POTENTIALS AND PITFALLS IN COLLECTIVE FARM BARGAINING

Bargaining as a concept is gaining acceptance among farmers and farm leaders. There is no intent today to be a proponent or opponent of farmer bargaining or to discuss its mechanics. Rather, I will provide some ideas, some criteria, and some viable alternatives so you may make your decision regarding collective farm bargaining.

Growth in bargaining is only one symptom, among many, of widespread changes occurring in agricultural marketing. The titles of the other papers "Live Animal Pricing" and "Big Changes in the Big Meat Market Centers" are recognition of substantial changes. We are coming face to face with the rapidly emerging issue of who will control the production and marketing of farm products. Closely related are pricing and coordination mechanisms. Bargaining is related to both pricing and coordination. Accordingly, I was asked to provide a background and framework that will assist in putting the total issue in prospective.

THE SETTING

The food sector has become highly specialized and industrialized with control of economic activity shifting as firms become larger and more capital intensive. Control is being centralized and concentrated through contracts, leases, and vertical integration. Conglomerate firms are becoming more influential in organization, ownership and management of farm production and marketing. These developments, although limited, have brought into farming the full power of capital, technology, and business enterprise already present in more highly industrialized sectors of the economy. These component include product and service development, brand differentiation, advertising, packaging, and other practices that are designed to create demand for a specif product and then tailoring production and marketing accordingly.

Farms have grown larger; some are much larger. Most are a two or three man operation or are of a relatively small proprietary type operation. Increasing technical complexity of agriculture, and economies of size requires more skill and more money and has been met by specialization in commodities, technical commodity knowledge, and special credit sources.

The increased incidence of vertical integration and contract production for some farm products is widely recognized. This tends to reduce the sovereignty of farmers. Less well recognized has been the industrialization of agriculture and the shift from marketing farm commodities to marketing food and services.

Many observe that commodity markets are gone on live broilers; commodity trading ended on eggs; support prices used for some farm products; minimum milk pricing by federal market orders and super pools premium pricing by

---

By Wallace Barr, Extension Economist, The Ohio State University.
Talk at National Livestock Feeders Association Annual Convention, February 9-11, 1972 at Omaha, Nebraska.

milk cooperatives; and central markets almost gone for fruits and vegetables. Livestock terminal markets are declining in number and volume handled. Both buyers and suppliers have become much larger, some have diversified into food and non-food items, and some have integrated vertically in extending the system of access to farm products.

Beyond these changes are a transformation of processing, retailing, and marketing featuring product development, promotion and a brand battle. The incentives, targets, and practices used are strange to those selling products for a price in open markets. These changes tend to induce parallel or counteracting changes--including defensive measures like self-help programs and bargaining.

The trends do not appear to be a temporary departure from the open market system and the small proprietary agriculture that has dominated farm organization for so long. The emerging issue is not whether to keep things as they are; it is neither desirable nor possible. Rather the issue is whether some version of dispersed farm production and marketing organization is to prevail or whether the control will be concentrated within a relatively small number of firms.

A number of people are recognizing and wrestling with this highly complex issue. For our purposes some method of differentiating the control system is necessary. One is presented on a very tentative basis.

1. Dispersed Control
    a. Open Markets
    b. Variations upon Open Markets

2. Intermediate Systems of Control
    a. Group Control
        1) Marketing Cooperatives
        2) Bargaining Groups

    b. Government Involvement
        1) Market Orders
        2) Marketing Boards

3. Concentrated Control
    a. Horizontally Structured Organizations
    b. Vertically Structured Organizations

There are additional combinations of the above, not simply between the dispersed open market system, the intermediate system or the concentrated system organized either horizontally into giant farming corporations or vertically integrated systems.

WHAT IS BARGAINING?[1/]

Bargaining is negotiation between two or more opposing parties to arrive at prices and/or terms of trade or contracts. Bargaining is not decreeing but requires two or more parties negotiating over prices and terms of contracts. We have lots of individual bargaining but we are focusing today on group action, collective bargaining or organized efforts to improve prices or contractual arrangements.

There are two distinct facets to bargaining: prices and terms of trade. We need briefly explore each to further develop the background and framework for all three papers. Then we will move to the potentials and pitfalls in farmer bargaining.

Role of Prices

In any economic system some means of coordination is necessary. There are at least two basic methods used in our society. One is the open market system. The second is an integrative system in which a firm or organization manages much of the coordination process from production to use. In actual practice there are numerous subtle shadings.

