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PRODUCER BARGAINING: ITS CURRENT STATUS AND DISTRIBUTION OF BENEFITS

Calvin R. Berry

"It must be considered that there is nothing more difficult to carry out, nor more doubtful of success, nor more dangerous to handle, than to initiate a new order of things. For the reformer has enemies in all those who profit by the old order, and only lukewarm defenders in all those who would profit by the new order, this lukewarmness arising partly from fear of their adversaries, who have the laws in their favor; and partly from the incredulity of mankind, who do not truly believe in anything new until they have had actual experience of it."—

Niccolo Machiavelli [11]

These observations by Machiavelli on the nature of human behavior seem most appropriate when reviewing the current status and distribution of benefits of producer bargaining. While the concept of bargaining by farmers is not new, it has experienced a resurgence of interest of unprecedented magnitude in recent years. This increased emphasis has led some to refer to agricultural bargaining as a "concept whose time has arrived." Also, this development suggests the possibility—if not the promise—of the initiation of a "new order of things" to many of those who have observed it. The ensuing debate among some of these observers, regarding the possibility and/or advisability of obtaining significant gains for farmers through increased bargaining strength, has revealed broad differences of opinion which remain largely

unresolved, or even uncompromised. Finally, in keeping with Machiavelli's observations, the difficulties encountered in efforts to bring about increased bargaining strength for farmers have proved great enough to test the convictions of even the strongest defenders of this concept. However, benefits realized through producer bargaining have been sufficiently evident to give hope to some of those who had failed to believe.

Both professional and popular literature are replete with discussions of agricultural bargaining, and the verbiage devoted to this subject has noticeably increased in recent years. For example, a cursory review of publication dates recorded in a relatively recent bibliography on *Cooperative Bargaining for Farmers* [12] reveals that the number of articles written on this subject during the first half of the 1960's was more than one-third greater than was recorded in the previous decade. Factors associated with the various aspects of agricultural bargaining are much too numerous and complex for exhaustive treatment here.¹ However, in deference to their importance to an evaluation of the status and benefits of producer bargaining, a brief treatment of some of these factors is included.

The revival of interest in farmer bargaining is but another outgrowth of the technological revolution which has occurred in all sectors of American agriculture, especially in the past 25 years. Factors associated with this change and the resulting rapid decline in farm numbers and the increased size of farm units have been repeatedly recorded and are well understood. But the requirements of a highly mechanized, capital intensive farming system for

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¹ See [5] and [17] for an especially well-developed discussion of the subject. In addition, numerous articles relating to various aspects of agricultural bargaining are reported in the *Proceedings - National Conference of Bargaining Cooperatives*, FCS, USDA, Washington, D.C., 1957-72.

additional land, increased amounts of production capital, and superior managerial skills have been accompanied by greater vulnerability of farmers to the uncertainties of the market system. As commercial farming has become much larger and more scientific, increased certainty in both product and factor markets is required in order to properly accommodate the planning process of production.

The processing and distribution system has also been changed by this technical revolution—and with much the same result as in farming. For example, the development of assembly line techniques in processing and the mass distribution potential of large scale super-markets was—and continues to be—dependent upon a high degree of control (or certainty) over the quality and quantity aspects of raw materials and product output. Thus, the necessity for maintaining a high degree of coordination of activities, both within and among the various segments of agriculture, is evident. This need for greater coordination has led to—or has been attended by—an increasing amount of vertical and horizontal combination throughout agriculture.

Agriculture—and especially the farm sector—has long been dependent upon a market system which would yield some tolerable semblance of competitive prices, i.e., would reasonably reflect the derived demand for farm products. However, as the degree of concentration in the marketing sector increased, the system of product prices generated by competitive market forces gave way to administered pricing. Farmers felt increasingly threatened by these developments and sought possible means by which their position could be made more secure, i.e., they sought to provide themselves with a greater amount of influence over their fate. This concern was reflected in the recent efforts by farmers to increase their bargaining strength and was an outgrowth of their dissatisfaction with levels and stability of prices and incomes. To an increasing extent, farmers came to believe that government programs developed within a basically urban society were more strongly oriented toward a policy of “cheap food” than to the improvement of agricultural income. This is somewhat consistent with Ruttan’s contention that farmers and farm leaders viewed bargaining power as a potential alternative for their eroded political power [15]. Also, as farmers observed the continued growth of economic power within other sectors of the economy, they came to believe that they must develop their own power base if they were to share more equitably in the economic prosperity of the nation. This is in sharp contrast to the rather novel—but not necessarily incorrect—suggestion that

farmers have long possessed a substantial amount of power, but have failed to take full advantage of it [4].

