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# GROUP BARGAINING POWER IN AGRICULTURE



*Cooperative Extension Service*

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The confusion of repeatedly changing government programs for agriculture and the persistent surpluses of many farm commodities has led many farmers to search for a fresh approach to the agricultural problem. The agricultural problem is not an easy thing to define, partly because it has a different appearance from the point of view of the individual farmer than it does from the point of view of the entire industry.

### THE AGRICULTURAL PROBLEM —FROM TWO POINTS OF VIEW

Taken collectively the problem in agriculture stems from a technological revolution. New agricultural machinery, insecticides, fertilizers, feed additives, and new varieties are some of the areas where technological improvements have enabled agriculture to increase production faster than the demand for farm products has increased. This has resulted in a downward pressure on prices and created forces for industry-wide adjustments in the use of land, labor, and capital.

Actually the nation's food and fibre needs could be produced more efficiently today if the quantities of all resources used in agriculture were reduced. The usual process, however, has been for capital (equipment, fertilizer, weed-killers) to substitute for labor and land, thus increasing the pressure to move large quantities of these two resources out of agriculture.

Much labor, though not enough, has left the farm, and government programs have diverted some land from agricultural production. But agricultural income today still has to be divided among too many resources for per capita income in the industry to be comparable to other industries. Income per acre of land, per unit of labor, or capital, in agriculture will remain low as long as more of each resource is employed in the industry than is needed to supply the nation's food and fiber needs, including exports.

This is the aggregate or national problem. But each farmer sees his individual problem as one of low prices for what he sells and high prices for what he buys. From his point of view this price-squeeze seems to be the agricultural problem. The reason for this price-squeeze appears to him to be his lack of bargaining power—he accepts the prices quoted to him because he individually has no power to influence them.

Although an increase in prices received would seem to be a solution to the individual's income problem, it is not necessarily a solution when applied to the aggregate or industry-wide income problem. When applied to all producers, a price increase may actually decrease the individual farmer's income due

to the resulting decrease in demand. Thus any solution which does not include industry-wide resource adjustments is not likely to be successful.

### THE FARMER FACES BIGNESS IN BUYERS AND SUPPLIERS

Agriculture is often pointed to as an example of nearly perfect competition—many producers selling the same product with no one producer large enough to have power to influence price through his decisions to sell or not to sell. The seller under these conditions has no bargaining power. The other extreme from perfect competition is monopoly where there is only one seller. The monopolist is presumed to be in a position to set any prices he wishes on his products—at least it sometimes appears this way. Actually complete monopolies seldom, if ever, exist. Firms able to influence price must be in a position to limit output to the amount that buyers will take at that price.

The farmer sees the bigness of the firms buying his product as well as those he buys from and this reinforces his feeling of individual helplessness without an organization bargaining for him in the market place. Many farmers, therefore, see the solution to their problem in the establishment of organizations which will give them increased bargaining power.

### IS BARGAINING POWER THE SOLUTION?

This fact sheet is aimed at evaluating bargaining power as a solution to the agricultural problem. As pointed out earlier, the problem looks somewhat different from the aggregate or over-all industry point of view than it does from the individual's point of view. If farm problems are to be solved through group action, then it is necessary to attack the aggregate problem—in other words to bring about the total adjustment required in agriculture, including the elimination of surplus resources from the industry. Any attack on only one phase of the problem, such as price, cannot have more than temporary success by itself and may in fact create other more serious problems.

### DEFINITION OF BARGAINING POWER

What is bargaining power? Bargaining is the process of buyers and sellers attempting to get together to determine a "price" for the exchange of goods or services. If either the buyer or seller possesses any advantage in the bargaining process due to size, control of supplies or outlets, or any special knowledge of the market, that advantage is termed "bargaining power." Presumably the one possessing such power can influence the price. In a perfectly competitive situation

neither party individually is able to influence the price.

Imperfect competition, which gives rise to bargaining power, usually depends on restricted entry into the industry and reducing or controlling the number of competitors and the output of each. Bargaining power also rests on the knowledge which each party possesses of the strength of the other party and of the competitors of each, as well as knowledge of the complete supply and demand situation.

#### **THE GOVERNMENT AND BARGAINING POWER**

Fundamentally, bargaining power also must depend either on permissive or direct action of government. Government either directly grants or indirectly permits bargaining power to be acquired by a private business. It grants and regulates franchises, establishes tariffs on international trade, and controls or prohibits certain kinds of monopoly.

