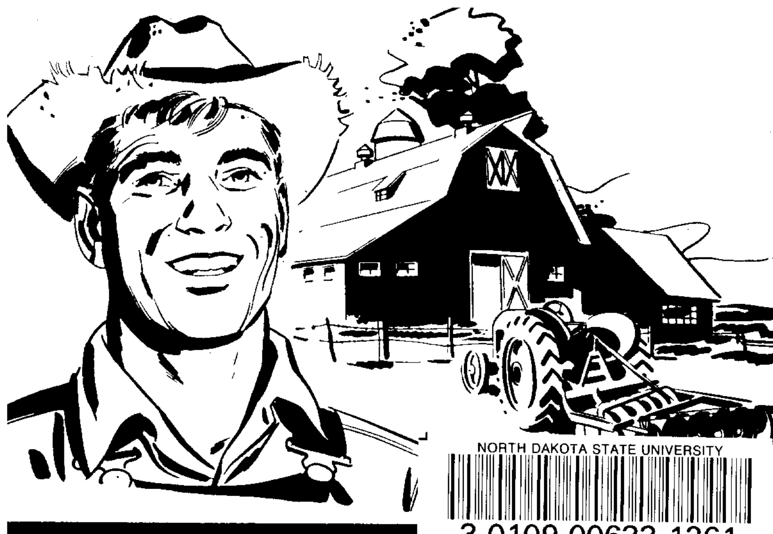

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FARM BARGAINING POWER

POTENTIALS AND LIMITATIONS

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Farmers, as individuals and as members of farm organizations and cooperatives, show increasing interest in the possibilities of improving farm income through group bargaining power. Farm community businessmen, professional workers and others concerned about the changing rural structure also ask about the potentials of farm bargaining power for improving farm income.

BARGAINING POWER- -WHAT IS IT?

Bargaining power is the ability to negotiate with enough influence or power to bring about a desired change. For farm groups, successful bargaining should provide higher income, either through higher prices, more stable markets, or lower purchasing costs.

In a bargaining process there is both conflict of interest and common interest. Farmers and a milk processor bargaining on milk prices share the common interest of continuing the production, processing and marketing of milk. Their conflict of interest is the division between farmers and processor of the money that consumers spend for milk. Each side in the bargaining process attempts to influence the agreement in his favor.

Basically, there are two kinds of bargaining power. First, a party may have ability to get opponent acceptance by also making the opponent better off. For example, a farm group may provide a processor with an even flow of a high quality commodity. Second, a party may have ability to get opponent acceptance because of power to make the opponent worse off, such as, by preventing a processor from getting supplies to maintain his market.

In agriculture the typical buyer-seller relationship is many sellers (farmers) but few buyers (processors). The few buyers have more bargaining power than many sellers. The individual farmer can do little to influence price. Opportunities and limitations for farmer group bargaining are affected by the production and marketing structures in the agricultural industry.

THE FARM SITUATION

Why does the "farm problem" of relatively low returns to agricultural resources persist in this prosperous economy? Basically, farmers produce and market more commodities than consumers will buy at "desirable" price levels.

The development and rapid acceptance of new technology in the agricultural industry result in higher crop yields and expanded livestock production year by year. Thus, total agricultural productive capacity expands faster than the demand for farm products increases. The result is lower farm prices and the "cost-price" squeeze.

Although returns to land, capital and labor resources are relatively low, excess resources do not move readily to other uses. Most land has no economic use other than farm production; farm buildings and equipment are not adaptable to nonfarm production and farm operators do not move easily to a city job. Although total numbers of farms and farm workers continue to decline and much farm land has been retired under farm programs, the U.S. "farm production plant" is still larger than necessary to meet current domestic and export needs.

The Market

The market system is the communication system between the 190 million U.S. consumers as well as foreign consumers and the 3.5 million farmers. In particular, the 1.5 million farmers who produce 90 per cent of total farm output respond to price changes by shifting to the products with most favorable prices. Consumers shift spending among commodities as relative prices change, or as their incomes or tastes and preferences change.

Between the consumers and farmer producers is a complex marketing structure including transportation, processing, wholesaling and retailing. The pricing mechanism operates continuously as the raw product moves from the farmer to the consumer.

Under this system, the discriminating consumers can spend their food dollars by preference as affected by prices of commodities. Market prices respond to consumer spending and indicate to the farmer whether products are in surplus or short supply.

Evidence indicates the market system does respond to changes in supply. Within the past few years under the same general market structure, North Dakota farmers have seen choice cattle prices range between $20 and $30 per 100 pounds, hog prices between $12 and $28 per

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100, turkeys between 15 cents and 25 cents per pound, durum wheat up to $3.50 per bushel and other price variations. Short supplies have meant high prices; greater quantities marketed have meant lower prices. As a general statement it can be said that farm incomes are relatively low, more because of over production than because of lack of bargaining power in the market.

