

FARMERS' BARGAINING POWER

by

LARRY GENE COX 4871

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Approved by:

Robert L. Coppersmith  
Major Professor

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## INTRODUCTION

In 1914, David Franklin Houston, Secretary of Agriculture, in his Report of the Secretary to the President of the United States, wrote:

. . . Agriculture has made marked progress in a number of directions, but as an industry it has not kept pace with the other activities of the country. Relatively speaking, there has been a neglect of rural life by the nation. . . . we have overlooked the very foundation of our industrial existence. It has been assumed that we have a natural monopoly in agriculture--that it could take care of itself, and for the most part we have cheerfully left it to do so. . . . Thoughtful men can not fail to be optimistic over the agricultural situation and prospects, but optimism must not blind us to certain shortcomings.<sup>1</sup>

Some of the shortcomings that Houston was referring to have surely been overlooked, for, today farmers are more than ever aware of a persistent and increasing disparity of income between the farming sector and other sectors of the national economy. Technical, social, economic and political changes in the past have been some of the primary reasons for this disparity.

Increased technology has resulted in fewer farms and greater productivity per unit of resource. This has resulted in a reduced number of farm votes and an increasing surplus supply. Social changes include changes in consumers tastes and preferences, with the aggregate marginal propensity of the nation to consume food declining more and more with each passing decade. This has resulted in farmers receiving a smaller share of the consumer dollar as consumers spend relatively more on non-farm products. Economic changes, such as a changing market structure, have resulted in most farmers remaining under a competitive market structure, while, for the greatest part those with

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<sup>1</sup>U.S. Department of Agriculture, Yearbook of The United States Department of Agriculture, 1914 (Washington: Government Printing Office, 1915), pp. 9-10.



whom they trade are operating under a less competitive type of market structure. Political changes include legislative enactments or a lack of legislation that have directly affected farmers.

Other factors besides income disparity have given farmers reason for concern. Income instability, lack of consistent farm-product markets and the partial loss of management prerogatives of their own farms are but a few of the other reasons that farmers are becoming increasingly concerned over their present economic and social position. Farmers have been termed "price-takers" instead of "price-makers" because of their weak position in bargaining with farm product handlers over prices and other terms of trade. To improve this position, farmers may attempt to increase bargaining power through various methods or plans.

The purpose of this paper shall be to examine the problems faced by farmers, to present alternative solutions, and to describe the problems and possibilities that are associated with these solutions. The primary instrument examined to solve these problems in this paper is farmers' bargaining associations.

## BARGAINING POWER

George Ladd defines bargaining power as: ". . . the ability to negotiate with influence to bring about a desired change."<sup>1</sup> He further divides this power into two groups or types--Type I and Type II. Type I, or opponent-gain bargaining power is the ability of a group to influence the decision of their opponent by making their offer favorable for their opponent if he accepts. This type of bargaining power reflects harmony of interest. The group offers certain advantages to their opponent if their opponent will accept their offer. Type II, or opponent-pain bargaining power, on the other hand, is the ability of the group to inflict economic loss or offer certain disadvantages to their opponent if he refuses to accept their offer. This opponent-pain power reflects a conflict of interest. If the group offers its opponent certain advantages, in all probability the group will want something in return. It may be necessary for the group to use opponent-pain bargaining power in order to receive any of the gains received by their opponent. On the other hand, opponent-pain bargaining power may be applied even when the opponent has not received any certain advantages. In the first case, neither party is worse off than before the Type II power was applied--indeed both may be better off. In the second case, if the group is successful in its application of Type II power, their opponent is worse off.

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<sup>1</sup>George W. Ladd, Agricultural Bargaining Power (Ames, Iowa: Iowa State University Press, 1964), p. 20.

## FARMERS' BARGAINING ASSOCIATIONS

In 1883, in Orange County, New York, a group of milk producers associated together to obtain better prices for their milk. Prior to this, other farm cooperatives, such as the National Grange, had existed, but this was the first farm organization in the United States that was formed for the exclusive purpose of collective bargaining. Presently, there are over 750 such organizations in existence having a total membership of over 450,000 farmer-members.<sup>1</sup>

These farmers' bargaining associations do not have the legal protection afforded labor unions under the Wagner Act; therefore, they must rely primarily upon economic persuasion rather than existing legal aid in their attempts to increase their bargaining position. The broad objectives of these associations has been defined by Roy, as follows:

Bargaining associations are designed to bargain collectively with processors, suppliers and dealers in their respective commodities. Items subject to negotiation usually include prices, method and time of payment, delivery time and conditions, grades, sizes and other related matters.<sup>2</sup>

Therefore, through these farmers' bargaining associations, farmers attempt to increase their bargaining power over their opponents through a form of horizontal integration. These opponents may be farm-product handling firms, consumers or legislators. More specifically, the potential objectives of farmers' bargaining associations may include the use of bargaining power to: (1) receive the highest optimum price possible for their products,

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<sup>1</sup>Ewell Paul Roy, Collective Bargaining in Agriculture (Danville, Illinois: Interstate Printers & Publishers, Inc., 1970), p. 9.

