WASHINGTON
POLICY CENTER
Improving lives through free-market solutions

POLICY BRIEF

Ag Econ 101: An explanation of "price taker vs. price maker"

By Pam Lewison,
Director of Agriculture

January 2025

Key Takeaways

1. Washington state's farmers and ranchers are at a distinct policy disadvantage in the marketplace.
2. The phrase "price taker vs. price maker" is a short way to explain the economic status of two opposing kinds of businesses.
3. A "price taker" business is one that must accept the prevailing prices of its products in the market regardless of its own operating costs.
4. A "price maker" is a business that commands enough of the market share to influence the price of their product or any product that might be similar to theirs.
5. The application of "price taker vs. price maker" in food production can be more difficult to identify because of the varied nature of farms and ranches.
6. There are several aspects that make Washington state's agricultural landscape unique, further complicating the "price taker vs. price maker" discussion.
7. Washington state's commodity variation – more than 300 unique offerings in a northern climate – also makes it unusual.
8. When consumers pay more for better labor practices or better environmental stewardship, they are paying grocery stores, shippers, and packers, not the farmers and ranchers who bear the burden of implementing those desires.

WASHINGTON POLICY CENTER

Improving lives through free-market solutions

POLICY BRIEF

Ag Econ 101: An explanation of "price taker vs. price maker"

By Pam Lewison,
Director of Agriculture

January 2025

Ag Econ 101: An explanation of "price taker vs. price maker"

By Pam Lewison,
Director of Agriculture

January 2025

Introduction

Washington state's farmers and ranchers are at a distinct policy disadvantage in the marketplace. Much of the policy decisions made during the last several legislative cycles have ignored a fundamental tension in economics: "price taker vs. price maker."

The phrase "price taker vs. price maker" is a short way to explain the economic status of two opposing kinds of businesses.[1] Simply put, it means that some agricultural producers sell their products into a larger market where the price is set and must "take" the rate set by that market. Other products are specialized or unique and have more flexibility when choosing what to charge and can "make" the price for their products.

The simplistic description of two different bargaining positions for businesses within a market helps to make the distinction between the power structures of each type of business. When those two bargaining positions are applied specifically to agriculture, they illuminate why policy decisions can have a dramatic effect on farms and ranches.

There are several aspects that make Washington state's agricultural landscape unique, further complicating the "price taker vs. price maker" discussion. For example, our state leads the nation in production of crops that require hand-tending or hand-picking. These specialty crops drive up the cost of production for our products through custom labor and specialized growing practices. These are all factors influencing most Washington state farms as "price takers" because they are costs that must be absorbed by the farm but are not passed on to consumers. Our farms also compete with agriculturally rich states like California, which has a longer growing season, and Texas, which has both a longer growing season and fewer regulations.

Washington state's commodity variation – more than 300 unique offerings in a northern climate – also makes it unusual.[2] States directly to the east of Washington state have much less variety, including Montana, which has a dozen

---

1 Corporate Finance Resources. Price Taker. (January 2025). Retrieved from https://corporatefinanceinstitute.com/resources/economics/price-taker/

2 U.S. Department of Agriculture. (2024). Census of Agriculture, 2022 Census Volume 1, Chapter 1: State Level Data, Washington. Retrieved from https://www.nass.usda.gov/Publications/AgCensus/2022/Full_Report/Volume_1,_Chapter_1_State_Level/Washington/

different crops, and North Dakota, with 50 different crops. The competition faced by Washington and the variety of agricultural products means regulations impact each sector differently. Protection of our farms and ranches through a fundamental understanding of how policy can differently impact a broad spectrum of Washington's agricultural producers is crucial to maintaining our economic success in the future.

Price taker

A "price taker" business is one that must accept the prevailing prices of its products in the market regardless of its own operating costs. Gas and oil companies are also considered price takers because the price of their product is set by market price, not the cost of production. Similarly, many food producers are also price-takers because they must sell at the market rate for wheat, corn, or other commodities.

According to most recent U.S. Department of Agriculture reports, "farm gate" income – the price farmers and ranchers receive for their product on the commodity market – relative to grocery dollars spent has remained stagnant at 14 cents earned for every $1 spent on food in a grocery store.[3] There are other commodities, that cannot be measured in grocery terms. Alfalfa, field corn, flowers, cotton, hops, and peppermint to list a few, each are still subject to the whims of market demand via domestic and export prices, tariffs, shipping concerns, and more. In nearly every commodity report released by the USDA in the last calendar year, all commodities have shown a downward price trajectory except one: beef. However, although beef markets have held steady the national herd has shrunk, meaning there is greater demand with less product available.

These reports also are indicative of a "price taker" environment. Farmers and ranchers do not set the prices of their products. As inflation has risen and the cost of operating a business has increased, commodity prices have not. For example, the cost of fuel peaked at an increase of 89 percent between 2020 and 2022 before settling back to an overall price increase of 22 percent between 2020 and current prices.[4] While, between 2020 and 2022, the average per bushel cost of wheat peaked at an increase of 64 percent before settling back to an overall price increase of 14 percent between 2020 and today.[5] The 8 percent difference in expenses and income is borne by the farmer.