There is a legal basis for cooperative bargaining on the part of farmers that dates back to the Clayton Act (1914), which exempted farmer cooperatives in some circumstances from antitrust laws. The Capper-Volstead Act in 1922 gave cooperative bargaining by farmers additional legal status. It would, however, be unwise to assume that these laws will permit producer bargaining groups to go to extremes in the exercise of their power.

Some very large firms probably possess far more bargaining power than they dare use due to fear of government action against them. We have had recent instances in which the price of steel was affected by government pressure. Nebraska has passed legislation limiting the power of agricultural bargaining groups. Consequently agriculture cannot proceed in its acquisition and use of bargaining power without consideration of the role of government and public opinion.

#### **ALTERNATIVES FOR IMPROVING BARGAINING POWER**

In addition to the legal status given cooperatives to increase bargaining power, broad government agricultural programs such as we have had since the 1930's also may enhance the bargaining position of farmers. This may be brought about through production control programs, price supports, direct market purchases, acreage allotments, and market orders which affect supply and demand conditions of the market. An alternative outside the market may be that of direct payment to producers.

The bargaining position of the individual farmer may be enhanced by becoming better informed regarding the operations of the marketing system. The scale and quality of his operations may be increased so as to increase the value of products sold. Less room for discrimination may be achieved by working for better

grading practices and standards, for improved market news services, and increased research information.

#### **COMPLEXITY OF BARGAINING POWER**

Bargaining power is not just a matter of numbers of economic resources. It is really quite a complex thing if one begins to analyze what it can and cannot do. For instance, consider the difference between labor bargaining for higher wages and a farm organization bargaining for a higher price for a certain commodity. The labor which a union has for sale is not something produced through the application of land, labor, and capital, but is possessed by one of these factors alone. If labor is unused it is totally lost. It cannot be stored and thus affect future bargaining. The labor union obtains its power from its ability to restrict the labor supply available to the employer. The firm, however, is usually left free to determine the number of workers it will hire at the agreed upon rate.

A farm product does not automatically disappear when withheld from the market. The perishability of the product, its storability, the number of sellers, number of buyers, knowledge possessed by bargainers, laws permitting or regulating organized bargaining or withholding, the acceptability and availability of substitutes, and all the factors which determine the nature of the supply and the demand—these are the determinants of bargaining power.

It should be clearly understood that a bargaining association is a purely voluntary organization. As such, nonmembers may gain as much or more than the members. If a regional bargaining association is unreasonable in its demands, it will cause production to shift to other higher-cost regions and thus benefit the new region more than the association members.

#### **HOW BARGAINING POWER IS USED**

Assuming that farmers are able through organization to acquire bargaining power, how can it or should it be used? Possession of bargaining power is one thing; intelligent usage of it is another. Most people think of bargaining for a price or wage, but it can also be used for many other things.

There could be bargaining for questions concerning marketing procedures and specifications. What grading standards will be used and how will they be applied? How and when will the product be picked up from the farm? 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? Who will provide storage facilities? All of these and many other questions might be subjects for collective bargaining.

## SOURCES OF GAIN FROM USE OF BARGAINING POWER

If bargaining power is to be successful, there must be increasing benefits or returns to the individual producer as a result of group action. These gains must come from some source. Actually there are only three possible sources of gain which can be exploited by bargaining action. It is important that these be understood, because there is no point in wasting bargaining power in an attempt to capture gains where no potential gains exist.

The three sources of gain are:

1. Gains from efficiencies in producing, marketing, and processing that can be achieved through group action.
2. Gains from the "opponent" in the bargaining situation, usually a processor or marketing firm or an organization representing part or all of these firms.
3. Gains from a third group, usually the consumer.

Probably the greatest possibility for gain in most agricultural commodities is in number 1—gains in efficiency. Producer organizations which have concentrated on better marketing techniques, control of product quality, cutting costs of handling and processing, and product merchandising or promotion have usually succeeded in increasing the returns to their members. Producers too often have resisted using practices which would result in marketing and processing efficiencies. Extreme seasonality in milk production is an example.

If producers can agree to furnish a more uniform product and this results in greater efficiency in marketing and processing, then they have created something that can be bargained for. Or if they furnish a product at a better time than previously and this results in greater marketing efficiency, this gain could go to the producers if their bargaining power is sufficient and they have the ability to fulfill their agreement.

Unfortunately the other two sources of gain, (1) existing excess profits of the processors or marketing firms or (2) the consumer, appear to be easier sources to tap. The bargaining group often thinks it can either force the opponent to divide his "excess" profits or force him to raise the price of his product to the consumer. This is the traditional theme of bargaining power.