<sup>2</sup>Ibid.

(2) pay the lowest optimum price possible for their supplies and inputs, (3) relate price levels to the long- and short-term bargaining power effects, (4) improve farmers' terms of trade with the buyers and sellers of farm products and supplies, (5) represent farmers and their interests to the public and Congress, (6) improve farmers' contract position with their opponents, (7) inform member-farmers of production and marketing techniques and problems, and (8) gear production to the needs of buyers.<sup>1</sup>

It is the opinion of the author of this paper, based upon extensive reading in the area of farmers' bargaining associations, that most authors stress higher prices and better terms of trade as the primary objectives of these organizations. Such objectives may not always hold, as past studies have indicated. For example, a study made by Ladd and Hallberg<sup>2</sup> of ten milk bargaining associations indicated that the primary objective of the managers of these associations was the maintenance of a market for their members' milk. Other objectives included the retaining of good relations with milk handlers, securing volume control, receiving optimum prices, the maintaining of highest percentage of past sales, the negotiating for the estimated value of services rendered for handlers, and the increasing of their procurement area size.

The following section represents a short review of three of the more prominent existing farmers' associations which advocate and promote the use of collective bargaining in agriculture.

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<sup>1</sup>Ibid., p. 107.

<sup>2</sup>George W. Ladd and M. Hallberg, An Exploratory Econometric Study of Dairy Bargaining Co-ops, Bul. 542 (Ames, Iowa: Iowa Agricultural Experiment Station, November, 1965), p. 639, cited by Roy, Collective Bargaining, p. 107.

## National Farmers' Organization (NFO)

The NFO is probably the most militant of all present farmers' bargaining associations. Their withholding and destroying of produce and their boycotting activities in recent years have made national headlines.

The NFO was organized in 1955. It presently has about 200,000 farmer-members. Although focused primarily in the Midwest the organization claims members in over 40 states.<sup>1</sup> These members sign agreements that authorize the NFO to be their exclusive representative in collective bargaining. This agreement lasts for a period of three years and is automatically renewable for three more years unless the member resigns from the organization within a certain time prior to the expiration of the three year agreement. The NFO is financed by deductions from members' gross sales for fees, dues, surplus disposal, and the services rendered by the organization.

The NFO's primary approach to bargaining power gains is through the use of holding actions. In the words of Oren Lee Staley, President of the NFO:

To organize agricultural producers without having the courage to use a holding action, [sic] is like building a locomotive without an engine.<sup>2</sup>

The principle of the NFO's holding action is simple: they merely set a price that they want for a product and then refuse to sell the product until buyers pay that price.

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<sup>1</sup>Roy, Collective Bargaining, p. 11.

<sup>2</sup>Oren Lee Staley, "The NFO Approach," Bargaining Power for Farmers (Ames, Iowa: Iowa State University Press, 1968), p. 11.

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According to Staley,<sup>1</sup> every NFO instigated holding action has been successful--because success is measured by whether or not there is more processor acceptance after a holding action than before.

The use of contracts in collective bargaining is given special emphasis by Staley. He states:

The ultimate goal in collective bargaining must be contracts. In order to maintain successes and give stability to producers in a pricing structure, contracts are an absolute necessity. These contracts must protect the producers gains. . . . Producers bargaining collectively and meeting the volume needs of processors can greatly reduce procurement costs of processors and make it possible for processors to build more efficiency in their own business.

Contracts must include minimum prices which will give stability to producers and . . . reduce the desire of large companies to build production to be used to undercut contract prices. The contracts must include price differentials that can be adjusted . . . with such adjustments to be determined by producers within their organization as will meet consumer needs. Seasonal price variation must be included . . . Surplus disposal programs must be used . . .<sup>2</sup>

The NFO is willing to support any legislative program that will assist the individual farmer in increasing or maintaining his present income; however, no new legislation is absolutely necessary because the first section of the Capper-Volstead Act gives producers broad anti-trust exemptions. However, the NFO will ". . . oppose any legislation that would give the government direct or indirect control of bargaining."<sup>3</sup> The type of legislation most desired by the NFO is a sort of "Farmers' Wagner Act" which will be discussed later.

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<sup>1</sup>Ibid., p. 13.

<sup>2</sup>Ibid., p. 13.

<sup>3</sup>Ibid., p. 14.

## American Farm Bureau Federation

The Farm Bureau began in 1919 and presently has members and affiliations in 46 states. The American Agricultural Marketing Association (AAMA), a co-operative affiliate of Farm Bureau, was organized in 1960 and its affiliations are found in 32 of the 46 states in which Farm Bureau has marketing programs.