Open Market. In the open or competitive market system prices arrived at in open competition between many buyers and sellers governs who gets the product, and prices are the basis for incentives and distribution of income. This system has been basic to agriculture, but has been modified by newer methods of selling and by government programs. Open market trading is easiest to describe as central or terminal market trading, auctions or tele-auctions. Central or terminal markets at one time accounted for the bulk of the livestock marketed but has declined to about one-fourth of today's total. The central market was important for fruits, vegetables, cotton, wool and poultry products. Except for grain products most central markets appear to have passed their zenith. Auctions and tele-auctions perform the same functions but have not taken up the "slack."

The decline of central market trading in some products is being partially replaced by individual negotiations that take place in two major ways--direct selling and formula pricing. Direct selling has increased rapidly in livestock (note the demise of the Chicago stockyards) and in the selling of other farm products. One important feature of direct selling is the use of a "going price" and central markets typically provided them. But when much of the product is sold direct, questions arise as to the validity of using the central market or auction prices as the industry price.

Formula pricing used in feeder and fed livestock sales features a price differential above or below a base price whether sold on a live or carcass basis. The base price is usually some designated quoted market

---

1/ Bargaining in Agriculture--Potentials and Pitfalls in Collective Action, University of Missouri Extension Circular C911, June, 1971, was used as a reference without citation of specific authors.

price. Again the "going price" is eroded as increasing numbers use formula pricing or sell direct. In some cases, notably eggs, there is no reliable market price to report. The fact that livestock pricing mechanisms are to be discussed on this program testifies to concerns and changes in the method of determining value in the exchange of ownership.

Integrative System. In the evolving integrative system one organization performs several of the product-flow coordinating functions. It may be a corporate firm or a farmer cooperative. It may operate through ownership, contracts, leasing or a combination of the methods. It may function largely by administrative decision including negotiation of contracts.

According to the USDA about 95 percent of the milk and broilers are sold under integrative or contractual production; 70-75 percent of the processed vegetables, citrus fruits and sugar crops are contracted; 40-50 percent of the eggs, turkeys and potatoes; 20 percent of the cattle and 3 percent of the hogs. These products move directly to processors without open market trading.

Terms of Trade

If the marketing system were only a price system, bargaining would only negotiate prices. Price is often, but not always, the principle item to be negotiated. The terms of contractual production is of increasing concern since much of the milk, poultry, sugar beets, processing fruits and vegetables, and relatively small, but increasing portions of cattle, lambs and hogs are being produced under production contracts. The terms of the production contract may specify which production practices are discretionary with the farmer and which are not; or specify grade standards, or who and how loss of quality in transit is borne, or how weights will be validated, or condemnations are handled, or services performed and other details.

Production contracts have been negotiated most frequently by individuals directly with the integrator. The terms that are negotiated include production practices and inputs to be supplied. One of the major concerns is the "going price" issue, another is who makes the determination. In addition to equality and justice, the potential loss of entrepreneurship and sovereignty worries some farmers. All these concerns increase the interest of all parties to seek alternative pricing mechanisms. Collective bargaining is considered by some as a protective instrument in negotiating contracts.

WHAT BARGAINING IS NOT

From the foregoing it becomes evident that group bargaining may be a different way to arrive at price and other terms of trade for farm products. In contrast to other approaches it should be observed that group bargaining:

1. Is not a price oriented open market system but an alternative or variant.

2. Is not like an integrated conglomerate corporation that concentrates decision making power within a centralized authority.

3. Is not cooperative marketing in that it negotiates terms of trade in contrast to doing the trading.

4. Is not unilateral action or decreeing prices or terms of trade since it must involve negotiation between two or more parties.

CONDITIONS CONDUCIVE TO BARGAINING

Bargaining or group action to negotiate prices and/or contract terms becomes a more likely choice when certain conditions are prevalent. See if they apply to cattle, hogs or lambs. These conditions include:

1. Where the market departs from the open market system. For example, the price discovery system has virtually collapsed for eggs and some feel bargaining is a substitute method.

2. Where the market is faced with concentrations of power. In this case, some feel a countervailing force is justified.

3. Where the merchandising system uses promotion and advertising heavily to create value. Bargaining is considered an appropriate method by some to link the two unlike pricing sectors.

