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BARGAINING POWER

It has often been observed that the farmer generally has to take the price he can get when he markets his produce, but is usually required to pay the price "set" for the goods he buys in the grocery store. From this comes the theorem that the one who can control the price has bargaining power while the other does not. It is also assumed, therefore, that the price will be higher with this "bargaining power" than it would be otherwise.

Bargaining is the process of buyers and sellers attempting to get together to determine a "price" for the exchange of goods or services. If there can be any coercion--such as the use of force or the fact that one is a single seller of the good much in need by the other--then one of them has more "power" than the other. Except in extremely rare cases, however, does he have absolute power. There are usually substitutes that will be acceptable, or there are limits to what the buyer can pay out of a limited income, or how little the seller will take before he decides not to trade.

The buyer may be an intermediate buyer, buying not for his own use but for resale to someone else. In this case, he must know about what price the final buyer will pay and how many he will take at that price. Generally, a buyer is able and willing to buy more at a low price than he is at a higher price, while the supplier will be willing to supply more at a high price than at a low price. In the long run, the price where the buyers and sellers finally agree to trade will tend to be close to that price at which buyers will take all that is offered and sellers will sell all they have. A price higher than this will discourage some of the demand for the goods but encourage producers to produce a little more. Eventually, the price must fall or production must be curtailed as stocks of unsold goods build up.

To get bargaining power (using the supply side as an example), there must be a limited number of sellers or most sellers must be acting as a single seller. Any seller who is large enough in the industry to supply any sizeable portion of the market will drain away the bargaining power of the others if he is willing to sell for less than the rest. It should be pointed out, however, that a limited number of sellers does not by itself mean that there is not competition among the sellers themselves.

The most powerful selling situation would be one in which there were only one seller of the product, and if possible, there should either be no substitutes or the sellers should also be the sole supplier of the substitutes, too. Almost any commodity, however, has some substitutes or soon will have if the price is forced high enough to encourage the production of substitutes--margarine, synthetic milk, foods "grown" in laboratories, gasoline, synthetic diamonds are examples. Thus even a pure monopolist (if there were one) would have to be concerned with setting the price too high.

The single seller has a choice; he can set either the price or the amount he wishes to sell. When he has decided on one of them, the other is automatically determined even though it may not be precisely known. Since he must be prepared to limit the amounts coming to market, he must be prepared to own and to store any excess goods. If the buyers are aware that there are large amounts stored, it will influence the price the buyers will be willing to pay today since they

may anticipate lower prices later. This is particularly true if the product is perishable or costly to keep in storage. To maintain a price then, it is best if production is held to the amounts that are expected to be taken at that price.

Limiting production poses many problems if there are several sellers. But for the bargaining power to be maintained, it is essential that all or most of the present sellers conform and that limitations on entry of new suppliers be established or that new entrants be given a share of the total production, thereby reducing the share of the others.

Basically, bargaining power in an organized society comes from the legal framework of government. The government can give bargaining power in a number of ways. It can prevent one party from having as much power as it might have by encouraging competition and limiting monopoly power, thus in effect putting one at less of a disadvantage than it might otherwise be. Or it can permit one party to increase its power by legislation that allows more freedom to band together to buy or sell than it allows in other fields. The government can itself supply much bargaining power for one party by offering to buy, or sell, at established prices. It does this in effect with price-support operations in which it stands ready to buy with taxpayer money any part of the product that cannot be put into the hands of consumers at the minimum prices announced.

Import duties and restrictions and exporting activities are other examples of government efforts that either directly or indirectly influence the bargaining position of buyers and sellers. Foreign-made products easily come into competition with locally made ones when the price gets high enough, and conversely, high-priced domestic products do not move easily into foreign markets. Efforts to maintain a high price on domestic production can thus usually be effective only if the government is willing to keep out or limit foreign competition.

Within the last two years, the farmer has gained much bargaining power through a series of events which as seen him receive much higher prices and some widely fluctuating ones as well. Large increases in sales abroad, due partly to Russia's large wheat purchases but also devaluations of the American dollar, which can now buy more of our meat and other foods, have increased demand. The threat of lower prices that result from large government stocks no longer hangs over the marketplace since most of them have been liquidated. The higher prices for feeds have reduced the incentive for cattle and hog feeders to produce, resulting in less meat available. Coupled with the American housewive's reluctance to give up any more meat than she has to, and the tendency of substitutes' prices to rise at the same time, tends to keep meat prices up. The varying reports of new crop production and potential sales also combine to keep prices fluctuating.

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