The Farm Bureau strongly advocates voluntary membership. The organization feels that only through voluntary membership will members be loyal, conscious, keep informed, and actively support the organization; these attributes are required for the organization to be effective in the long-run. Charles B. Shuman, President of Farm Bureau, gives an even more fundamental reason why his organization rejects compulsory bargaining:

The only source of power that can be used to compel farmers to bargain together is the Federal Government, and this authority must come from an act of the Congress. The Congress . . . must be concerned with justice and equity for all citizens--not farmers alone. The Constitution spells this out and, furthermore, since 94 percent of the voters are consumers, not farmers, the politicians in Congress . . . will necessarily be more interested in low food prices to please voters than in high farm income. Any Federal Government encouragement or enforcement of farmer bargaining would most certainly include rules or devices to "protect consumers" or the authority to issue cease-and-desist orders any time prices threaten to go higher than the Washington bureaucracy thinks they should.<sup>1</sup>

Thus, the Farm Bureau also is against the direct or indirect intervention of the Federal Government in its bargaining efforts. The Farm Bureau does want the Federal Government's assistance in enforcing present favorable legislation toward the farmer; however, such present government farm programs as price subsidies and acreage allotments should be gradually withdrawn so

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<sup>1</sup>Charles B. Shuman, "Bargaining for Farmers," Bargaining Power for Farmers (Ames, Iowa: Iowa State University Press, 1968), pp. 42-43.



that, coupled with the "proper" type of legislation, legal protection and enforcement, the market system of supply and demand can effectively increase the bargaining position of farmers.

The Farm Bureau has supported several of the features that are included in the proposed Agricultural Adjustment Act of 1969.

The Farm Bureau-supported program embodied in the proposed AAA 1969 would provide for a five-year transition period to a market-oriented program. During this time, acreage controls, base acreages, marketing quotas, processing taxes and direct payments for wheat, feed grains and cotton would be phased out gradually--not all at once.<sup>1</sup>

President Shuman also emphasized several points that would be covered by this Act.<sup>2</sup> A few of these are:

- (1) Gradual reduction of the total funds that may be spent on all direct payments for wheat, feed grains and cotton under the 1965 Food and Agricultural Act, with 1974 being the last year these funds may be spent. Also, the setting of no limitations on payments to individuals.
- (2) Gradual phase-out of the cost of wheat certificates to processors.
- (3) Discontinuance of all acreage allotments, base acreages, marketing quotas, processing taxes and direct payments for wheat, feed grains and cotton by 1975.
- (4) The Secretary of Agriculture's retirement of 10 million acres of cropland per year from 1971 through 1975.
- (5) The Secretary of Agriculture's authorization to offer a special

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<sup>1</sup>Del Groves, "Time is Right for New Farm Law," Nation's Agriculture (April, 1970), p. 6.

<sup>2</sup>Ibid., pp. 6-7.

transitional program to farmers with acreage gross annual sales of less than \$5000.

In summary, the Farm Bureau would like to see farmers able to operate voluntary bargaining associations in a legal environment that would permit them to increase their incomes through the use of market demand and supply conditions.

#### National Farmers Union (NFU)

The major approach of the NFU to gaining greater bargaining power for farmers is through new and improved legislation. It is the contention of Tony T. Dechant, President of the National Farmers Union, that without effective and consistent supply control, effective bargaining for farm prices is impossible. And (contrasted to NFO's contention) given the courts repeated interpretation that the Capper-Volstead Act does not provide sufficient immunity to farmers from prosecution for violation of anti-trust laws, effective and consistent supply control is impossible.<sup>1</sup> Therefore, until new legislation comes along, the NFU feels that farmers will continue to fight a losing battle in their attempts to increase their bargaining power.

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<sup>1</sup>Tony T. Dechant, Bargaining Power for Farmers (Ames, Iowa: Iowa State University Press, 1968), pp. 18-19.

## WHY FARMERS NEED BARGAINING POWER

The following are some of the primary reasons that farmers feel they need bargaining power:<sup>1</sup>

- (1) Individually, smaller farmers cannot compete with large contract farmers. To improve their bargaining position with respect to growing corporation farms, they feel the need to form associations to gain bargaining power that will allow them to compete collectively.
- (2) The market power of firms handling farm products is increasing, due to such factors as economies of scale obtained from larger sizes, technological developments, product branding, and supply guarantee. Since farmers trade with these firms, they need power of their own to offset the power of such firms.
- (3) Government farm-programs tend to favor the very large farmer. Many farmers feel they have also lost the political power necessary for more favorable farm legislation, and they often, as individuals, fail to understand government programs.
- (4) The continuing increase in the cost of farm supplies and consumption goods relative to farm product prices.
- (5) The continuing growth in the complexity of firms supplying farmers with their capital and other inputs. Farmers individually feel helpless to cope with this.
- (6) The free, open type auction-markets are decreasing in importance. They are being replaced by contracted price-marketing, and

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<sup>1</sup>Roy, Collective Bargaining, pp. 1-4.

sometimes individual farmers lack either the power, legal assistance or knowledge to operate effectively in this market situation.

