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New Approaches to Bargaining Power in the Dairy Industry

by
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I. National Picture

Dramatic progress has been made in improving the bargaining strength of dairy farmers in recent years and particularly in the past twelve months. Cooperative unity has been furthered by the following mergers, consolidations, or federations, each assisting in marketing over 1,000,000,000 pounds of milk a year as of February 1969:

<u>Mergers or consolidations</u>	<u>Year formed</u>	<u>Producers</u>	<u>Bil. lbs. milk</u>
Milk Producers, Inc.	1967	9,000	4.5
Mid-America Dairymen, Inc.	1968	15,000	3.5
Dairymen, Inc.	1968	7,000	3.0
Central States Dairy Coop.	1969	5,000	1.1
Consolidated Milk Producers Assn.	1968	1,800	1.0
<u>Federations</u>			
Associated Dairymen, Inc.	1964	34,000	14.0
Great Lakes Milk Marketing Federation	1960	34,000	12.0
New York-New England Dairy Cooperative Coordinating Committee	1966	25,000	10.0
Central Milk Producers Coop.	1968	15,000	6.0
Federated Milk Producers	1968	10,000	3.0
Penn-Marva Dairymen's	1968	5,000	3.0
Mountain Milk, Inc.	1968	2,400	1.8

Addresses of presidents and managers of these organizations appear on pages two and three of the March 1969 issue of my monthly "Dairy Marketing" report.

Total marketings of milk by all U.S. farmers currently are about 110 billion pounds annually. Thus, the largest two of the federations each assist in marketing over 10% of the total, and the next largest nearly 10%.

Great Lakes took its first unified pricing step effective August 1, 1966. Associated established stand-by pool operations in September 1967. All actions as a whole in the three years since the summer of 1966 add up to a solid plus in obtaining higher prices and incomes for dairy farmers.

The largest consolidation of all is under discussion at the time this is being written, that of Milk Producers, Inc., Pure Milk Association of Chicago, Twin City Milk Producers Association, and others into American Milk Producers, Inc. Serious negotiations began in March 1969. Another consolidation under discussion is of five

members of the Great Lakes Milk Marketing Federation, the largest cooperatives supplying the Cleveland, Pittsburgh, Toledo, Akron, and Fort Wayne markets, which, if consummated, would involve 9,400 dairy farmers and an annual volume of three billion pounds of milk.

The winds of cooperative consolidation are blowing strong. No part of the country escapes their influence. A lawyer for one of the large federations, noting the drastically changed environment, recently asked Hugh Cook, Professor of Agricultural Economics at the University of Wisconsin, analyst and consultant in this area, why we could not expect similar gains to come from merger of land-grant college departments, say a Midwest Department of Agricultural Economics!

The consolidation-merger trend is not without problems. Let me mention just four of these, as follows:

(1.) The future of Land O'Lakes, a large regional cooperative marketing between \$300 and \$400 million dollars of dairy products a year, is of importance. It acts as a marketing agency for dairy products manufactured by other cooperatives. To what extent will it be a large efficient agency marketing manufactured products of other dairy cooperatives, and to what extent a direct farmer-membership cooperative, with part of its resources in marketing fluid milk, and concerned relatively more than at present with prices paid farmers for milk and relatively less with processing and marketing margins between farmers and consumer? The answer as to the future of Land O'Lakes is not clear.

(2.) Four large Wisconsin groups apparently are not inclined to join AMPI -- Pure Milk Products, Consolidated Badger, Lake-to-Lake, and Wisconsin Creameries -- and anti-merger publicity, with a long list of objections, some of substance and some not, has been widespread. For those interested in newspaper articles on producer resistance to mergers, containing all or almost all of the anti-arguments, the Milwaukee Sentinel issues of April 7 and 21 are noteworthy.

(3.) Fears are frequently expressed that rump groups will withdraw from consolidations so as not to share the cost of programs designed to benefit dairy farmers. Say the benefits of a program are 50¢ per cwt., and the cost 25¢. The temptation is great to take the 50¢, but not pay the 25¢. Answers, not wholly satisfactory even as a package, seem to lie in areas of (a.) loyal and informed members, (b.) terms of marketing and sale of milk by the cooperative, and (c.) state and federal assistance in laws and regulations that directly or indirectly result in the sharing of costs. Great Britain, and to some extent Canada, have given up on the success of voluntary cooperation, and turned to compulsory cooperation. Here we are still trying the voluntary route, with governmental assistance.

