4-1-1961

Group Bargaining Power for Farmers

Purdue University Cooperative Extension Service
GROUP

BARGAINING POWER

for farmers

- Why the rising concern about relative bargaining power?
- Several alternative approaches for improving bargaining power
- Issues that are subjects for bargaining
- Sources of possible gain from bargaining activities
- How can the gain be secured?
- Some organizational consideration

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To Those Interested in the Well-Being of Agriculture:

Currently throughout the state and nation there is a great deal of interest in what is called the lack of bargaining power of farmers in the market place. Over the past several years, market news and standardization and grading practices have been improved. Many types of government programs have been put into operation. Many of these actions have helped farmers gain more equitable treatment in the market. In spite of these actions, however, the concern over inequality in market power has increased sharply. Several different organizations are now trying to "sign-up" farmers into new bargaining groups.

Farmers and their leaders are asking several questions about these organizational efforts. "Can we get anything by organizing?" "Can we obtain any benefits without control over supply?" "How much supply control do we need to be effective?" "Can we obtain supply control without the aid of the government?" "What are the kinds of problems that might be solved by group action?"

The following discussion is not for or against these proposed actions. It presents some general principles and suggests a way of analysis that will be helpful in answering these kinds of questions. It does not give detailed answers as to whether a bargaining association should be formed for hogs, tomatoes or soybeans. It does, however, point up the kinds of data and analysis which are necessary if these organizational efforts are to succeed.

Like so many experimental developments, decisions must be made on fragmentary information and imperfect knowledge. Action should not be rejected simply on the basis of the past or bias. Neither should action be taken based on the emotion of enthusiastic promotion. The challenge is to think clearly as possible with the aid of as much pertinent data as can be obtained.

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on Group Bargaining Power

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GROUP BARGAINING POWER FOR FARMERS

WHY THE RISING CONCERN ABOUT RELATIVE BARGAINING POWER?

Why the increasing concern over the bargaining power of agriculture? One over-riding reason is the continuing and growing disparity of income between the farm and non-farm sectors. However, there are other reasons growing out of changes occurring in the market of farm and food products which are focusing attention on the farmer's relative market position. The more important of these changes can be summarized as follows:

1. The increase of selling by farmers direct to production area buyers and the resulting deterioration of the importance of the terminal or central market. Individual transactions between farmers and the marketing system now involve more personal contact and negotiation and are scattered over large areas. Many farmers felt more comfortable about the "rightness" of prices when they were discovered by many buyers and sellers getting together in an organized fashion.

2. The growing "bigness" in agricultural marketing. Processors and wholesale-retail organizations have become increasingly large. Labor, an important cost item in marketing has become more organized. More and more "group organizations" seem to be part of the market. The area from which products can be purchased and over which they can be distributed has increased until it is often nationwide in scope. Interregional competition of agricultural producers is a major issue. In the face of these developments the individual farmer feels increasingly small and insecure.

3. The increasing use of contracts and integration arrangements for the selling of farm products. Buyers are increasingly demanding large uniform lots of some specified quality and some assurance of regular delivery. To get this, details of production and marketing practices as well as price have become subjects for contractual negotiation. Farmers realize that such negotiations may cover a wide range of details about which they have little knowledge. In addition, such contracts, once agreed upon, may remain in force for a considerable period of time.

4. The increasing pace of changes and innovations with the resulting problems of how the costs and benefits will be shared. New technologies of all kinds are being introduced at a rapid rate. Often, these are costly and must be adopted widely and quickly if the farmer is to retain his market. How should the costs and returns of these changes be shared? Farmers are raising the question whether they get a "fair deal".

SEVERAL ALTERNATIVE APPROACHES FOR IMPROVING BARGAINING POWER

The above developments result in more and more situations in which the final terms of trade between farmers and their buyers (or sellers) are not arbitrarily given by an impersonal market but are instead subject to negotiation between parties. The relative bargaining power of the participants therefore becomes very important. There are several alternative lines of action which might strengthen the bargaining position of farmers:

1. The individual himself may enhance his bargaining position. He may become better informed about the pertinent market facts. He may increase the scale and quality of his operations so he has a more valuable product package to sell. He may work more actively for improved market news services, better grading practices and increased public research information so that there is less ground for discrimination.

