



**AgEcon** SEARCH  
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

*The World's Largest Open Access Agricultural & Applied Economics Digital Library*

**This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.**

**Help ensure our sustainability.**

Give to AgEcon Search

AgEcon Search  
<http://ageconsearch.umn.edu>  
[aesearch@umn.edu](mailto:aesearch@umn.edu)

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

# AGRICULTURAL ECONOMICS RESEARCH

OCTOBER 1980 VOL. 32, NO. 4

AER 32 # 4

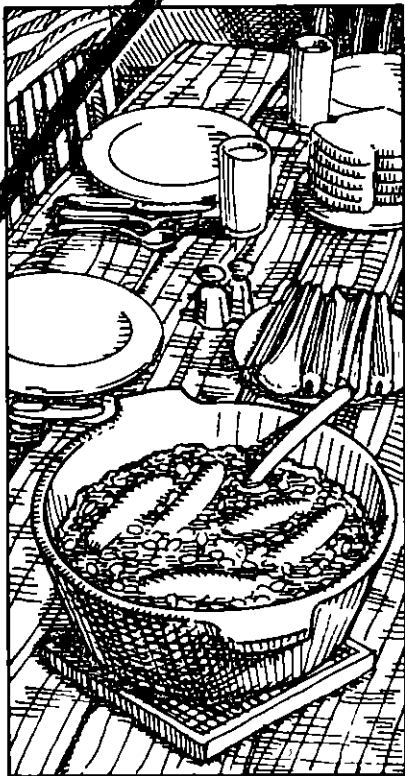
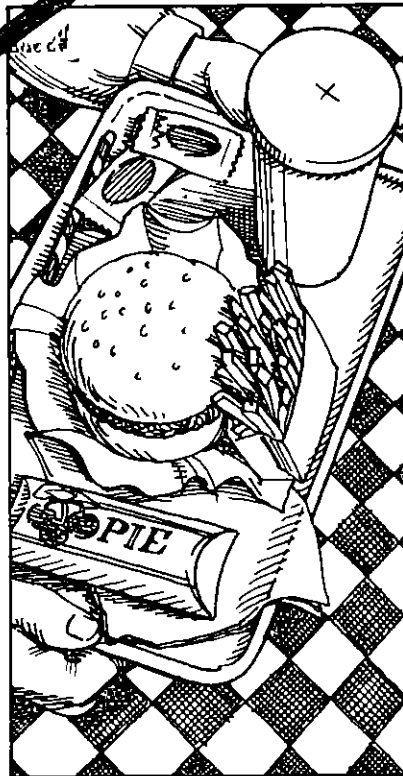
FOOD  
EXPENDITURES

ESCS R

CENTER

)

NOV 5 1980



ENGEL CURVE see page 14

INCOME

# AGRICULTURAL ECONOMICS RESEARCH

A Journal of the U.S. Department of Agriculture • Economics and Statistics Service

---

**Editors**

Judith Armstrong Bowers  
Clark Edwards

**Associate Editor**

Judith Latham

**Graphic Designers**

Harris Goldman  
James Vechery

**Staff Assistant**

Ann Bassett

**Editorial Board**

Charles Caudill  
Stan Daberkow  
Howard Hogg  
William Kost  
Lyle Schertz

Readers interested in a chronological bibliography of materials in *Agricultural Economics Research* from the first issue in 1949 through the last issue in 1979 should write Ann Bassett, Staff Assistant, ESS/EDD, U S Department of Agriculture, Washington, D C 20250

Editors' Note The Economics, Statistics, and Cooperatives Service became the Economics and Statistics Service as of October 1, 1980

---

# IN THIS ISSUE

---

"Things are seldom what they seem," according to a line in Gilbert and Sullivan's "H M S Pinafore," "Skim milk masquerades as cream." Agricultural economists also have difficulty distinguishing reality from appearances. One might think that hastily drawn, subjective opinions in agricultural economics could be dispelled by referral to data or theory. But experience, and the articles in this issue, show that such efforts may confound rather than ameliorate the problem. Many mistaken beliefs are rooted in inappropriate theories or in accurate data. Even so, as these articles further demonstrate, which is the skim milk and which the cream can ultimately be judged only by an appeal to data and to theory.