(4.) With large regional cooperatives, what will be the coordinating national group? Some think it will be the National Milk Producers Federation, in changed form, and with different emphasis on various activities than in the past.

II. Development in the Northeast

A. Recent consolidations and federations

The largest consolidation of the past three years is that of the Consolidated Milk Producers Association, in Southern New England,

begun in early 1967 and completed in May 1968.

There have been many mergers of smaller cooperatives into larger ones, including additions to membership of the Dairymen's League, the largest cooperative in the Northeast, by this process.

Some proposed consolidations have not been consummated, including one in Northern New England and one in Western New York where the issue was decided in the negative in the spring of 1969. In Western New York, Buffalo and Rochester cooperatives have shared the cost of a surplus manufacturing cooperative for several years, but a plan for three cooperatives in fluid distribution to consolidate their operations was vetoed by one of the groups this spring.

In federations, considerable progress has occurred, with the New York-New England Dairy Cooperative Coordinating Committee formed in December 1966 and the Penn-Marva Dairymen's Cooperative Federation in 1968. One of the large members of the Coordinating Committee withdrew, however, after holding membership for nearly a year. The Penn-Marva group has petitioned for a hearing to merge and expand marketing areas of the Delaware Valley, Upper Chesapeake, and Washington, D.C. markets, which may be a fore-runner to cooperative consolidation.

Economic activity of the Coordinating Committee includes unanimous support for unchanged year-around Class I pricing plus a seasonal incentive payment plan at a February 1967 hearing. This represented a "first" in many important respects. Later action has involved Class I pricing, the pricing of filled milk, component pricing of milk, and Class II pricing. Legal, promotion, operations, and other subcommittees of the Coordinating Committee also have been active. At its April meeting, the committee passed a motion looking toward specific step or steps toward joint marketing action, with a small special committee to bring back a recommendation to the Coordinating Committee. At its May meeting, an action committee was formed, and this committee held its first meeting in early June.

B. Prospects

The temptation to make predictions of drastic changes soon is tempered by the slowness of changes in the past. Richard D. Aplin, now Order 1 Market Administrator and then Extension Economist at Vermont, wrote in Circular 69, June 1932, that "the solution (better prices for milk) appears to be a strong organization in which substantially all the producers in the milkshed are united". Senator Aiken, when advised last fall of new action in direction of merger in Northern New England, is reported to have said "I wish you better luck than I had 30 years ago." In Southern New England, the need and possibility for mergers were crystal clear in 1958, when federal order market pools were in the process of adoption, but it took 10 years to accomplish it.

Offsetting this tempering influence of past experience, the gains that are possible in the Northeast are impressive. Say that they are 25¢ from marketing efficiency and 25¢ from market power,

and you are talking about \$5000 in net income of a dairy farmer producing a million pounds of milk a year. The incentive for effective action now is strong.

With these words of caution, here are some guesses for you to shoot at:

Federations

The New York-New England Dairy Cooperative Coordinating Committee and the Penn-Marva Dairymen's Cooperative Federation, with 10 billion and 3 billion pounds of milk annually, respectively, will merge into a Northeast Federation. They have sufficient common interests that this is likely to occur within four years.

Prior to the larger federation, the New York-New England Coordinating Committee will attract more membership from cooperatives within Orders 1, 2, and 15, and from neighboring cooperatives not under these orders.

Consolidations and mergers

Both federal order and cooperative merger in the three markets in the southern part of the Northeast -- 3, 4, and 16 -- seems likely in five years.

In Western New York, merger of state orders and of cooperative operations and bargaining, currently delayed, seems a likely prospect within three years.

Under Order 2, the need is great for the three large cooperatives, with 70% to 75% of the producer milk, to consolidate, with a lesser need for the marketing area to be expanded to include the rest of New York State, except possibly Rochester and Buffalo, and perhaps parts of Pennsylvania. This does not seem likely for at least eight years.