4. Where pricing has given way to contracts. Some feel bargaining can perform a role to improve equity and price stability, especially where contract making is one way.

5. Where there are recurrent waves of over-production. Some feel that bargaining can assist in stabilizing production.

6. Where the marketing system requires a more orderly flow of farm products. Bargaining is not basically a product-flow device, but may perform this service.

SOME POTENTIALS OF FARMER BARGAINING

What are some of the potentials of farmer bargaining? The pitfalls will be discussed next.

One of the most important aspects of bargaining is the effect it may have on the product price and cost structure within the marketing system. Successful bargaining will, in fact, realign costs, margins, profits, and prices. However, if bargaining is conducted primarily to replace a weak or unsatisfactory market pricing mechanism, the principle effect may be to restore stability and equity to the industry. There will be other consequences as the volume of a commodity may be altered and the profits and distribution of profits in the marketing system may be changed. If bargaining relates to broader aspects of marketing, including improvement of prices to producers, it will have much wider consequences.

Our attention today is toward producer concerns. Among potential sources of income gains to farmers from effective collective bargaining are: 1) providing procurement services, 2) improving efficiency in marketing, and 3) increasing prices to consumers.

Procurement Services

Bargaining groups may perform procurement services that offer savings or other advantages to buyers. The typical modern food processor operates plants with high fixed costs, spends heavily on brand promotion, and wants to reduce risk and uncertainty through a continuous flow of supplies. If the bargaining organization can deliver a continuous flow of an acceptable quality-controlled product, thereby reducing procurement costs to the buyer, it is in a favorable position to negotiate higher prices to its members.

The bargaining organization in addition to providing procurement services may improve the quality of information, assist in production decisions, arrange for distribution of product among buyers, provide grievance procedures, and/or discipline members.

In a different sense, better management of the total supply can be a net gain to society. The unstable production cycles of many products (pork is a good example) are costly to producers during one phase of the cycle and costly to consumers at another. From society's point of view if stabilization could be achieved it would justify some net income gain to farmers.

Efficiency in Marketing. Effective bargaining by farmers may spur efforts by marketing firms to seek savings from lower cost operations, i.e., higher operating efficiency. This is likely if marketing firms have previously been able to buy on a "soft market." They may have slipped into competitively wasteful practices such as duplicate assembly or delivery routes, elaborate promotional activities, or small, over-manned and under-mechanized plants.

Effective collective bargaining by farmers probably will establish a uniform industry-wide price for the product supplied. Firms, therefore, would have an added incentive to eliminate wasteful practices, consolidate operations, and otherwise increase efficiency--all of which may sustain their incomes without increasing retail prices.

On the other hand, some rigidities could develop from bargaining that reduce efficiencies and responsiveness to consumer demand.

Higher Consumer Prices. Higher prices to consumers will be a major source of gain to producers. The possibilities and effects of increasing consumer price varies tremendously by commodities.

Obviously, the ideal setting for bargaining would be to improve procurement and marketing efficiencies enough to minimize pressures on either marketing firms or consumers. Equally obvious, this will not always be possible. In the majority of instances the opposite is the case. Bargaining then gives rise to, or shifts, various conflicts of interest. The following are examples: 1) If consumers pay higher prices for one product as a result of bargaining, they spend less on other products. This creates conflict with producers and marketers of the other products. 2) If processors and distributors can pass higher bargained prices on to consumers they will offer less resistance to farmers' bargaining efforts. Thereupon, farmers will be affected more by consumers' demand responses. 3) If farmer bargaining groups are careful to negotiate uniform industry-wide prices, market firms may look more toward their competition with each other and less at that with farmers.

SOME BARGAINING PITFALLS

The kinds of sanctions and the internal solidarity needed by bargaining organizations to achieve their objectives will be directly proportional to the scale of what is sought. If the objectives are modest and can be mutually advantageous to the opposing parties the wherewithal can be modest. If, on the other hand, the bargaining organization's objectives call for substantial gains that require more aggressive types of bargaining, certain pitfalls need to be recognized. Price gains from collective bargaining will vary substantially from one commodity to another due to differing market structures, supply conditions, producer responses, and consumer reactions.

Production Response. The production response elicited by a substantial increase in farmers' prices and income could prove a troublesome pitfall. It should be noted that even with bargaining and negotiated prices the inefficient producers are going to have more financial or income problems than the efficient producers. For farm products with geographic and climatic restriction or highly specialized management and cultural practices, the production response may be minor. For many major farm products the response to negotiating prices substantially above the long run competitive level would be greater.