Evans, in the first article, translates the legal language of the Food and Agriculture Act of 1977 into familiar economic jargon so that readers of this journal can see what the law really says. There are a few surprises. The law, apparently aimed at limiting the supply of certain crops as part of the price support program, raises the marginal revenue to growers and thereby really induces an increase in supply, according to Evans.

Blaylock and Green, in the second article, use a flexible functional form to estimate Engel curves for food. Dick King, in

his 1979 Presidential Address to the American Agricultural Economics Association, pointed out that the choice of functional form used in a demand model may predetermine whether estimated income elasticities rise toward 1.0, fall toward zero, or remain constant as income rises. King warned us not to be any more surprised that the empirically determined elasticities behave as they do for a given functional form than we are surprised when the children find the Easter eggs precisely where they were hidden. Blaylock and Green demonstrate that a flexible functional form permits the data to determine the behavior of the elasticity whereas classical functional forms used to estimate Engel curves impose various predetermined patterns.

Some models which are simple to use and which appear to provide unambiguous results may, in fact, be misleading, not only as to predicted magnitude but also as to predicted directions of change. Single-product models predict that imposing a tariff on wheat imports will decrease the price of wheat in exporting countries and increase the price in the importing country. But Paarlberg and Thompson, in the third article, show that multiple-product models which allow for real income effects and for cross elasticities can, under certain situations, support

a different conclusion. They believe that one needs both an appropriate model and also reliable empirical coefficients to make useful and realistic policy appraisals.

It has long been recognized that food stamps induce increased expenditures for food, but by an amount substantially less than the value of the stamps. Salathe, in the fourth article, adds to this the knowledge that expenditure increases are relatively large for certain commodities, such as cereal products, processed vegetables, and pork. Other purchases of food for home use, such as fish, fruits, and sweeteners, increase only slightly. What may surprise some people is that expenditures for food away from home decrease markedly. Salathe estimates that \$1 of added food stamps resulted in an additional 36 cents of spending for food at home. This was partially offset by a reduction of 14 cents in spending for food away from home, resulting in a net gain in spending for total food of 22 cents per dollar of stamps issued. What appears as a general increase in the demand for food is really the net result of substantial increases for some products, negligible changes for others, and considerable reductions in demand for food away from home.

CLARK EDWARDS

# CONTENTS

---

- |    |  |    |  |
|----|--|----|--|
| 1  | <b>Acreage Response to the Target Price and Set-Aside Provisions of the Food and Agriculture Act of 1977</b><br><i>Sam Evans</i> |    | <b>Research Review</b>   |
| 12 | <b>Analysis of Flexible Engel Functions</b><br><i>James Blaylock and Richard Green</i>   | 42 | <b>Chronic Inflation and the GNP</b><br>Alan R Bird  |
| 21 | <b>Interrelated Products and the Effects of an Import Tariff</b><br><i>Philip L Paarlberg and Robert L Thompson</i>              | 45 | <b>Merging Resource Data from Disparate Sources</b><br>Linda L Hagen and Paul T Dyke                                       |
| 33 | <b>The Food Stamp Program and Low-Income Households' Food Purchases</b><br><i>Larry E Salathe</i>                                | 50 | <b>Price and Exchange Rate Transmission</b><br>H Christine Collins   |
|    |  | 56 | <b>Consensus and Conflict in U S Agriculture Perspectives from the National Farm Summit</b><br>Reviewed by Milton Ericksen |
|    |  | 58 | <b>The Innovator's Situation Upper-Middle-Class Conservatism in Agricultural Communities</b><br>Reviewed by Robert D Munoz |