---

3 U.S. Department of Agriculture, Economic Research Service. (December 2024). Farm sector income & finances: Farm sector income forecast. Retrieved from https://www.ers.usda.gov/topics/farm-economy/farm-sector-income-finances/farm-sector-income-forecast

4 Desilver, D. (2024, August). Eggs, gasoline and car insurance: Where inflation has hit Americans hardest. Pew Research Center. Retrieved from https://www.pewresearch.org/short-reads/2024/08/07/eggs-gasoline-and-car-insurance-where-inflation-has-hit-americans-hardest/

5 Macrotrends. (January 2025). Wheat Prices – 40 Year Historical Chart. Retrieved from https://www.macrotrends.net/2534/wheat-prices-historical-chart-data

Price maker

A “price maker” is a business that commands enough of the market share to influence the price of their product or any product that might be similar to theirs. A prime example of a “price maker” is the Apple iPhone. The iPhone holds approximately 65 percent of the U.S. market share with users paying an average of $1,000 for a new phone versus about $500 for any other comparable smartphone. While they cannot charge whatever they like, they have more control over the price they charge and can adjust based on business costs and market conditions.

Agricultural economics

The application of “price taker vs. price maker” in food production can be more difficult to identify because of the varied nature of farms and ranches. Some farms specifically grow market-driven commodities like wheat, corn, and potatoes while others sell directly to consumers through farmers markets or marketing websites. Some food producers offer “value-added” options like hand-churned ice cream or butter, others do not. Because each farm and ranch operate differently, the understanding of which food producer is a “price taker” and which is a “price maker” needs to be applied individually first and then applied as a collective whole. When food producers in Washington state are looked at individually, there may be a few “price makers” who are offering specific items that dominate their market but, our food producers as a collective whole, are still “price takers.” This is most readily illustrated by USDA data showing that just 9.5 percent of all farms in Washington state earned more than $500,000 in sales revenue. Conversely, 42 percent of farms recorded less than $2,500 in sales revenue.

Fairness and sustainability

Within the structure of “price taker vs price maker” there is always a suggestion of consumers being willing to pay more for the assurance of a product that is raised with “fair wages” and “sustainable practices.” These, however, are terms that consumers use, not the commodity market, and they don’t change how farmers get paid, generally.

If consumer wants to support “fair wages,” for example, by paying more for tomatoes, the only way they can do that is by paying the farmer directly. If they don’t pay the farmer directly, any additional money they pay for “fair wages” gets lost in the supply chain because the farmer was already paid a contract price for their tomatoes days or weeks prior when those tomatoes were sold on the open market. The market price dictated what their income was, not a consumer’s desire to pay “fair wages.”

Washington growers are being out-priced by global competitors in the open market because of things like the desire of consumers to see “fair wages” paid by domestic producers when foreign producers are not held to the same wage standard. For example, the current average hourly wage for “general farm work” in Washington state is $21/hr. In Peru, if working an 8-hour day, it is $1/hr; in Mexico it is 62 cents an hour; and in Argentina it is $1.67/hr. The lack of parity between Washington’s wage structure and global wage structures alone is pricing us out of the market, even before the overtime mandate.

This means the added costs consumers are willing to pay for "fair wage" and other assurances do not reach the people who bear the burden of taxes and regulations implemented to make them occur – "price takers." When consumers pay more for better labor practices or better environmental stewardship, they are paying grocery stores, shippers, and packers, not the farmers and ranchers who bear the burden of implementing those desires. "Price takers" are forced to implement the desires of consumers but they will not be rewarded for it with additional income because their market is set not at the grocery store but by commodity prices. Commodity prices are not affected by consumer dollars directly but, rather, are determined by socioeconomic markers like the strength of the U.S. dollar, trade, tariffs, and global demand for a product.

Conclusion

"Price taker vs. price maker" is not a new idea. Nor is its application in food production. However, breaking down what each piece of the equation means into specific definitions with examples of why they are important has been neglected time and again. Farmers and ranchers in Washington state have unique opportunities and challenges. The policies and regulations that effect their ability to run profitable businesses must consider the individuality of each operation but also the industry as a collective whole.

Published by Washington Policy Center

Washington Policy Center is an independent research organization in Washington state. Nothing here should be construed as an attempt to aid or hinder the passage of any legislation before any legislative body.

If you have any comments or questions about this study, please contact us at:

Washington Policy Center
PO Box 3643
Seattle, WA 98124-3643

Online: www.washingtonpolicy.org
E-mail: wpc@washingtonpolicy.org
Phone: (206) 937-9691

About the Author

Pam Lewison is the Research Director for WPC's Center for Agriculture. She is also a fourth-generation farmer raising hay, teff, and other rotational crops and finishes a few beef cattle annually for direct-to-consumer sale. She is the current Grant County Farm Bureau president and as well as the current Washington CattleWomen's Association president. Her writing and expertise have been featured in ag publications like Capital Press and large news publications like The Seattle Times and The LA Times. She also contributes to the Pacific Research Institute on agricultural issues. Her research been utilized in numerous hearings in Olympia and she has had the good fortune to work with several lobbyists and legislators on both sides of the aisle. She holds a master's degree in Agricultural Leadership, Education, and Communications from Texas A&M University—College Station and a bachelor's degree in English—Creative Writing from Washington State University—Pullman. Her belief in what WPC stands for in the ag space is simple: food does not have a political party; everyone eats.