In Northern New England, merger of the smaller cooperatives seems likely within five years, but a complete merger, including United Farmers and the New England Milk Producers' Association, with expansion of the marketing area of Order 1 to include all of five New England States, does not seem likely until six or more years from now.

In Southern New England, with a three-way cooperative merger completed in 1963, and with a community of interest with Northern New England diminished seriously by recent controversy on location and zone differentials, no further changes seem likely soon.

Oddly enough, the consolidation that might come easiest is the largest one of all, that of all or nearly all the milk marketing cooperatives in the Northeast. Rivalries with next-door neighbors often are more intense than with neighbors several doors away. Hence, merger with a distant cooperative could meet less resistance than with one nearby. A new organization would result, rather than continuation of existing ones, reducing resistance. Here, too, however,

pinned to a definite prediction with better than 50-50 odds, such a consolidation does not seem likely in the next ten years.

As these guesses are written, the slowness of expected change in consolidations and mergers (not in federations) stands out in sharp contrast with recent changes elsewhere in the country. How is this accounted for? Here are four possible reasons:

(1.) I'm wrong, influenced too much by awareness of conflicts of the past and present.

(2.) Enmities among producers in different cooperatives -- the conditioned negative responses -- have a longer history in the Northeast than in some other areas of the country, particularly the Southwest. It is the conditioned negative responses from strikes and other experiences of the 1920's and 1930's, passed down from father to son, that do the most to slow consolidations and mergers in the Northeast.

(3.) Strengths among cooperatives in the Northeast vary widely. Some do not have strong membership contracts, write checks to members, pool returns among members, control the hauling and sale of milk, or balance supplies with sales to obtain a favorable utilization. Others do. Mergers of cooperatives of widely different strengths have caused serious membership problems for cooperatives that have merged, and seem likely to cause problems in future consolidations or mergers.

(4.) Location and zone differential experience of the past few years has not enhanced confidence and trust among cooperatives in different parts of the Northeast. Rather than looking at differentials to nearby producers as a disappearing cost, being eroded both by price inflation and by encroachment of the cities, more distant producers have succumbed to the temptation to hasten the process. The New Jersey 1957-67 experience is a minus factor that cooperatives in other regions do not have to contend with (their promised differential in accepting expansion of their marketing area was reduced from 93¢ to 29¢ between July 1959 and November 1966, a loss of 64¢ per cwt. in less than eight years). At Richmond, Virginia in April 1968, David Parr, in telling of problems of mergers and consolidations, listed only five, and his answer to one of them, equity among producers in different areas, was to accept price differences that now exist. In the Northeast, agreement among producers to such an answer is not probable.

C. Factors affecting consolidations and mergers

A federation is weaker than a consolidation or merger. Quoting Farr of the Wisconsin Council of Cooperatives, "It lacks the leadership of a single management team. (Differences among member cooperatives in) the ownership of marketing facilities, carrying of reserve supplies, and sharing of market service costs will create inequities among cooperatives and farmers. (Hence), the regional direct membership cooperative should be the long-run objective ... Such a cooperative is under the direction and leadership of a single board and management. Uniform pay pricing can be established and maintained by equitable zoning. Market servicing costs will be shared by all members. Facilities and equipment can be provided which ... meet market demand at a minimum cost. Bargaining power (is) stronger as only one voice (is) speaking." A federation frequently is no stronger than its weakest member. As Paul Alagia, manager of Dairymen, Inc., recently said at the Northeastern Dairy Conference, the "going back" problem -- to executive committees

or boards of directors of individual cooperatives -- is a serious limitation to effective quick action by federations. Although federation is a significant first step, because of the greater effectiveness of consolidation my further remarks in this section will be restricted to this latter method of getting together.

(1.) Choice of president

At Richmond, Virginia, David Parr said that this is a matter of politics, and the largest group joining the new cooperative should be permitted to choose the first president. This may not give the best man, but if quickly agreed upon, a barrier to action is removed.