CONSIDERATIONS IN PRODUCER BARGAINING

Early in any discussion of producer bargaining, it is helpful to establish its relationship to the term bargaining power. The reason is that bargaining is meaningless, in a functional sense, in the absence of a degree of supporting power. The term market power has a similar meaning in that it connotes a state of POSSIBLE influence by a participant on the activities within the market in which he operates. While a technical distinction can be drawn between bargaining power and market power, such difference is of little value except in an academic sense. In any event, it would be virtually impossible to differentiate between these terms in assessing the benefits derived by producers through the application of power.

The term producer bargaining power implies an ability to favorably influence prices and terms of trade. Therefore, farmers seek to build and use bargaining power as a means for exerting this influence. But the end result of the use of power depends upon the relative strength of the parties involved [6]. Therefore, any meaningful evaluation of farmers’ efforts to build and apply bargaining power should be viewed in the context of the nature of the overall market environment in which they operate.

Most U.S. industries now plan output consistent with consumer demand, which they attempt to influence at prices which yield reasonable returns on investment [7]. Agriculture remains almost unique in operating in a competitive environment where market forces beyond the control of firms in the industry determine price and output. The focal element influencing the competitive position of farmers is the atomistic nature of the individual producer. Given this multitude of “independent” decision-makers in the farm sector, it was inevitable that farmers would be largely ineffective in dealing with forces which affect their prices and incomes except through concerted group action.

The substantial lack of equality in the strength of participants in markets where farmers operate is well understood by most observers. Paarlberg [13], in addressing the Fourteenth National Conference of Bargaining Cooperatives in 1970, acknowledged the RIGHT of farm people to organize, to be recognized, and to negotiate with a handler as a fundamental principle of equity—(because)—the bargaining power of two negotiating parties should be approximately equal. Brandow [3] recognized the NEED for

bargaining in agriculture in order to increase farm prices and to make them more stable, and to provide for market reorganization in order to better accommodate coordination between farming and other sectors of agriculture.

Farmers have historically employed the cooperative form of business organization as a vehicle for joint action to meet various felt needs and objectives. Cooperatives have long been used by producers for the performance of various marketing activities in both buying and selling through traditional marketing channels. Most of these organizations were designed to accomplish efficiencies in performing such marketing functions as assembly, storage, processing, etc., and in some cases bargained with independent outlets for prices and/or other terms of trade. Examples of such organizations are cooperative creameries, cooperative grain elevators, and cooperative feed and supply stores. Specialized group bargaining associations for farmers have more recently appeared in such forms as fruit and vegetable bargaining associations and, even more recently the National Farmers Organization (NFO) and the American Agricultural Marketing Association (AAMA) which is an affiliate of the Farm Bureau. These associations normally do not physically handle products but confine their efforts to such services as collecting market information, assisting in contract analysis, and contract negotiations.

As farmers have come to recognize the futility of individual action, they have turned to group bargaining associations (such as NFO and AAMA) and/or their cooperative commodity organization in an attempt to obtain greater protection and representation in arriving at prices and other terms of trade attendant to their involvement in the coordination of agriculture. Their goal was to assure themselves access to the market at more favorable prices and terms of trade. The accomplishment of this objective necessarily involves a consideration of the relative power positions of the parties involved in the trade. In the absence of a degree of power the present and future welfare of a party is absolutely contingent on the decisions of others and can be expected to tend toward a position of subservience. It is from this conviction that farmers' desires for bargaining power arises. And, perhaps, it is from this vantage point that the "bargaining power issue" should be viewed.

Effectiveness in the development and use of bargaining power is closely related to the ability to co-ordinate activities, and to mitigate conflicting points of view among parties within the bargaining group. As was previously mentioned, farmers have

historically employed the cooperative form of business organization as a vehicle for joint action to meet various felt needs and objectives. Similarly, the major thrust of farmers' efforts to develop bargaining power has been through their cooperative organizations. Perhaps the obvious point should be made that the mere formation of farmer cooperatives does not within itself assure the creation of bargaining power for its membership. However, farmer-owned cooperatives have and do provide the most feasible way to increase producer bargaining power; and to be most effective in this role they must be strong and in most cases large [16].

