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NEW APPROACHES TO BARGAINING POWER IN THE DAIRY INDUSTRY
- MIDWEST REGION -

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American society has long been characterized as one in which both individual initiative and group action in pursuit of socially acceptable goals are looked upon with favor and pride. In fact, we frequently point to the vigorous pursuit of individual self interest as the prime motivating force which has shaped the American Economy into the most efficient and most productive in the history of mankind. Although this system has performed amazingly well in an aggregate sense, all individuals and groups of individuals have not shared equally in the distribution of the rewards of our collective successes. I will not burden this discussion nor insult the intelligence of such a distinguished group as this by developing the proof of this statement. The truth of this proposition has long been recognized--and the consequences of this truth are currently unfolding across the face of the nation. My own observation of this phenomenon has led me to the conclusion that much economic activity is based on--"Those who have it want to keep it, while those who don't have it want it".

That incomes of farmers are much below the level of those in the non-farm sector of the economy is an undisputable fact. Reduction or elimination of this disparity could certainly be viewed as a socially acceptable goal for American farmers. The question, then, becomes one of -- "What are the ethical or socially desirable means by which this goal of greater equity of incomes for farmers should be pursued?" Various alternative means could be (and have been) employed in an effort to attain this end. Farmers could riot in the countryside, as French farmers have recently done. Farm products could be burned or dumped in the streets--and trucks delivering farm products to market could be fired upon -- as has recently been done in this country. One could rely upon appeals to government through the established channels of an increasingly consumer oriented USDA--and this approach has practically become a national pastime for farmer representatives during the past 50 years. Many other approaches could be mentioned. But it occurs to me that it is the responsibility of farmer leaders to employ any and all socially acceptable means to improve the equity position of those people they represent. Included among these efforts should be effective involvement in political processes at the local, state and national levels. Such activities by farmer groups in their quest to improve their relative income position in the total economy is not only socially acceptable but is completely consistent with the basic format of applied economics. Therefore, it was distressing to me that the current President of the American Agricultural Economics Association -- who has had ample opportunity to observe the democratic process in action--would elect to refer to recent efforts by dairy farmers to gain some improvement in income as "...a travesty on the due process rule". I would point out to Dr. Breimyer that the principle of due process has very broad application--including the deprivation of property and/or administrative remedy when a division or a department (which was, in this case, the Dairy Division of the USDA) refuses to act. The situation to which he referred in his presidential address at the last Annual Meeting of the AAEEA was simply a matter of efforts to exhaust proscribed administrative remedy to

conditions which have in fact denied dairy farmers due process for many years. I would further point out that his implication of an existing alliance among dairy farmers and certain high officials in government was, at best, the product of an active imagination and sheer speculation. Finally, I would emphatically reject any suggestion that dairy farmers (or any other group) should be denied access to the legislative, executive, or any other branch of government in seeking relief in any problem with which they are confronted.

If I have not succeeded in doing so at this point, let me make it abundantly clear -- we in the producer sector of the dairy industry in my part of the country do not subscribe to the theory of "survival of the fittest" nor the proposition that "the meek shall inherit the earth" when it comes to efforts to shape the course for the future of American dairy farmers. I can assure you that as long as I am involved in the affairs of dairy farmers, we will vigorously pursue improvements in the welfare of dairy groups in any and every legitimate way that is available to us. Nor will we view precedent or the fact that farmers have historically stopped short of fully exhausting all prescribed methods in gaining improvements in their relative position in the economy as a deterrent to this effort.

Perhaps at this point, I should bring my discussion into sharper perspective -- and deal more directly with the assignment which I was given. In doing this, it may be helpful to briefly review some of the developments which have brought the dairy industry to its present status.

The dairy industry -- as well as other sectors of the agricultural and nonagricultural economy -- is undergoing substantial technological change. This is not a new phenomenon -- but has accelerated in recent years. Thus, changes in the methods of operations have been essential if an individual, or a firm, or an industry was to prosper and grow -- yes, and in some cases even survive. Unfortunately, however, mere change is frequently not sufficient to meet the requirements of a changing economic climate. More important is the rate at which an individual, a firm, or an industry adjusts to the evolving economic climate in which they find themselves. This is to say that in the dynamic environment in which the dairy industry is forced to operate, only rapid and continuous adjustment will suffice if participants in the industry are to maintain or improve their position -- either in an absolute sense or relative to other segments of the economy.