2. The government through broad programs may enhance the farmer's position.
This action may take the form of such actions as price support programs, production control techniques, land-withdrawal techniques, and direct market purchases which affect the supply and demand conditions of the market. Action may also be taken outside the market in the form of direct payments to producers, etc.

3. Through traditional cooperative organization, farm groups may own and operate off-farm facilities in direct competition with other firms. This may help secure more favorable treatment and help guide developments. These cooperative operations traditionally have placed emphasis on the owning and operating marketing facilities. These have acted as pace-setters and competing forces and only indirectly have concerned themselves with bargaining over the terms of exchange.

4. Farmers may organize themselves into groups (cooperative or noncooperative) for the specific purpose of selling (or buying) products more effectively. These bargaining groups may have many variations in their operations. They may be local, regional or national in scope. They may either seek voluntary compliance of the group members or they may use the power of government to force compliance of members. They may attempt either to control output or merely to seek the best terms or develop markets for the output that exists. They may own and operate some market facilities or act simply as their members' bargaining agent.

Each of these possible approaches has merit. Individual effort, government policy, and cooperative business operations all are important avenues for consideration and action. However, the following discussion will limit itself to the potentialities and limitations of organizing special interest groups for the specific purpose of obtaining more favorable terms of trade at the bargaining table. (No. 4., as listed above).

ISSUES THAT ARE SUBJECTS FOR BARGAINING

Many specific issues are possible subjects for negotiation between the representatives of an organized farm group and other parties in the market. Some of these are directly concerned with prices; others are concerned with the many production and marketing details which become part of the total income package. The following illustrate the wide range of potential bargaining problems:

1. Questions concerning the "right" price: What should be the level of prices in the short-run for a particular transaction or for many transactions over a longer-run period? What should be the pricing details such as the amount of seasonal, quality or quantity differences in prices?

2. Questions concerning market operating procedures. What particular market quotations will be used as a basing point for determining prices? What other market information is to be used in price determination and how? What grading standards will be used and how will they be applied? When and how will payments be made?

3. Questions concerning production and marketing specifications. How much production is wanted and when? What is the minimal size of permissible sales unit? What farm operational practices are necessary? What kind of pack, carton or crate will be used? How and when will the product be picked up from the farm? How will desired practices be financed or accomplished? How will the cost of these practices be shared or borne between farmers and the other parties?

4. Questions concerning possible joint activity of the farm group and the other market agencies. How can potential competition be handled? Who should speak for the industry to others? Should advertising and market development work both domestic and
foreign be undertaken, and how should it be paid for? What governmental or other third party actions are needed?

**SOURCES OF POSSIBLE GAIN FROM BARGAINING ACTIVITIES**

If bargaining activities of farm groups are to be successful, there must be increased benefits or returns coming to the members of the group as a result of its action. These benefits must come from somewhere. Unless there is the possibility of gain from some source, group efforts to obtain greater member benefits will be doomed to frustration and failure. One of the first and most important steps in evaluating the potential success of bargaining efforts is to isolate the potential source of gain.

There are three general sources from which such gains may come:

1. Gains may be secured from improved production or marketing efficiency resulting from the changes accomplished by the group.
2. Gains may come from the opponent in the bargaining activity.
3. Gains may come from a third group such as consumers, other marketing agencies, or society in general.

The issue may come down to the simple proposition that if the farmers' bargaining group secures more, the opponents at the bargaining table will secure less. Generally, this would be the case in which the over-all level of prices or other across-the-board "fringe benefits" were at stake.