EFFECTIVE BARGAINING – PREREQUISITES AND DIFFICULTIES

Frequent reference is made to the economic and social requirements for attaining producer bargaining power.² While a variety of listings could be given, the central element involved is the ability to control some factor, or factors, that can influence the terms of an agreement. This is simply a restatement of the basic relationship of power to effectiveness in bargaining. In general, the requirements that must be met by farmers if they are to develop maximum bargaining strength are:

1. Control supplies of the product.
2. Attain and maintain unity among members.
3. Gain recognition from opponents.
4. Perseverance.

These prerequisites are both complex and highly interrelated.

Emphasis also has been repeatedly given to the proposition that the characteristics of farming and the peculiarities of farmers make the establishment and maintenance of producer bargaining power extremely difficult. These anticipated problems and limitations can be summarized as follows:

1. Geographic and seasonal dispersion of production of agricultural products which frustrate efforts to control production.
2. Legal and institutional problems which limit the organization in its efforts to build a power base.
3. Physical and demand characteristics of agricultural products which complicate the effort or end result of product control.
4. Propensity of farmers for managerial independence which leads to a lack of unity in the bargaining effort.
5. Difficulties in securing and maintaining producer participation in the absence of

² See [2] and [9] for a particularly cogent discussion of the subject.

attaining a high degree of success in the sharing of associated costs and benefits.

6. Difficulties in offsetting counter strategies of opponents.

These points are undoubtedly valid and are basic to the outcome of any bargaining effort. Consequently, their development was an invaluable contribution to the body of economic knowledge pertaining to this important subject. Recognition of these points is essential in any well-reasoned consideration of the bargaining issue. However, there are few, if any, agricultural groups who can fully overcome all of these obstacles in establishing bargaining power. In fact, some agricultural groups may find that they can master few, if any, of these obstacles to maximum success in bargaining. These inherent or acquired inadequacies undoubtedly serve to limit the power potential of affected groups. Establishing and maintaining bargaining power is difficult; and the degree of such difficulty increases at a rate which is at least proportionate to the success of the enterprise. The existence of power invites the formation of a counter force; and this is no less true of those who are in a superior power position than of those who have relatively limited power. Despite this fact, bargaining power has been developed by various agricultural groups and has yielded benefits to the farmers--and in some cases in substantial amounts.

DEVELOPMENT OF BARGAINING POWER THROUGH COOPERATIVE ORGANIZATION-- AN EXAMPLE FROM THE DAIRY INDUSTRY³

One of the most successful examples of the creation and use of producer bargaining power through cooperative action is provided in recent organizational developments in the dairy industry. This movement received its major stimulus with the formation of two large cooperative federations during the first half of the 1960's. One of these organizations, Associated Dairymen, Inc., covered much of the central one-third of the nation from the Gulf of Mexico to the Canadian border and had over 50,000 farmer members in 1970 producing approximately 20 billion pounds of milk. The second, the Great Lakes Milk Marketing Federation (which was later expanded under its new name Great Lakes-Southern Milk, Inc.), covers much of the nation east of the Mississippi River (excluding the area in the extreme northeast). In 1969, this federated group had 34,000 members who produced 13.2 billion pounds of milk.

The formation of these federated groups was a reaction to a felt need arising primarily from:

1. Extremely low incomes in dairy farming.
2. Rapid technological developments in the industry which greatly expanded the geographic interdependence of milk producers.
3. A strong conviction among some dairy cooperative leaders that effectiveness in government and political relations was basic to the primary objective of improving income to dairy farmers.
4. A growing concern over adverse trends in the consumption of milk and dairy products.

The primary activities of these federated organizations were directed toward:

1. Co-ordination of bargaining efforts of member cooperatives for the purpose of improving the level and alignment of milk prices.
2. Presenting a unified front in federal milk market order hearings.
3. Development and use of increased sophistication in government and political relations.
4. The expansion, initiation, and co-ordination of programs designed to increase the use of milk and dairy products.
5. Providing technical assistance in merger and consolidation efforts among dairy farmer organizations throughout the nation.