I am an advocate of reorganization for the dairy industry -- I take this position because of a strong conviction that the dairy industry (especially the producer segment) has suffered more from the lack of proper organization than any other factor!

But -- even a casual observer of the American dairy industry recognizes that substantial reorganization has occurred in recent years. This reorganization has been characterized by an increase in business concentration at all levels in the dairy industry. Concentration of market powers has been particularly great in fluid milk processing and distribution. For example, the four largest dairy firms process 73 percent of the Grade A milk in Federal Order Markets. 1/ The four largest grocery chains market more than one-half of the Grade A milk sold through stores. 2/

1/ National Commission on Food Marketing, Organization and Competition in the Dairy Industry, Technical Study No. 3, June 1966, p. 75.

2/ Ibid., p. 120.

Milk producer organizations have also moved toward a position of greater economic strength through mergers and federated arrangements in recent years. In an effort to improve their relative competitive position 43 dairy cooperatives located in 23 states have merged into seven organizations. These mergers have all occurred since January 1967. The combined marketing volume of these seven organizations amounts to 15 billion pounds of milk or more than 12 percent of the total milk production of U. S. dairy farmers. In addition, several federated dairy marketing organizations such as the Great Lakes Federation, Associated Dairymen, Inc., Central Milk Sales Agency, New York-New England Cooperative, and Penmarva Dairymen's Cooperative Federation, Inc., have been formed in recent years, adding greatly to the competitive strength of dairy cooperatives through consolidated efforts. At present, efforts are being made to consolidate some of the major milk producer organizations of the Southwest, Central and Upper Midwest.

Such accomplishment is impressive. In fact, you might logically question the wisdom or need of additional consolidation efforts at this time in view of the progress that has been made in improving the competitive position of dairy farmers in recent years. However, it should be evident that the adequacy of the present arrangement of the producer sector of the dairy industry should be judged -- not in terms of the amount of adjustment that has been made -- but in terms of the extent to which such adjustment has provided for a restructuring of the total dairy industry, such that the producer sector can deal effectively with the problems with which it is confronted. Unquestionably, an excellent start has been made. However, I submit that these past accomplishments must be viewed as only a start. The problems which remain are formidable and must be resolved if the equity position of dairy farmers is to be improved -- or even maintained at present levels. If there are any doubts that additional reorganization is needed -- need I do more than remind you that there are approximately 1,200 cooperatives handling dairy products in the United States.

What are the gains and possibilities arising from closer consolidation and/or increased coordination within the dairy industry? What has been done on this matter? The dairy industry has suffered tremendously from lack of organization.

(1) I say this despite the fact that the dairy industry (in most areas of the nation) is more highly organized than is true for most agricultural products.

(2) Furthermore, because of this prior history of organizations it should be much easier to attain effective organization in the dairy industry than in most other segments of agriculture.

Why organize or consolidate? Why is this need so great? Why is reorganization more necessary now than in the past?

The general answer to these questions is -- you must have a sufficient financial and product base from which to operate. The producer segment of the dairy industry is so fragmented that efforts to resolve

problems which confront dairymen at the local, regional, and national levels are not only made much more difficult, but are in large part a direct result of this lack of unification.

Let's take these problem areas one by one and briefly discuss them in light of the need for reorganization:

1. Processing efficiency

- a) There is a multitude of small, inefficient plants held by dairy farmer cooperative organizations.
- b) Can be corrected only through consolidation.
- c) There are too many plants competing for existing milk supplies.

2. Assembly efficiency -- closely related to No. 1.

- a) Competition for greater milk volumes to run this maze of processing plants causes great overlapping of procurement areas (7 in some cases) and greatly increases assembly costs. Consolidation would improve this.

3. Marketing efficiency

- a) It is estimated that 20¢ per 1/2 gal. could be saved (in Southern markets) by improved distribution. Because of lower prices in this area, possible savings may be more like 10¢ per 1/2 gal.
- b) Reductions in costs of distribution could be attained in manufacturing products by consolidation of units for distribution purposes.

4. Advertising

- a) As the industry is currently organized, there is not a sufficient base for generating funds for advertising and promotion of dairy products.
 - (1) Non-contributor problems
 - (2) Insufficient program due to lack of funds
- b) Due to lack of brands and/or proliferation of brands, advertising and promotion are not as effective as they could and should be.