Where a production response erodes the original price gains, a need would arise for mechanisms by which to store or divert short-term surpluses, and possibly to control output and/or limit entry. The quotas, allotments, and other features of a production control system would influence the level and distribution of income among present producers and determine entry requirements for new producers.

Loss of Markets. Encouraging the development and use of substitutes may be one of the most serious pitfalls to aggressive bargaining. Substitutes definitely limit the influence bargaining can have on price. Butter already has a readily available substitute; urea is substituted for soybean meal; synthetics are replacing natural fibers. Tobacco has no close substitute. Meat analogs could replace red meat.

Recognition needs to be given to the state of substitute technology. Meat substitute technology exists. If red meat prices were bargained so aggressively as to encourage the production of meat substitutes, thus lowering the cost of the substitutes production, a substantial livestock market loss could occur.

Even without market invasion by substitutes, consumers can turn away from a higher priced product. Consumer reactions to price increases vary widely from one farm product to another. For some products, there will be relatively small changes in use because of a price change. In others the use by consumers will respond sharply.

A different kind of market loss can result when only part of the production of a single commodity is organized for bargaining. This could be the case where potato producers in one area of the country bargain and those elsewhere do not. If the bargaining were overly aggressive, buyers could shift to other supplying areas. This could mean closing plants and shifting operations to the other producing regions. A loss of market to one set of producers, in these circumstances, is a gain to another.

Foreign Market Considerations. For products such as feed grains, rice, wheat, soybeans, cotton, tobacco, hides and skins, tallow, lard, and some others, exports are a major market outlet. Maintaining them is crucial to the well-being of producers, and could be jeopardized by excessively high prices. Moreover, in the longer run another serious pitfall is the encouragement of a foreign production response. This would mean increased competition in world markets and perhaps even in domestic ones. For products that normally are imported, higher prices would attract larger imports unless trade-restrictive devices (tariffs and quotas) were imposed.

Free Rider Problem. If collective bargaining is successful in achieving higher incomes and does not control supply or access to markets non-members who have not shared costs profit more than members. This erodes membership, encourages resentments between members and non-members and is a serious impediment to bargaining.

SOME ALTERNATIVE COURSES OF ACTION

There are three major courses of action open to those interested in pressing for farmer bargaining. They include: 1) voluntary associations, 2) market order-cooperatives, and 3) marketing boards, or 4) modifications of the foregoing. There is a world of differences in the approaches.

Voluntary Associations

Voluntary bargaining associations are organized as unaffiliated, federated or unitarian groups. Most of the fruit and vegetable and dairy producer groups are unaffiliated. They go it along. The National Farmers Organization is an example of unitarian organization where a board based national group has subdivisions organized to carry out the commodity bargaining functions. The American Agricultural Marketing Association is organized for bargaining purposes and is an affiliate of the American Farm Bureau. All tend to operate with advance delivery and/or production contracts negotiated with handlers.

Bargaining associations generally do not become involved in "marketing products" but represent producers in market analysis, information, contract negotiation and analysis. The primary concern is to arrive at contractual arrangements and most preferable production contracts.

Voluntary bargaining associations in fruits and vegetables and milk have established some successes, some precedents and perspectives which tend to increase receptiveness to bargaining. Group bargaining in poultry has progressed somewhat, but for meat animals and grains, bargaining is at best, only in its infancy.

In the period ahead, the major pushes in voluntary bargaining associations may be two-fold. One may involve substantial efforts to increase membership and thus gain control of a larger portion of the output. The other effort may be to formalize the negotiation process.

The difficulties in bargaining to date can be attributed largely to brevity of experience and lack of a formalized structure. These and other concerns have given rise to proposed legislation. One bill in Congress, primarily for voluntary bargaining associations benefits, is the Sisk Bill. It would create a bargaining board of three appointed members:

1. With the power to certify the bargaining committee for an association to producers with producer contracts.

2. Which is financially sound.

3. Controls sufficient production to be effective in bargaining.

4. Acts as an agent in negotiations with handlers.

5. Requires good faith bargaining.

6. Includes anti-trust exemptions, and

7. Would extend market orders to all commodities.

The bill does not provide the authority for appointing a handler negotiating committee, does not require majority approval, does not provide authority for an exclusive bargaining agent, does not require compulsory settlement, does not have production control provisions, and does not prohibit handler purchases below negotiated prices.