Interest in Bargaining

Farmers are indicating more interest in group bargaining for several reasons.

(1) The disparity of resource returns between the farm and non-farm sectors continues even with extensive government programs.

(2) Firms engaged in marketing, processing and distribution are becoming fewer, larger and more powerful.

(3) The role of the terminal or central market is declining as farmers sell a greater share of output directly to area buyers.

(4) Integration of production, processing and marketing has increased with wider use of contract arrangements.

(5) Rapid changes in production and in marketing give rise to a need for more of a united voice for farmers.

Is Group Bargaining Legal?

Early state and national legislation gave special recognition to the farm industry. The Clayton Act (1914) and many state antitrust laws exempt farmer cooperatives from antitrust legislation. The Capper-Volstead Act of 1922 permits producers to join a cooperative to improve bargaining power. Federal Marketing Orders and Agreements are authorized under the Agricultural Marketing Act of 1937. However, monopolistic power of cooperatives is limited under the Sherman and Clayton Antitrust Acts. Cooperatives have no more leeway in restraint of trade than the private corporation.

GROUP BARGAINING EFFORTS

Since the individual farmer has little or no bargaining power, group action among farmers is necessary to achieve power in the market. If farmers want to obtain higher income, they must be able to control one or more of the factors that influence prices and incomes. Control of supply, expanding demand or increasing market efficiency are measures that can increase farm prices and income.

Supply control through group action in the labor market provides bargaining power for higher wages. Each worker has the same objective, higher wages for his 8 hours of labor per day. However, the employer bargains primarily for the price of labor; generally he hires only the number of workers needed. In farm bargaining, each farmer is selling commodities which are the output not only of his labor but also of his land and capital. Among farmers there are extreme differences in the quantity and quality of resources owned and in their output. Thus, there are wide differences of interest among farmers. In the labor market, unused labor is lost and does not affect the future market; however, a farm product withheld from the market during bargaining does not disappear. Farm group bargaining, to be effective, must be completed before production occurs.

Expanding demand for farm commodities in total is practically limited to the rate of U.S. population increase, expanded non-food uses plus increased exports. However, group action in marketing a specific commodity may expand demand for one commodity at the expense of another.

Sources of Economic Gain

Successful bargaining implies that through group action the returns to individual farmer producers have increased. Possible sources of gain are:

(1) Gains may be achieved by greater efficiency in producing, marketing or processing of commodities.

(2) Gains may be obtained from the opponent in the bargaining process, usually a marketing firm or processor.

(3) Gains may come from a third group, primarily the consumer or the general public.

The tactical approach of a group may differ, depending on the potential source of gain. The other party in a farm bargaining situation usually will be a marketing firm. However, the gain may come from marketing firm profits, from improved marketing efficiencies, from the consumer or even at the expense of other producers.

WHAT CAN BARGAINING DO?

Bargaining can increase producer returns in some cases. In others, opportunities are limited because of the complex factors involved.

Improve Marketing Efficiency

The traditional farm cooperatives have been effective in improving marketing efficiency. They also have increased returns to their numbers by increasing competition in the commodity buying market and in decreased competition among farmers as sellers.

The traditional farm cooperatives have been very effective in improving marketing efficiency as well as increasing competition in the market to bring greater returns to their members.

As the market system becomes more complex and marketing firms become larger, a farm bargaining or marketing organization can do some things not possible by the individual farmer. As a marketing organization, farmers can be well informed on the market situation for specific commodities and, thus, strengthen their bargaining position. The organization can develop marketing services for members. The group can bargain for price advantages by relating production to market demand in quality and grade factors as well as by orderly marketing. In this case, the farmers as sellers gain, so do the buyers.

Gains from this type of cooperative bargaining can be real but usually not large. The marketing firm's prices to consumers must be competitive with prices of other firms.

Obtain Gain From Market Firm

The market firm--processor, wholesaler or retailer--with which a farm group bargains is a handler between the producers and consumers. It does not speak for consumers. The consumer decides how many apples or pork chops he will buy at any particular price and time. As a seller, the market firm, cannot set both price and quantity sold. It must sell in competition with other market firms. If in the bargaining process, the market firm is forced to pay a noncompetitive price, it cannot remain in operation indefinitely.

The marketing industry has a major and important role in transforming farm products to meet consumer wants. It is unrealistic to expect this complex industry to operate without profit. Under our free enterprise system, "abnormal" profit usually does not exist for long, but where it does, group bargaining efforts may squeeze out some of this profit for the farmer. However, gains from this source will be very modest per unit of commodity sold.

Supply Control - Key to Economic Gain

With only modest gains possible through improved marketing efficiency or by bargaining for profits in the marketing industry, the remaining source of "big" gains is higher consumer prices.

Can group bargaining shift more consumer income to the farmer producers? Obviously, a farm marketing organization cannot bargain with 190 million consumers or even with several thousands in a market area for a particular commodity.