(2.) Choice of manager

David Parr said to go to the outside, excluding present general managers of consolidating cooperatives. So as to reduce possible opposition of present general managers, he proposed hiring them as division managers under long-term contracts at increased salaries. The counter argument is that high-priced specialists are needed in the large consolidated group, not several high-priced generalists. Yet Parr seems right, again, if quick action is desired, and possible gains are great, for time runs out even on long-run contracts, and a high guaranteed salary now may not seem so high, what with inflation, 10 years from now.

(3.) Valuation of assets

Parr said to take book values -- don't adjust downward to real values -- to avoid arguments that cause delay. The counter argument is that this is satisfactory if assets are small and are under-valued, but not if the cooperative has substantial assets in processing or distribution, or has going businesses worth much more than book values. Without these conditions, Parr's answer does add speed to consolidations, and probably with gains offsetting losses.

(4.) Price differentials among areas

Parr said the decision should be to freeze present differentials among areas. Any gain to relatively low-price areas from reducing the price in high-price areas will be more than offset by the costs of delay in consolidation. The counter argument is that present differentials probably are not at their optimum rates, and delay in adjusting them could cause difficulty. Probably the high-price areas are high-cost areas where milk production will become a smaller percentage of the total, or at least not an increasing percentage, and a possible compromise is a formula to reduce the differential if its expected erosion from this cause (or from price inflation) did not occur.

(5.) Entrance to market of unneeded milk

Parr's suggestion was to use a standby pool plan, paying outside producers to supply milk only when needed.

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Note: David Parr had these five points only, and his presentation thereof went far at the Southeastern Dairy Marketing Clinic at Richmond in April 1968 in crystallizing sentiment in favor of consolidation of cooperatives, effective September 1968, into Dairymen's, Inc. Some further factors will be listed, however, in this paper.

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(6.) Balancing milk supplies with sales

Agreement on effective programs (by the cooperative or under federal orders) to achieve a high Class I percentage, of types affecting both the supply of and demand for milk, would be expected to enhance the possibility of consolidations.

(7.) Marketing area expansion under federal orders

Agreement on a time-table of needed changes, perhaps including in the marketing area most of the production as well as consumption territory of consolidating cooperatives, might in some instances expedite consolidation.

(8.) Physical handling of milk

Plans for location, number, and types of processing and balancing facilities; for the hauling of milk from farms in trucks operated, at least in part, by the cooperative; and for the type and extent of involvement in fluid milk distribution, would help bring favorable action if they could be developed in broad outline promptly, and expected savings publicized.

(9.) Pooling of hauling rates

Standard plans, with appropriate differentials, could insure equity among dairy farmers, and greater acceptance of consolidation.

(10.) Capital needs, and ways of obtaining needed capital

Astute planning in this area could increase support for consolidation.

(11.) Legal considerations

Throughout, able legal advice is a must. Significant advances in cooperative unity can be made under present laws, but in some regards new laws may be needed or present laws may need amendments.

III. In Conclusion ...

A. Cooperative strength needed as well as unity

Strong cooperatives as well as large ones are needed to improve milk prices and dairy farmer incomes. Ingredients of strength revolve around:

- (1.) Loyal and informed members.
- (2.) Skillful management.
- (3.) Wise choice of policies by directors.

My own views on these are given in a paper in the December 1967 issue of the American Journal of Agricultural Economics, and will not be repeated here except to say that the problem of keeping loyal members deserves special attention as the large cooperative becomes more removed and more impersonal.

B. Great strides in achievements through bargaining strength have been made despite dismal evaluations by agricultural economists

Most agricultural economists are defeatists in appraising collective bargaining. On the contrary, I am an optimist, and opened my December 1967 paper by stating that "Collective bargaining can raise prices and incomes of important sectors of U.S. agriculture by significant and substantial amounts. If it does not, either the farmers in this sector (1.) do not have enough power, or (2.) do not know how to use their power effectively." In comment on my paper, Helmberger, then at Wisconsin and now at California, wrote that the novelty of this conclusion was more apparent than real, for everyone knew that monopolistic programs brought monopolistic gains. But the novelty lies, it seems to me, and this I would have said if I had written a rejoinder, in that Helmberger and most other agricultural