- (7) The increasing disparity between the average incomes of farmers and non-farmers.
- (8) The loss of young farmers due to their inability to meet the rising costs of inputs such as labor, land and machinery while receiving low prices for their output. In other words, the capital-output ratio, in terms of value, is increasing to the extent that many young people find it difficult to make a living by farming.
- (9) There is increasing vertical and horizontal integration in the food wholesaling and retailing industry. This places the individual farmer in less of a bargaining position due to the relative sizes of the parties involved in negotiations.
- (10) Food firms are also becoming more efficient in their internal operations. Computers, automated production, and mechanized inventory handling are a few of the efficiencies achieved.
- (11) The increasing use of organizations by other groups in the economy, such as professional people, workers, and others, concerns farmers who are unorganized. They reason that within a few years their position could become untenable.
- (12) Efficiencies that farmers have attained in increased productivity due to their increased technical skills have not been retained by the farmer but have been passed on to consumers in the form of relatively lower prices for food.

- (13) Farmers are becoming increasingly specialized and the more specialized they become, the more dependent they are on fewer markets; hence, they are increasingly concerned over the behavior of these markets. Farmers' bargaining associations may be able to influence these markets to the advantage of the farmer.

All farmers' bargaining associations are not concerned about all of these conditions; some are more interested in particular problems than others; however, all are interested in increasing their bargaining power and it is for this purpose that farmers' bargaining associations are formed. In the following section some of the barriers, limitations, and necessary conditions for the effective operation of farmers' bargaining associations are discussed.

CONDITIONS AND LIMITATIONS FOR SUCCESSFUL  
FARMERS' BARGAINING ASSOCIATIONS

It was stated earlier that the primary objective of farmers' bargaining associations is to increase their bargaining power over their opponents. They attempt to do this by bringing a large number of farmers voluntarily together, under contract, and obtain written permission from these farmers to be their legal representative with the power to bargain for them. Roy states:

The primary function of the association is a bargaining one, without involving the added responsibility of assembling, processing, or distributing the product. It may sometimes physically handle products incidental to its bargaining function.<sup>1</sup>

There are many obstacles and limitations that these associations face when attempting to obtain their objectives. There are also several essential conditions that associations must at least partially meet before they can become truly effective. Some of these obstacles, limitations and conditions are as follows:<sup>2</sup>

- (1) Volume of market supply must be adequately controlled. This is one of the most important conditions, for with ineffective volume control, opponent-pain power possibilities are substantially decreased. Just what percentage of the volume of the commodity must be controlled is unknown and cannot be specifically determined; it varies with the commodity and the conditions. This control must be great enough, however, that if the supply

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<sup>1</sup>Ibid., p. 5.

<sup>2</sup>Ibid., pp. 47-52.

of the commodity that is controlled is completely or partially cut-off from the opponent, he will experience economic loss.

Control must also be on a continuous and widespread basis if any gains obtained are to be permanent. If not, effective bargaining through the use of control of the volume of market supply will result in rising prices which may cause output expansion by non-cooperators. Such expansion of output would reduce prices and negate any advantages won by the association.

This control over production then both limits and increases bargaining power possibilities. In the words of Roy:

Effective control over production is probably the most significant factor that can increase farmer bargaining power, and lack of such control is the factor most likely to limit bargaining power.<sup>1</sup>

- (2) The association must gain recognition from the opposite party, their opponent. Without this recognition, the association can have neither the ability nor the opportunity to apply Type I or Type II power to the other party.
- (3) The association must have skilled management personnel and negotiators backed by the directors and members of the association.
- (4) There must be some type of restriction on market entry to prevent new production from altering the quantities supplied.
- (5) The more substitutes a product has, the more difficult effective bargaining becomes.
- (6) In order to control the volume of production and attain group

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<sup>1</sup>Ibid., p. 47.

cohesiveness, there should be strong member loyalty to the association supported by production and marketing.

- (7) Associations must not only control the quantity supplied, but also the flow of supply to the different outlets. Control of or access to alternative outlets are necessary for effective bargaining power.
- (8) Products with an elastic supply curve give the producers less bargaining power than products with inelastic supply curves. If the volume of the product is controlled so that excess supply cannot reach the market and push prices down, any price increase due to gains obtained at the bargaining table is more likely to result in excess supply that must be held or destroyed if the product has an elastic supply curve rather than an inelastic curve. Therefore, an inelastic supply curve is more conducive to obtaining net gains for producers through the use of bargaining power than is an elastic supply curve.
- (9) Bargaining power must be underwritten with adequate permanent funds. If not, a temporary victory (such as gained through holding actions) may turn into a long-run defeat.
- (10) The number of non-members of the association must be taken into account. As noted, the association must control enough of the supply to be able to effectively apply Type II power. If there are too many non-cooperative non-members, this may be impossible. Non-members may also reap the benefits of the association without bearing any of the costs or responsibilities.
- (11) Goals of bargaining associations should include higher net



earnings and not just higher prices. If prices are not kept reasonable, handlers may establish their own production facilities, relocate, or go out of business.