Marketing Orders-Cooperatives

Bargaining is a dimension of market orders and has been used extensively for milk and to some degree for fruits and vegetables. The close association of the market order and commodity cooperatives is not well understood. They are separate organizations, perform separate functions yet operate together for reciprocal advantages.

Bargaining emerges from marketing orders as a visible consideration in the public hearing process; it appears as explicit provisions of the marketing order in quantity controls on fruits or prices on milk; and the cooperatives use the market order as a base for negotiating prices above the order price and for terms of trade.

The fact milk cooperatives have succeeded in securing premiums above the market order price may induce other commodity groups to try to extend market order legislation to include their products. In general, cattle or hogs meet the criteria considered important for effective market order programs. Required would be an amendment to the Marketing Act of 1937 permitting inclusion for hogs or beef. A bargaining association of producers or a cooperative would be required.

The National Milk Producers Federation has sponsored a bill to extend their power--which already is considerable. This bill is designed exclusively for milk but a brief description follows to emphasize not only one of the pitfalls of over-aggressive bargaining but to differentiate the alternative courses of action open to other commodity groups interested in bargaining.

The bill provides for 12 board members of which one would be appointed by the Secretary of Agriculture. Eleven would be elected; seven by producers and four by handlers. The board would have the power to certify the exclusive bargaining agent which represents more than 50 percent of the producers and 50 percent of the milk supplied. It would prohibit milk purchases by handlers below the negotiated price. There are no provisions for production controls, anti-trust exemptions or extension of market orders to other commodities.

In milk, the bargaining activities in the public policy arena influencing market order prices and support levels plus super pool premium pricing to handlers have improved dairymen's incomes to the extent a production response is occurring. As a result, the milk producers are considering programs for restricting output or entry. We may see the bargaining approach in milk evolving toward a marketing board.

Marketing Boards

Though the U.S. has never established a marketing board many nations have developed mechanisms called marketing boards and given them much power. Hog producers in the Province of Ontario have had a marketing board for a good many years. They are not truly an alternate to marketing orders and voluntary associations but would tend to concentrate the kinds of authorities or power considered necessary to accomplish the purposes.

Marketing boards may be described as producer controlled, horizontally organized, compulsory marketing organizations established under legal authority to perform marketing operations for the producers of a farm commodity. The rationale for marketing boards is in terms of strengthening the bargaining power of producers, income improvement, and supply control. The supply management may be accomplished through various methods like price discrimination, collective bargaining, sales quotas on output, control of inputs like allotments on land, restricting entry of new producers, or some combination of the foregoing.

Senator Mondale's bargaining bill would create a five member appointed board. Upon petition of producers, and if the board found that price was below a fair and reasonable level, the board could conduct a referendum to secure majority approval. The board would supervise the election of the bargaining committee. The board would then certify both the producer and handler committees, and appoint the exclusive bargaining agent. The bill provides for compulsory settlement provisions, prohibits purchases below negotiated prices, provides for all commodities to be included in marketing orders, includes production control options, and provides anti-trust exemptions.

SUMMARY

The debate on the pros and cons in collective farmer bargaining has diminished somewhat in recent years. The current discussion centers on how, where and when bargaining may have a role to play. The debate tends to be directed toward such questions as "Who shall do the bargaining?" "How shall the bargaining relationship by set up?" "Can bargaining be voluntary?" "Must we have majority rule?" "How do we arbitrate disputes?" "How do we choose or dismiss a bargaining committee?" and numerous other questions.

In the final analysis, farmer bargaining will be judged by its effects on improving farmer's income, on farmers traditional independence, avoiding loss of foreign markets, assuring consumers an adequate food supply at acceptable prices, providing an orderly flow to market and in coordinating the economic system.

The potentials and pitfalls in farmer bargaining are real and vary widely by commodities. The variations are due to differing commodity market price structure, market organization and coordination, supply conditions, producer responses and consumer reactions.

We have made only passing reference or omitted all together other important aspects of bargaining like the organizational structure, leadership and membership commitments, organizational costs, single versus multiple commodity bargaining groups, and numerous other aspects that need serious consideration by commodity groups contemplating bargaining. Whether the livestock industry moves or does not move toward bargaining depends upon you--the leadership. The kind of economic organization and pricing mechanism can be influenced. You should have a role in its determination.