Guided by the experiences of federated action, managers of some of these member cooperatives recommended adoption of inherently stronger forms of organization. An unprecedented wave of mergers followed, which between 1967 and 1970 brought more than 170 local cooperatives and 70,000 milk producers together in four large regional cooperatives. Combined milk production of producers in these organizations was approximately 28 billion pounds in 1970.

The largest of these cooperatives is Associated Milk Producers, Inc. (AMPI). More than 100 dairy cooperatives were ultimately brought together to form this single, fully-merged organization. AMPI reported 16.1 billion pounds of milk and 2.2 million pounds of cream produced by almost 44,000 farmer members in 1972 [1].

Many of the goals and activities of such fully-merged cooperatives are essentially the same as those enumerated for the cooperative federations (at least as regards activities related to bargaining).

³ A detailed account of this development is contained in [10].

However, it should be noted that potential problems associated with maintaining unity of action among members normally decline as the number of autonomous participants is reduced.

Regional co-ops such as AMPI have rather unique advantages in bargaining to either directly or indirectly influence product prices or other terms of sale through use of market power. These opportunities include, but are not limited to, the following:

1. Substantial influence of supplies of farm products within and among markets.
2. Greater efficiency in farm product assembly.
3. Increased producer unity and coordination of production and marketing activities.
4. Increased potential for effecting total product output (possibly would require an assist from government).
5. Improved ability to capitalize on elasticity differences among markets and end uses of product; and among time periods.
6. Greater effectiveness in political and government relations (price support program, school milk, military contracts, import-export activity, etc.).

The goal of producer bargaining is to favorably influence product prices and other terms of trade through use of market power. However, the effect of producer bargaining on farm prices and income is hard to measure because of the complexities of the market process. Also, one never knows what the result would have been from alternatives that were not pursued. However, Knutson [10], while acknowledging the difficulty of measurement, attributed the following gains to dairy cooperative bargaining efforts during the last half of the 1960's:

1. Premiums over federal order prices (13 midwest fluid milk market):
 - A. Prior to 1965 = \$.05 to \$.15/cwt.
 - B. After 1965 = \$.34 to \$.51/cwt.
2. Changes in federal order prices and provisions:
 - A. Increase of \$.23 to \$.24/cwt. for most markets in the Central United States during 1967.
 - B. \$.27 to \$.29/cwt. for most midwestern markets during 1968-69.
3. Support price increases for the nine-year period 1959-1960 to 1968-69 = \$.50 to \$.75/cwt. or slightly more than double the increase expected under competitive conditions.
4. Producer prices and income—(for producers in the 13 midwestern markets) increased almost 32 percent between 1960-68.

While indicators relating to the effect of higher prices on producer incomes are crude and inadequate, available evidence suggests that milk price increases have substantially enhanced producer incomes.

USDA studies indicate that returns to labor, management, and capital on a representative eastern Wisconsin dairy farm approximately doubled between 1960-68.

Hourly returns to operator and family labor on these eastern Wisconsin farms increased from 57 cents in 1960 to \$2.47 in 1968.

Cost of operating the network of regional and federated cooperative is at least twice as great as was involved in operating individual market cooperatives prior to the federated and regional cooperative bargaining efforts. However, these higher costs were associated with expanded programs by these cooperatives for improvement of the bargaining and marketing process. Included in these programs were such items as financial support for standby pool, writing off obsolete plant capacity, expenditures for public policy programs to benefit milk producers, expanded promotion and research, etc.

PRESENT STATUS OF PRODUCER BARGAINING

A general assessment of the present status of producer bargaining quite logically reveals a diversity of situations. This is to be expected due to the heterogeneous nature of agricultural production and marketing and differences in the form and stage of development of organizations employed in various bargaining efforts. When one considers the nature of agricultural products and production within the context of the requirements for effective bargaining, it should be evident that the degree of success will likely differ among products—and for a given product over time. However, it may be somewhat less evident that success in the development and maintenance of effective bargaining schemes vary for an individual product at a given point in time. This diversity of results may arise due to inherent differences in the success potential of alternative forms of bargaining organizations, but also because of the differences in the individual qualities of bargainers, e.g., ingenuity, toughness and dedication. While the importance of this latter factor (differences in bargainers) is often neglected in such discussions, it is likely the single most important variable in explaining differences in bargaining results. This is especially true in an industry, such as farming, which is in its infancy in terms of development and use of bargaining power. In fact, the farm sector is still viewed with considerable disbelief and/or disdain in its bargaining role by many opponents and observers. The ultimate outcome of

the bargaining effort is logically influenced by the environment in which the negotiations are conducted.