- (12) Inefficient producers must either become efficient or drop out of the farming industry. In the long-run, inefficient producers will make bargaining attempts more difficult.
- (13) State and federal legal protection and sanction may be necessary for bargaining associations to be permanently effective.
- (14) Members of bargaining associations must meet the specifications set out in the member association contract. Deviations from these specifications detract from the bargaining power of the association.
- (15) All other things equal, the more confined the area, the more effective will be the association's bargaining power. This allows for a closer-knit type of relationship between the members and makes organization and communication easier for the association.
- (16) A product that has an expanding market demand will enhance bargaining possibilities. Handlers realize that there is a greater market for the product and are less likely to worry about the prices that they have to pay than if the product has a declining market demand.
- (17) The more perishable a product, the less bargaining power available. If the product can be stored for long periods of time, producers have time to bargain and inflict economic losses on the buyers without disastrous economic loss to themselves.

However, producers of perishable products more readily recognize the need for bargaining power because of the untenable position that they are in.

- (18) Flexible and well-trained leaders of bargaining associations add to the associations' bargaining effectiveness. Inflexible leadership will detract from the associations' bargaining effectiveness.
- (19) Voluntary participation in farmers' bargaining associations has both drawbacks and benefits to the bargaining power of the association. Benefits include greater loyalty, cooperation, and dedication of the members to the goals of the association. Drawbacks include the loss of complete volume control and the non-members gaining at the expense of the members.
- (20) Bargaining associations should strive for a favorable public image. An association that becomes too powerful may evoke distrust by the public. If the bargaining association is too weak, it will be ignored by the public. In the first case, damaging legislation may result, and in the second, needed legislation may not be forthcoming.
- (21) If the economy is operating under a system of relatively free trade and bargaining forces prices up too high, exports may decrease while imports may increase. Therefore, domestically traded commodities offer better prospects for price-rising bargaining gains than do internationally traded commodities.
- (22) Except in the case of milk producers who are covered by federal marketing orders, bargaining associations find it difficult to

bargain with all handlers jointly. Therefore, achieving price uniformity between the different handlers requires well organized and powerful bargaining associations.

- (23) Bargaining associations which can assemble, analyze, and provide their members with market information, strengthen the bargaining power of the association.
- (24) Bargaining associations should incorporate to obtain limited liability to minimize the risks of individual costs due to law-suits.
- (25) Bargaining groups might be more effective if they affiliate with other bargaining groups. Although local decision-making might decrease, greater volume control should enhance their bargaining position.
- (26) A product (such as milk) which has several uses which can be apportioned into elastic and inelastic markets (e.g. milk in the inelastic market and butter in the elastic market) responds more favorably to bargaining than a product with only one market use.
- (27) If a product is an intermediate good, such as feed grain, it is more difficult to obtain effective bargaining for it than if it were destined for final consumption, such as peaches for canning. An intermediate product has to go through many more handlers or middlemen and each stage entails a bargaining process and added costs.
- (28) The age and status of farmers may effect their desire to support a bargaining association. The older farmers are more likely to be debt-free and therefore less likely to see as many benefits

to be gained from bargaining associations as the young farmer just entering the business. Also, larger farmers are apt to feel more capable of bargaining on their own than are smaller farmers.

- (29) The cost of holding a commodity during a negotiation stalemate should also be considered. Storage costs, extra feed costs, and spoilage are a few of the factors that might affect the bargaining power of the association.

The previous discussion has indicated some of the reasons why farmers feel they need bargaining associations. One recurring reason is the inability of the individual farmer to compete or to negotiate successfully with big business. He has neither the money, time, legal aid or knowledge, nor does he usually operate in the same type of market structure.

## MARKET STRUCTURES

If farmers and all other industries operated in a purely competitive market, there would be less need for farmers to obtain bargaining power. However, they do not. Farmers essentially operate in a free market while the handlers of farm products usually operate with at least some degree of market control. How does this affect farmers? Perhaps the best way to illustrate this is to first explain some of the concepts of a free market or of a purely competitive market.

Pure Competition<sup>1</sup> .

"[Pure] competition exists when at least three conditions are present: (1) many firms, (2) no control over price and (3) easy entry and exit from business."<sup>2</sup>

Many firms simply implies that the action of any one individual or firm has no appreciable effect on the actions of any other firm. For example, no single producer can affect the market price, supply reaction or demand of any other firm by any action it takes.

In pure competition, no firm has an appreciable control over prices. Since prices in pure competition are determined by the interaction of supply and demand and no individual or firm can appreciably alter supply or output, it follows that no individual or firm can alter prices. Under pure competition there is no advertising or brand name advantage, an implication that all items of a certain commodity are identical or homogenous. For example, a

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<sup>1</sup>Ibid., p. 39.

<sup>2</sup>Ibid.

bushel of U.S. number 3 wheat in California is the same as a bushel of number 3 wheat in Maine.

Easy entry and exit into the market are also necessary conditions for pure competition to exist. In other words, there can be no undue restrictions that bar the entry of firms into the industry and which allows fewer firms to make greater profits.