The issue may, however, be dealing with changes in which equitable treatment of different members of the group or improved operating practices are involved. Should the season or grade differential be shifted even though the average level of prices remains the same? Will proposed changes in operating practices result in a better product, increased operating efficiency of the buyer's plant, or more orderly market procedures? In these instances the gain may be a mutual one to both parties coming from reduced or re-arranged costs of total operation.

Or again, the issue may involve how the two parties at the bargaining table can act together to secure extra returns from other market agencies, consumers, or from society by a change in government operation. Such issues as how to keep competitors out of the market, influencing favorable consumer demand, undertaking joint research and information programs or pressuring for favorable legislative action would fall in this category.

**HOW CAN THE GAIN BE SECURED?**

The previous discussion points up two important preliminary steps in analyzing a bargaining proposition - isolating the problem issues and classifying them as to the source of possible gain. However, in order to secure beneficial results at the bargaining table, the group must have some degree of power with which it can force concessions from the opposing side in order to secure a favorable solution to the negotiation.

**Sources of Market Power**

Several sources of such market power might be enumerated as follows:

1. The act of organization into a group. Organization tends to have the effect of changing the market structure in favor of those who organize. Thus, a prospective purchaser of a farm commodity deals not with a large number of relatively small sellers, but with one (or a few) representatives of a large group of sellers. The forming of an organization and the recognition by others that its representatives do speak for a group is an important step in itself. This often means, too, that the information of the market will be more accurately and uniformly held among the different parties.

2. A history of successful contract performance. Successful bargaining usually involves contracts in which terms resulting from negotiations are spelled out. Each party of the contract should strictly adhere to the provisions of the contract so that objectives of the bargaining may be satisfactorily reached. The degree to which one party
fails to live up to its agreements will likely be reflected in subsequent bargaining efforts.

3. Having a different product because of the group action. Farm groups may be able to put a product on the market which is readily distinguished from other similar products. When such differentiation is recognized by buyers as being beneficial to them (such as a more uniform pack, large, dependable supplies, or higher quality), added bargaining power is gained by the differentiating group.

4. Control of the amount offered to the market. The maximum in power is the ability to effectively control the amount offered for sale. The issue of effective market supply control has several dimensions:

a. Time. There are both short-run and long-run considerations. It does little long-run good to withhold "today" if the amount offered "tomorrow" is simply increased by the withholding action. Getting effective control of the supply for a length of time is a major task. The direct method is to control production itself. If this is not feasible, the owning and operating of competing storage and processing facilities by the bargaining group itself may give an element of supply control during a limited period of time.

b. Extent of the market area. To control supply effectively implies that all the pertinent market offerings be included. In a nationwide market such as the meat industry wherein production is widely scattered throughout the country, even complete production control of the output of a country or state can have only short-run impact at best. On the other hand, the situation is quite different if the production is highly concentrated in a small area, even though the product is distributed nationwide. This would be the case in specialty products such as lemons.

c. The future potentials. The future takes on a two-pronged dimension. If supply control is sufficient to secure increased returns, new producers and new production areas will be attracted on the supply side and competing or substitute products may encroach upon the demand side. New entries into the market from either of these directions must be effectively held in check otherwise gains will evaporate over time.

How Much Power is Necessary?

It is immediately apparent that the extent of power necessary to secure results will vary with the types of issue under negotiation and from whom the gain is to be secured. Situations of mutual gain from increased efficiencies require least potential power and coercive ability. Situations in which the gain is to come from some third party may also require rather limited power. Situations, however, in which the gain is to be extracted from the opponent at the bargaining table, require that real and substantial market power on the part of the farm group exists.

In most situations all of the above sources of potential power must be in existence to some extent. In all situations control over producer-members must be achieved to some degree - otherwise the bargaining group really neither represents anything nor can it deliver anything after the negotiations are finished. Just how far a group must go in its control over supply in all of its dimensions discussed above will depend upon the situation. One conclusion is clear. Effective supply control is necessary if the issue is to substantially raise the general level of prices without any other coincidental changes. For issues in which there may be some community of interest, efficiency or limited equity problems, something less than such full control may be adequate.
SOME ORGANIZATIONAL CONSIDERATIONS

If careful analysis of the problem and potential organization for bargaining purposes demonstrates that successful bargaining action is feasible, the actual act or organization must be accomplished. Can the necessary number of farmers be persuaded to join together to create the group organization?