Some farmer organizations have made substantial gains from bargaining, as noted in the example of the dairy industry. Admittedly, such factors as the long history of cooperative action in the dairy industry, the downward trend in milk production during the early years of the movement (which was offset to some extent by reductions in consumption), the existence of government assistance through a system of federal (milk) orders and the price support program were instrumental in improving the potential for success. However, given the adverse factors surrounding this experiment such as the wide geographic distribution of producers, the history of open warfare among principals over markets, wide differences in managerial philosophy among managers of potential joining organizations, the violent reaction in opposition to the movement by vested interests both within and outside the industry, etc., caused most observers to give this venture almost no chance of success.

A PLEA FOR EDUCATION AND LEADERSHIP

One is again reminded of the parallel of Machiavelli's observations—"the reformer has enemies in all those who profit by the old order, and only lukewarm defenders in all those who would profit by the new order"—to the prevailing attitudes toward producer bargaining. Formidable and persistent opposition has continued to accompany efforts to develop and/or maintain bargaining power in agriculture. Much of this opposition seems to arise from those who stand to gain from maintaining the status quo. This is reasonable to expect. However, this tendency has drawn sharp criticism from numerous agricultural leaders. For example, Claude W. Gifford, Economics Editor, *Farm Journal* (and now Director of Information, USDA), in addressing the Fifteenth National Conference of Bargaining Cooperatives in Washington, D.C., in January, 1971 said:

"There will be some increasingly 'hard sell' against farm bargaining as you do become more effective. There are people around working against you, as you well know--processors and handlers, naturally. But there will be others, too."

He went on to say, "skeptics say it won't work. Some politicians who represent consumers primarily. People employed in government

programs who believe that only government can do the job. Planners who believe that the public, through government should determine more of the nation's production and prices. Those who are afraid of farmers getting too much power over prices."

This is not to say that opposition should be stilled or even be discouraged. In fact, opposition to the development of bargaining power by farmers or any other group may be defensible from the standpoint of efforts to preserve the competitive aspect of the market. To say the least, this is a reasonable proposition for debate by economists. However, convictions that the development of bargaining power should be discouraged is not, in my opinion, a legitimate justification for negativism with respect to the possibility of developing bargaining power. Too, it seems that as social scientists and educators, we have a prime responsibility for assessing the equity considerations implicit in the progressive reordering of agriculture. Padberg [14] in addressing this issue commented—"If technology continues to enter agriculture, challenging institutions and upsetting power balances, and if balance-redressing organizations are seen as needed, what assistance can be given? ... In the case of bargaining in agriculture, the question becomes one of how to help develop new institutions for agricultural marketing and pricing. Educators have a vital role."

Some articles written on the subject of bargaining power appear to be extreme in that they are directed toward refuting obviously questionable objectives of bargaining. For example, one finds reference to the uncontested point that the development of bargaining or market power cannot be expected to cure all of the ills of agriculture. Others seem to imply (perhaps unintentionally) that significant gains from bargaining result only when most, if not all, requirements are met for attaining maximum market power. This is not to suggest that all extreme statements are of a negative nature. Exaggerated claims of potential benefits to be derived by farmers from establishing and using bargaining power are also often found. It would appear, however, that the balance of expressed opinion on this subject is decidedly in a negative vein. This seems to be especially true of much of the writings of academic agricultural economists. This is not to imply a lack of objectivity nor technical competence among those who embrace these views. In most cases, the validity of the economic rationale advanced by these writers in support of their conclusions meet the most

rigorous test for technical sufficiency. However, such conclusions seem to suggest a state of existing provincialism within the profession which has, in my opinion, seriously limited development of an important evolutionary process in American agriculture. Therefore, the present status and realized

gains from producer bargaining must be viewed in the context of our own lack of faith which may well have been the most serious obstacle which the bargaining movement in agriculture has encountered, and may continue as its greatest challenge.

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