largest industry. Globally, agribusiness employs approximately half of the earth's population.

The **gross domestic product** is the value of goods and services our nation produces in a year. Agriculture accounts for 17 percent of the gross domestic product. Of this 17 percent, 13 percent comes from agriculture-related industries (e.g., feed mills and biotechnology firms). These industries create value-added products from raw agricultural products.

Value-added products are improved through processing or manufacturing.

Production Efficiency

Production efficiency is receiving optimum output from an input. The production efficiency of production agriculture in the United States



FIGURE 2. A co-op grain feed mill is an agriculture-related facility.

as compared to other countries is enormous. There are a number of ways to measure this efficiency. First, you can determine the number of people supplied with products (from farm workers). As mentioned, the average farm worker supplies roughly 150 people with agricultural products. In the early 1950s, one farm worker supplied less than 20 people with agricultural products. An increase in production efficiency has also helped the overall U.S. economy by allowing more people to leave the farm and find work in other industries.

Agribusiness Sectors

Agribusiness can be divided into sectors. Major sectors are agribusiness input, agribusiness output, and agriservices.

The **agribusiness input sector** includes all resources involved in producing farm commodities. Examples include seed, fertilizer, machinery, fuel, and credit. Production efficiency can also be linked to improvements in these agricultural inputs.

The **agribusiness output sector** includes any agribusiness that affects an agricultural commodity between production and the consumer. Examples include transporting, selling, storing, and inspecting. Approximately 20 million people are employed in this sector of agribusiness.

The **agriservices sector** includes people who research new ways of producing and marketing food, protect food producers, and provide specialized services to all areas of agriculture. Public and private agencies are responsible for the actions of the agriservices sector.

Public and Private Agriservices

Public agriservices are agricultural groups that provide services at the federal, state, and local levels. Public agriservices specialize in education, research, communication, and regulation. The United States Department of Agriculture, the Food and Drug Administration, and the Department of Commerce are examples of public agriservices.

Private agriservices are those agriservices not governed at the federal, state, or local level. The three areas of private agriservices are financial services, trade associations, and agricultural cooperatives. Examples are the Farm Service Agency and the American Seed Trade Association.



FIGURE 3. A USDA scientist is an example of an individual who works for a public agriservice. (Courtesy, USDA)

Summary:



Agribusiness includes all the activities within the agricultural food and natural resource industry involved in the production of food and fiber. Agriservice is activities of value to the user or buyer.

Agribusinesses process inputs into outputs. An input is a resource used in production, and an output is the result of the production process.

Agriculture is a substantial contributor to local, state, national, and world economies. It has a large economic multiplier effect, so it contributes positively to other sectors of the economy.

Agribusinesses in the United States produce a variety of exports or agricultural commodities shipped outside of the United States. Imports are products brought to our country from other countries.

Agriculture accounts for 17 percent of the U.S. economic output, making it America's largest industry. Globally, agribusiness employs approximately half of the earth's population.

Agribusiness can be divided into the agribusiness input sector, agribusiness output sector, and agriservices sector.

Checking Your Knowledge:



1. What is agribusiness?
2. What is agriservice?
3. What is the scope and economic impact of agribusiness?
4. What is the social impact of agribusiness?
5. How are the various sectors of agribusiness and agriscience defined?

Expanding Your Knowledge:



Conduct online research to determine the primary commodities exported from your state. Where are the commodities sent, and what is the estimated value involved in the transactions?

Web Links:



Agribusiness

<http://en.wikipedia.org/wiki/Agribusiness>

Agribusiness

http://www.usda.gov/wps/portal/lut/p/_s.7_0_A/7_0_1OB?navtype=AU&navid=AGRIBUSI_COOP

Agribusiness in a Global Environment

<http://www.ais.msstate.edu/age/>