For any long-run success one fact must be presented squarely to prospective members. Complete individual freedom and effective group action cannot fully exist together. As pointed out, one of the sources of bargaining power is the recognition that the leadership of the group can secure the agreed-upon actions from the individual members. Individuals will have to transfer some of their prerogatives of management to the group and be prepared to obey its agreements.

Several conditions, which to the extent they exist, will make organizational efforts easier. To the extent these are not existent, the harder will be the organizational work. Some of the more important of these conditions which make organizational efforts easier can be listed as follows:

1. Production is limited to a small production area; the number of producers is small.

2. Producers are specialized and highly interested in the commodity.

3. There are past experiences of successful working together.

4. Skillful and responsible leadership is available.

5. An environment in which the disparity of bargaining power seems obvious and there is no great fear of retaliatory measures. Usually this means that the buyers (or sellers) with whom the group will be dealing are relatively few in number (or are organized into relatively few groups), but are not so few and powerful that the farmer fears their actions if he joins a group.

6. Legislation which facilitates the organizational activity is available.

OTHER CONSIDERATIONS

1. Successful examples of substantial agricultural supply control based on voluntary agreement of group members are practically non-existent. The extent and degree of control over member action necessary apparently need the compulsion given by government police power. The activities of milk producers and certain fruit and vegetable groups are often cited as successful producer attempts to gain bargaining power through some control of supply. These examples, however, in most cases have utilized the marketing order technique. The provisions of market orders, when approved by the majority of producers, become binding on all. The current federal legislation limits the marketing orders mainly to milk and to certain fresh fruits and vegetables. In addition, some states (of which California is the notable example) have legislation which permits the development of state-wide marketing orders. Currently, Congress is being asked to extend the present market order enabling legislation to a much broader list of commodities. Many other states are also considering granting organizational powers to agricultural groups so that they may accomplish certain specific purposes.

2. The fundamental characteristics of the demand for a particular commodity basically limits the potential income benefits from supply restrictions. For some commodities, buyers are very sensitive to rising prices and the new income received from smaller amounts at higher prices may actually be less. For other commodities, buyers may not be so price sensitive and great-
er income will result from these restricting efforts. Also, because consumers can almost always find substitutes at some price given enough time, actions which are too greedy in the short-run may actually cost the group in the longer-run.

3. There are some legal restraints which will affect some group bargaining efforts. Legislation excludes agricultural producers and labor from much of the regulation of the Sherman Anti-Trust Act which prohibits combinations and conspiracies in restraint of trade. The Clayton Act and the Capper Volstead Act have recognized the right of agricultural producers to organize and engage in business. However, there are some restraints on the activities of agricultural groups. The courts have found cooperatives in violation of anti-trust laws when they conspire with non-producer groups to lessen competition or restrain trade. The courts have also found that producer groups may not restrain trade or achieve monopoly power by preying on independent producers, processors or dealers. Thus, producer groups cannot combine with competitors so as to use a monopoly position as a lever to further suppress competition. Neither can a producer group acquire the assets of another corporation where the effect may tend to create a monopoly or substantially lessen competition. The legal limitations on producer price bargaining have not arisen because of the level of prices they obtain, but rather because of the methods used in obtaining them.

The full legal position of farmer's bargaining organizations if they become wide spread and successful in their monopolizing and price raising activities is not clear. To date the operations of cooperatives and farmer's organizations have not been seriously challenged by the anti-monopoly laws. Perhaps this indicates that these groups have not fully utilized the economic power legally available to them. There is always the potentiality of public reaction if such groups carry their actions too far at the expense of the general public.