The logical approach to achieving gains from the consumer is regulating market supply to the demand. The demand for most farm commodities is inelastic, that is, price changes more proportionately than supply. Thus, controlling supply would usually increase total returns to the farmer producers.

The supply control concept has been the basis for national farm programs. The Commodity Credit Corporation program of price supports and storage during the 1950's implemented supply control by storing surplus commodities that would not clear the market at the supported price. This program was supplemented by withdrawing part of the land resource, first through the Soil Bank in the late 1950's, then by the acreage division program of the 1960's. Approximately 55 million acres, or nearly 17 per cent of total crop acres, are idled under these programs. Several extensive research projects have indicated that, without these programs to limit supply, the general price level would be 20 to 30 per cent below the present level and net farm income would be reduced by 40 to 50 per cent.

Federal and state marketing orders and agreements for specific commodities in a market area are also based on supply control. Under a federal milk market order, for example, the quantity of milk marketed as fluid milk is limited by an established price. Surplus production is marketed at a lower price as manufacturing milk.

Supply control is the basic reason why nonfarm industries can be price setters rather than price takers. For example, a major automobile manufacturer affects its demand by advertising. It then limits its output to the quantity it can sell at a price that is profitable but still competitive with other manufacturers.

Supply Control by Farmers

The key to successful self-help group efforts by farmers to increase or maintain prices is effective supply control. It must be recognized that withholding from the market is not supply control. Effective supply control means nonproduction by idling part of the resources.

Requirements for successful supply control by a farm marketing organization include: (1) A very high proportion of producers must be organized and the group must have power to enforce production control on members. (2) Non-members need to be prevented from expanding production. (3) Substitute commodities must also be under control. (4) Group leadership must be competent in the economics of marketing farm products.

Problems are involved in meeting these requirements. For products produced and marketed nationwide, control must be nationwide, including substitute products. With thousands or a million farmers involved in production of some commodities, voluntary supply control is extremely difficult. With the persistant problem of excess resources in agriculture, effective controls would be more far reaching and more restrictive to individual farmers than those imposed under present national farm programs. Under federal programs, controls have been limited largely to storable commodities. As production fluctuates, the Commodity Credit Corporation serves as a market supply regulator.

The geographic scattering of farmers, the diversity of commodities produced and great differences in size of operations imply conflicting interests. The feed-livestock complex involves the feed grain producer wanting high grain prices but the livestock feeder wanting low feed costs. Stabilized higher prices for slaughter cattle do not guarantee higher income to cattle feeders as they bid against each other for feeder cattle; or, these prices may trigger over expansion of beef cow herds. In addition, the unknown variables such as weather and also the biological production patterns in agriculture further complicate regulation of supply to meet demand.

Preventing non-members from expanding production under the price umbrella gained by members may not be possible. Or, preventing the members from expanding production under improved prices may require types of enforcement not possible under a voluntary organization.

Processors and consumers are free to purchase lower priced substitutes if a commodity is priced out of line.

Successful operation of a bargaining organization requires a high level of economic knowledge regarding supply and demand in marketing and also production response. Short run success may mean failure in the long run if all production, marketing and substitution responses are not taken into account.

Possibilities of success in bargaining depends on the type of commodity and its market. Conditions favoring success are: (1) The production is limited to a small area with a relatively small number of producers, (2) the producers are specialized and are aware of the necessity of group supply control, (3) there are few substitute commodities, (4) the demand is expanding or large enough to absorb all production, (5) the organization has skillful leadership in managing supply and marketing, and (6) legislation is available which permits the organizational activity.

These conditions may apply to specialized commodities such as milk, fruits or vegetables in a limited market area. However, successful examples of voluntary supply management are practically a non-existent because these conditions are rarely attained simultaneously. The successful bargaining organizations are usually operating under a federal or state marketing order.

Political Implications

As farm numbers decline and the population becomes increasingly urban, the political influence of farmers declines. Although farmers now have legal authority for collective bargaining, their action must be politically acceptable to the general public to maintain this privilege. If farmers would be able to gain monopoly power through group action, would the public permit monopoly privileges without public regulation?

LOOKING AHEAD

Farm marketing and bargaining groups have been and can continue to be effective in increasing competition and improving efficiency in marketing. As a group they have bargaining power with the large marketing firms to gain their share of the consumer's dollar. Gains from these sources can be real but not large.

Really significant economic gains for farmers require regulating production to demand. Private farm group action has not been successful in attempts to regulate supply. Public farm programs have restricted production for price and income maintenance but have not given bargaining power directly to farm groups.

A combination of private and public action as it is found under state and federal marketing orders has been relatively effective in giving farmers bargaining power through supply regulation. With the continuous problem of supply outrunning demand, there will be increasing pressure for more supply control. Can this be best accomplished by farm bargaining groups or by government? If farm groups want more voice in bargaining for prices, they may want to examine the potentials of combining private group action under public authority. This type of action, however, requires responsibility to the public.

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