### Problems Involved

The main problem to farmers is that essentially they operate in a free market while their opponents do not. They are beginning to realize that through farmers' bargaining associations they can operate as a group to free themselves from some of the conditions of excess competition. As a group they might be able to affect appreciably market price, supply, and entry and exit into the market. This would allow them to exhibit greater bargaining power when dealing with market firms from which they buy and sell.

While it was mentioned that farmers essentially operate in a competitive market, there are some exceptions to this. A small percent (5 percent estimate by Paarlberg)<sup>1</sup> of agriculture is quasi-monopolistic due to some agricultural producers having mandatory government-run programs (i.e., tobacco, peanuts, and rice). About 20 percent of agricultural production is under voluntary restrictive government programs and approximately 10 percent of farm income comes from farm products whose prices are supported where production control programs are not in effect. About 10 percent of farm income is

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<sup>1</sup>Don Paarlberg, "Oligopoly Agriculture--A Gain or Loss?," Proceedings of Market Power Conference (College Station, Texas: Texas A & M University, February 23, 1968), p. 7, cited by Roy, Collective Bargaining, p. 41.

derived from products sold under marketing orders (again without production control) and 10 percent from products grown under contract. These also restrict the free movement of prices to some degree.<sup>1</sup>

Roy has concluded that "About 45 percent of the agricultural income comes from farm products with production determined individually by farm operators and price determined by the interaction of supply and demand in a market that approaches pure competition."<sup>2</sup>

Some farmers would like to escape this situation. As was previously mentioned, some farmers feel that bargaining associations can provide them this opportunity. They cannot, however, effectively operate in a market structure where only they operate under conditions approaching pure competition. An alternative to freeing themselves of this restriction is to force all other industries and groups to operate under the free market system. With the political, social and economic structure of this society as it is now, seeking this alternative is probably a lost cause. Many farmers feel the only reasonable alternatives are through farmers' bargaining associations. One thing is clear, as Roy puts it: "For a free market to work well, it must be totally free and it must apply to all groups and individuals, not solely to farmers."<sup>3</sup>

#### Other Types of Market Situations

While farmers essentially operate under conditions of competition,

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<sup>1</sup>Ibid.

<sup>2</sup>Ibid.

<sup>3</sup>Ibid., pp. 40-41.

there are many other types of market structures that farmers face. These market structures range from the aforementioned competitive situation where there are many buyers and many sellers to the bilateral monopoly situation where there is only one buyer and one seller. When selling their products farmers usually find themselves in the many-sellers position facing anywhere from one to many buyers of their produce, with the typical situation being few farm-product buyers and many farm-product sellers (oligopsony). When buying inputs, farmers usually face the situation of few sellers of these inputs and many farm buyers of these inputs (oligopoly). The number of sellers of farm supplies are presently declining even more.

Farmers sometimes face the situation of monopoly--one seller and many buyers. Farmers supply cooperatives (operating cooperatives or associations that physically handle and market agricultural produce and/or physically supply goods, supplies or services for its members on a non-profit basis)<sup>1</sup> have sometimes been organized to offset this. Farmers also face monopsony--one buyer and many sellers. Again, in the past, operating cooperatives have helped partially to eliminate this situation.

Farmers may also be in a bilateral oligopoly position--few buyers and few sellers. This is rare for farmers and is usually the result of associations. The same is true for bilateral monopoly--one buyer and one seller. This does not exist except in some local markets where there is only one buyer and a bargaining association represents the only seller.

The main concern in market structure presently is the apparent shift of market power from the agricultural middlemen to food retailers,

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<sup>1</sup>Ibid., p. 5.



especially food chain stores and associated buying groups of food stores. There is every evidence that this shift in market power will continue.<sup>1</sup>

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<sup>1</sup>Ibid., pp. 54-55.

POTENTIAL ECONOMIC BENEFITS OBTAINABLE FROM  
FARMERS' BARGAINING ASSOCIATIONS

Obtaining higher prices for their farm products or attaining lower production costs are usually considered the main objectives of farmers' bargaining associations; however, other benefits or advantages may be possible. Some of these are as listed below:<sup>1</sup>

- (1) A group of individuals may receive fairer testing, weighing and grading of produce than individuals would.
- (2) Handlers of an association's commodities may reduce processing costs due to an assured volume. Some of these savings may be passed back to the association's members in the form of higher prices.
- (3) Commission or handling costs of products may be reduced.
- (4) The bargaining group may be able to eliminate the services of processors or buyers by assuming this responsibility themselves (i.e. vertical integration through operating cooperatives).
- (5) Overhead marketing facility costs may be substantially reduced due to improved production scheduling.
- (6) Bargaining associations may improve the quality and delivery of produce to the buyers.
- (7) Bargaining associations may reduce product transportation costs by improving transportation methods of routing and hauling.
- (8) Bargaining associations may give members more to say about the terms of their contracts with buyers.

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<sup>1</sup>Ibid., pp. 54-55.