economists have stoutly maintained that farmer cooperatives could not, for a precise list of reasons, varying among economists, gain enough monopoly power to achieve monopoly benefits of any significance. The Canadian economist, Hurd, who also discussed my paper in the December 1967 issue, went so far as to say that "what I find difficult to accept is (Johnson's) preoccupation with the voluntary cooperative route to achieve (higher milk prices and dairy farmer incomes) in the United States. . . In Canada, milk producers as a whole would wait a long time to achieve the benefits of effective collective bargaining if they waited for the cooperatives to provide them, if indeed they ever could." It is this insistence by Helmsberger, Hurd, and many other economists that gains by the cooperative route are next to impossible that make the dramatic achievements of U.S. milk marketing cooperatives in the past three years a sharp and noteworthy rebuttal.

With a few exceptions, including Cook and Graf at Wisconsin, Strain at Iowa, and Berry at Arkansas, the influence of agricultural economists on these dramatic achievements has been negative. Fairly typical was the experience of a manager of a large cooperative now merged into a larger group who said at a meeting last July that when he went to the university for help he got a list of reasons and facts as to why a merger could not be made. This list, he recalled, would have been of use in sharpening up his thinking except that some of the listed "facts" were erroneous. Probably this negative influence, most apparent in articles in the American Journal of Agricultural Economics, is due to our profession's current emphasis on problems that go into a computer for answers and de-emphasis on the need for thorough knowledge of the industry before attempting to give answers. To illustrate, suppose recent increases in milk prices result in too much milk to support desired blend prices paid cooperative members. The college economist in his ivory tower normally says there are two alternative answers: (1.) reduce the price, or 2.) put on production controls (through a Class I base plan). Actually, there are literally hundreds of alternative answers that could be suggested by one familiar with the industry. They can be grouped in categories of plans changing (a.) production, (b.) disposal, and (c.) extent of encroachment of outside supplies. They can be grouped in categories of programs (1.) by the cooperative itself, (2.) under federal orders, and (3.) other than federal orders, by state or federal agencies under existing or changed laws. Examples are federal order changes in zone differentials, in Class II pricing, in pool plant definitions, and in assignment sequences. The negative and narrow view of most agricultural economists is caused by the failure to use ingenuity and imagination together with a lack of knowledge of the industry in its entirety.

C. Need for evolving institutions

Speaking of campus unrest at Cornell's Commencement last June, John W. Gardner gave the title of "Uncritical lovers, unloving critics" to his address. His theme was that we needed "to design a society (and institutions) capable of continuous change, continuous renewal, continuous responsiveness". This is a problem in milk marketing as well as in other parts of our world.

I was first exposed to the history of farmer movements and cooperatives in an undergraduate course entitled "Farmer Movements" taught by B.H. Hibbard at the University of Wisconsin in 1933. Notes from this course are the only ones from any of my course -- graduate or undergraduate -- that still survive. The first quotation given to us early the first day by Hibbard was from John Stuart Mill, "No one class of people can afford to allow another class to legislate for them". Thirty-six years later, at the Northeastern Dairy Conference in Washington, Torgerson of the University of Missouri gave a paper on the need for evolution and change in farm cooperatives that brought my old class notes out of the files for a review of their remarkable similarity to Torgerson's theme. Torgerson's remark at the Conference that was most quoted by the listeners the following day was "we need to find a way to bury the farmer organization that has outlives its usefulness."

So in milk marketing organizations we need to change and we need to bury. In Connecticut, I have seen the honorable Connecticut Dairy-men's Association and the honorable Connecticut Wholesale Milk Producers' Council buried since coming to the state, and assisted with the job. I have seen Connecticut state milk control legislation and administration abolished. I have seen the Farmers Cooperative Dairy, Local Dairymen's Cooperative Association, and Modern Milk Marketing Cooperatives dissolved, with dairy farmer members joining a consolidated group. The National Dairy Council and the American Dairy Association have their reasons-to-be and their ways-of-doing up for review. Resistance to change is exceedingly strong, but progress means the death of some institutions and organizations, and the birth or re-birth of others. And in milk marketing, with new approaches to bargaining power being adopted with a rapidity that few would have dared to predict just three years ago, the year 1969 is an exciting time.