5. Research and development

- a) Same problem as with advertising and promotion, i.e., insufficient financial base.
- b) Producer responsibility -- they are the ones who stand to lose (and are losing).
 - (1) Oleomargarine
 - (2) Coffee whiteners (non-dairy)
 - (3) Imitation milk
 - (4) Etc.

c) Consolidation is perhaps the only way that significant inroads can be made into this problem.

Expenditures of commercial firms and industrial groups for research and development have increased rapidly in recent years. In 1953, the National Science Foundation estimated that U. S. industry spent about \$5.4 billion on research and development. By 1966, the sum was estimated to be well over \$15 billion, and is still increasing. For the total U. S. economy, it has been estimated that research and development expenditures currently amount to about three percent of the gross national product (the value of all goods and services produced). If the dairy industry -- with product sales of \$12 billion annually -- invested in research and development at the same rate of three percent, this would amount to \$360 million per year. Although such data are not available for the total dairy industry, the National Commission on Food Marketing reports that in 1964 eight major dairy companies spent an average of 0.12 percent of their dairy sales (or about \$4 million) on research and development for dairy products. Since research and development activities are most likely to be limited to firms of substantial size, it is quite probable that the proportion of total dairy sales devoted to research and development would be substantially less than 0.12 percent reported for the eight dairy companies just mentioned.

6. Political impact (involvement)

a) Dairy Farmers' prices have long been largely dependent on the action of government:

- (1) Support prices
- (2) F. O. actions
- (3) Import-export activities
- (4) Government purchases for domestic and foreign aid

b) Dairy farmers must get involved.

c) So long as the industry is fragmented dairy farmers' organizations will frequently be at cross-purposes with other dairy groups on important issues.

7. Bargaining strength

a) 50-cent premium (September 1, 1967)

b) Improved price alignment

c) Improved trust and understanding among dairy farmers of mutual problems.

8. Producer equity

a) Area and inter-regional problems can be better resolved.

b) Mutually beneficial plans for income distribution can be better attained.

c) Uneconomic movement of milk can be minimized.

There are problems to be overcome -- but it can be, and has been, done.

I sincerely believe that the future welfare of the total producer sector of the dairy industry is closely tied to a willingness to move toward a much more tightly structured arrangement through merger and/or federations--

likely including both fluid and manufacturing milk groups.

It is of extreme importance to think about and assess the political realities of the immediate future. The Congress is becoming increasingly consumer oriented. This modification of the Congress, plus the major organizational changes in the structures of other segments of the economy, dictate that the dairy industry (and other agricultural groups) must change their organizational arrangement rather drastically -- and rapidly -- if they are to reach any semblance of equity for those they represent -- and preserve their industry as a viable force in the economy. After all, extinction for some segments is as much a part of a dynamic and changing economy as are growth and expansion. Should dairy farmers abdicate the choices for their industry to some other group whose primary interest is quite naturally only incidentally related or completely unrelated to their own interest?

I'm not talking about irresponsible demands or actions -- or preservation of antiquated structures of inefficient, small scale farmers. Rather, I am talking about a means by which adjustment in the dairy industry can be made less painful -- not a means of stopping the clock or inhibiting adjustments made necessary by the development and adoption of new technology. I'm talking about providing means for accelerating the rate of technological innovation in the dairy industry -- while at the same time reshaping the organizational structure of the industry so that the rewards of technological change may be distributed somewhat more equitably among the principals in the game, i.e., farmers, processors, marketers, and consumers.

Processor-retailer groups speak rather effectively for themselves due to their increased market power which has evolved from the changing structure in that segment of the total dairy industry. The Congress is becoming more consumer oriented by the changing composition of that body. But numbers are a good indicator of strength and effectiveness only when there is organization -- and organization is the only effective substitute for numbers. Farmers cannot do anything about the fact that they are now only six percent of the population. They can do something about the organization, and, thus, the effectiveness of those who remain. Throughout history, a well organized, strongly motivated minority has been much more effective than an unorganized majority -- look around you and you will see that this is still the case.

Will farmers speak for agriculture (or, at least, the dairy industry) or will they abdicate their fate to the will of others -- or to chance happenings. It is this choice of which I speak.