- (9) Bargaining associations may help to eliminate the problems of over-production through the use of such techniques as controlled-supply or full supply contracts.
- (10) If bargaining associations gear production to actual market needs, economic savings and benefits may accrue to handlers. If these groups have bargaining power, handlers may share these savings and benefits with the farmers.
- (11) Bargaining associations can provide helpful economic information to the farmer to improve his production and marketing efficiency.
- (12) As a member of a bargaining association, a farmer may feel he has more economic power and is no longer just a pawn in a world of kings (the handlers of his products); therefore, bargaining associations may give their members psychological boosts.

"Farmers have been hurt in the past decade as much by rising costs as by falling prices. Farm production expenses have increased from \$10 billion in 1950 to over \$35 billion, rising from 60 to 70 percent of gross farm income."<sup>1</sup>

Most of the bargaining done by farmers in this area is through Farmers' Co-op Associations. This has been accomplished through operating cooperatives in which the farmers gain control of manufacturing, wholesale and retail establishment (vertical integration) control, and through the pooling of their buying power in a regular farmers' bargaining association. When they combine purchases, farmers may reduce supplier distribution costs through increased volume. This latter method, through the pooling of buying power,

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<sup>1</sup>Ibid., p. 209.

may lead to a savings in costs or an improvement in quality to the members of farmers' bargaining associations. For example:

- (1) Suppliers of gasoline, diesel fuel, butane, propane, oils, greases, tires, batteries, accessories and animal health products are usually sensitive to large volume buying power. If farmers organize and pool their buying power, substantial savings may be realized.
- (2) The bargaining association can acquire or contract for services such as counseling for estate planning, retirement plans, possible tax deductions, legal advice, and optimum machinery purchase.
- (3) The bargaining association could also have group health and medical insurance plans which might greatly reduce the amount farmers spend on this insurance.
- (4) Prices and marketing information, laboratory and research services, promotional advertising services, transportation services, computer services, and labor recruitment services are other services an association could provide to help the individual farmer to increase his income through higher prices, increased efficiency, or lowered costs.

All sixteen of these points are possible methods by which farmers' bargaining associations may increase farmers' income or provide them with some other benefit. However, it must be realized that to obtain economic benefits, there must be some source from which to obtain them. Benefits from cost savings are self-explanatory; the less the cost, all other things equal,

the greater the net income.<sup>1</sup> But what about methods such as the application of Type II power to obtain higher prices or other benefits? The gains sought must come from some source. What sources are available?

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<sup>1</sup>This is not to imply that the greater the cost savings, the greater the net revenue in all situations. For, as costs are reduced, not revenue may increase, which may cause output to increase, thus possibly causing price and net revenue to decrease in the long run.

## SOURCES OF GAIN FOR FARMERS' BARGAINING ASSOCIATIONS

If bargaining associations can offer some economic advantage to their opponent (buyers of their products or sellers of their supplies), the opponent may return some or all of this economic advantage to the producers without an economic loss to himself. For example, an apple farmers' association may be able to substantially reduce the procurement costs of a canner through reduced commission and handling costs or by assuring the canner of a certain volume of apples. This is what Ladd<sup>1</sup> describes as Type I, or opponent-gain power. The opponent can return all or a part of these gains to the producers and still be as well or better off than before. How much of this gain he will return to the producers will probably depend in large part on the extent of Type II, or opponent-pain bargaining power, that the association has. For example, the apple growers association might threaten the canner with withholding their apples or selling them to another source if some of these gains are not passed on to them. This action would be economically expensive or damaging to the canner. This is the use of Type II power to obtain economic benefits resulting from Type I power.

Type II power can also be employed even when there is no gain to the opponent from Type I power. In this case, if the use of Type II power is successful, farmers gain at the expense of their opponents by the amount that their opponents lose.

Therefore, when Type I is combined with Type II power, the source of gain to the association comes from reduced costs or from the advantages the association offers to the handler. However, whenever Type II power is

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<sup>1</sup>Ladd, Agricultural Bargaining Power, p. 20.

applied alone, what are the sources of gains or benefits to the association, and what are the limitations on these gains?

### Marketing Margins

Marketing costs represent the money spent to market the product. These are the costs that are involved in assembling, processing, packaging, storing, transporting, and selling farm products.<sup>1</sup> Examples of these costs includes supplies, salaries and wages, interest, insurance, rent, taxes, depreciation, advertising, and utilities expense.

A marketing margin is the total spread between the price received by the farmer for his product and the price paid by the consumer for the finished product. This margin, then, includes all relevant costs plus all profits received by the middlemen, processors, or handlers between the farmer and the consumer. The amount of this marketing margin for any particular product depends on factors such as the amounts and types of handling techniques required from the time of sale until the final purchase by the consumer. Ladd,<sup>2</sup> for example, selected various farm-food products and showed the marketing margins as a percent of retail value for these products. The greatest margin in this study was 90 percent for corn flakes and the smallest was 29 percent for butter. This means that the farmer obtains 10 percent of the consumers money spent on corn flakes and 71 percent of that spent on butter. One obvious reason for this difference is the greater number of processing steps involved in the production of corn flakes. Greater storage and

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<sup>1</sup>Ibid., p. 22.