If the bargaining organization is bargaining with a single firm of an industry, this firm will not be able to recoup from a third party anything he gives up to the bargaining group because of his competition. This is a difficult situation from which to extract any gain. The firm caught in this situation will energetically seek a new source of supply.

If the producers can succeed in achieving industry-wide bargaining, then it is usually not difficult to pass the cost of gains granted the producers on to the consumer in the form of higher prices. The problem here is: how many producers will gain? Will consumption decline so much that many farmers will have to go out of production? The availability of substitutes for many food products makes this a real possibility. Labor unions in some cases have found that they have had to scale down their requests for wage increases in order to keep their employer in business and in a position to continue their jobs.

## PRIORITIES IN BARGAINING PROCEDURE

If there does happen to be a source of gain from the processors, or consumers, the first priority for a bargaining group to achieve this gain is strict control of the supply. If this cannot be achieved, then there is no point in proceeding any further. For products produced nation-wide, the control must be nation-wide, and tariffs will be necessary to protect gains from being lost to other countries.

If strict control of supply is achieved, the second priority is to obtain as complete knowledge of the supply and demand situation as is possible. In most cases the opponents in bargaining will be large firms with very competent professional staffs keeping their management well informed. Producer bargaining groups must be equally well informed if they are to be successful. In addition they must understand the role of price in our economy and the forces which determine price.

It is, for instance, misleading to compare the pricing of agricultural commodities (raw materials) with consumer goods sold at retail. It is more logical to compare them with the pricing of minerals and other raw materials. The iron mining companies of Minnesota, for instance, cannot price their product at cost plus a reasonable profit and expect to sell much today. Steel companies have sources of iron ore which have lower costs than Minnesota and they are unwilling to pay a price which will make it possible for Minnesota mines to operate. If all iron mines were organized to raise the price of iron ore, then aluminum, plastic, and other substitutes would immediately come into the picture and the use of iron ore would decline. The agricultural situation is not far different from this.

## THE PRICING PROCESS IS EXCEEDINGLY COMPLEX

The pricing of agricultural products such as corn, milk, wheat, and livestock is exceedingly complex. Each product has several uses, numerous by-products, and many substitutes, and different degrees of perishability. Each of these factors has its own peculiar effect on price.

Through technology we are able to devise substitutes for almost any commodity. This is a very important factor in pricing and bargaining. Producers can always bargain for higher prices, but a higher price will not always result in a higher total revenue for the producers. The effect of a higher price for food products is determined partly by the availability of substitutes. Some dairy products, and especially butter, would probably suffer a considerable loss in sales through an increase in price, forcing total revenue down. The reason would be the availability of substitutes. Other examples are silk, cotton, and wool and the synthetic fibres; lard and the vegetable oils; and steel and plastics.

The effect of close substitutes for a product is to reduce the range within which bargaining power can be effectively used. Price becomes a less fruitful area for bargaining under these circumstances. Producers may have to look for means of becoming more competitive, possibly by lowering the cost of production.

#### **THE ROLE OF SUPPLY CONTROL IN PRICING**

Many of the nonagricultural industries today have a few large producers which dominate the industry. This gives them an advantage in pricing not enjoyed by agriculture. They can maintain fairly stable prices by regulating production. Price wars may occur in some of these industries if one of the major producers gets out of line or if a new firm is trying to secure a share of the market. But this system of stable prices works only because these firms can keep almost daily control over the volume of production. Strict regula-

tion of supply is a prerequisite to successfully administered prices.

Agriculture has often looked with envy on the industry which can control its production and thus maintain stable prices. One attempt of agriculture to get at prices is through cooperatives. Actually farmers have been successful in many cases in getting through cooperatives better prices on the local level where lack of competition was permitting unfair price discrimination against them. But for the staple commodities of feed grains, wheat, and livestock products, producers have never been able, consciously as a group, to affect the national market or price. In some areas and with some specialty crops, farmers have succeeded in getting control of the production of their commodities and thus have maintained a stable price. The experience with each commodity has been different and the degree of success has generally depended on the completeness of control and the availability of substitutes for the product.

Agriculture undoubtedly can find ways to increase its bargaining power. Farmers are most likely to be successful in this endeavor if they limit their immediate objectives to increasing the efficiency of the marketing and processing phases of their industry and leave the price bargaining until later. When they have achieved nearly complete control of the supply and acquired a professional staff that will provide as complete knowledge of supply and demand conditions as their opponents have, then they will be in a position to consider bargaining for improved prices.