<sup>2</sup>Ibid., p. 23.

transportation costs also add to this difference in marketing margins.

John R. Moore<sup>1</sup> contends that the farmers only possible source of effectively bargaining for these marketing margins is through the first handlers of the products; however, the possible long-run gains from these handlers are practically nil, except when these first handlers have exceptionally large profits or when an exceptionally large value is added to the product by the first handlers. His reasons for this contention are as follows:

- (1) That it would be virtually impossible for producers to negotiate on prices with firms other than those to which they directly sell and (2) that the first handler when acting rationally has already obtained as much as he can from succeeding handlers under existing supply and demand conditions.<sup>2</sup>

Based on a study of seven major food processors, Moore<sup>3</sup> found that their average marketing margins were 35.4 percent for labor and fringe benefits; 19.3 percent for containers and supplies; 6.7 percent for advertising and promotion; 4.6 percent for other expenses; and 11.4 percent for profits before income taxes.

Marketing margins are one possible source of gain to farmers; however, the feasibility of assuming that farmers can depend on receiving more of this margin through the use of bargaining power is questionable.

#### Profits

According to Moore, profits are the only part of the marketing margin that farmers might bargain for. The prices of the other parts of the margin,

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<sup>1</sup>John R. Moore, "Bargaining Power Potential in Agriculture," American Journal of Agricultural Economics 50 (November, 1968), p. 1051.

<sup>2</sup>Ibid., p. 1051.

<sup>3</sup>Ibid., pp. 1051-1053.



all being costs to the handler, are largely set prices, determined by inter-industry market places or government regulations and they are beyond the scope of negotiations between farmers' bargaining associations and the first handler.

Farmers are not going to be able to reduce the profits of intermediaries to zero. If this were to happen, sooner or later the intermediaries would stop operating and the farmers would lose their markets.

Ladd<sup>1</sup> did a study to determine how substantial a gain in prices farmers could achieve if intermediaries were to return all profits to the farmers in the terms of higher prices. He found, using 1957 as the base year for selected industries, that the potential percent increases in farm prices due to all profits being used to pay farmers higher prices, varied from 1 percent for the meat packing industry to 68 percent for the breakfast food cereal industries, with the average for all farm products in 1960 at between 15 to 20 percent. (At first glance, it may appear that, for example, in the case of the cereal industry, if farmers were to receive all the profits in the form of higher prices, the farm income of grain farmers would increase considerably. However, when the fact that less than one percent<sup>2</sup> of the farmers grains are sold to the cereal industry is considered, the picture is altered considerably. It should also be noted that these profits include the profits of all middlemen and not just first handlers.)

To return to reality, however, firms are not going to operate at zero profits, at least in the long-run. What are these possibilities when firms

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<sup>1</sup>Ladd, Agricultural Bargaining Power, pp. 28-29.

<sup>2</sup>Ibid., p. 28.

retain a "fair" profit?

Moore found that if farmers allowed the farm product processors of seven selected types of farm commodities to receive a "modest" return on their equity of 10 percent with the remainder going to the farmer, the prices received by the farmers for these commodities would have changed as follows: beef, 0.1 percent; broilers, 0.2 percent; cheese, +1.2 percent; eggs, +0.6 percent; fluid milk, +1.2 percent; processed fruits and vegetables, -2.1 percent; and wheat for bread, +3.6 percent. These examples assume that the bargaining associations are strong enough to dictate to the processors a certain specified rate of profit return on their equity. Recalling that Moore felt that the only possible source of gain to farmers' associations attempting to bargain away marketing margins is profits, and considering the negative or very small positive gains realized by these associations at their strongest, he questions the practicability or worthwhileness of going to the expense and trouble of forming such an association which has this type of gain as its purpose.

It is the conclusion of most authors that neither labor unions nor bargaining associations can hope to appreciably improve their position at the expense of reduced profits to the processors or marketing firms.

#### Wages and Salaries

One of the highest costs involved in the marketing margin of most firms is that of wages and salaries. As with profits, if wages and salaries are reduced and the savings applied to higher prices to farmers, would this appreciably alter their income? And is this a feasible possibility?

Ladd<sup>1</sup> indicated that if wages and salaries of selected firms handling farm products were reduced by 10 percent, farm prices for different products would have increased by from 1 to 14 percent, with the average price increase at 4 percent. Ladd concluded that this would be a worthwhile but not a dramatic increase. And, as Moore concluded about profits, perhaps this increase would not justify the trouble and expense of forming a farmers' bargaining association even if reducing wages and salaries were possible.

However, it is highly unlikely that employees of firms will allow cuts in wages, especially for the purpose of increasing another group's income. Labor unions would oppose any such attempt. Even non-union members deeply resent any reduction in wages and salaries. This would also encourage non-union employees to form or join unions, and employers are not likely to take action that encourages their employees to seek union membership.

A more practical solution would be to give farmers higher prices for their products at the expense of wages and salaries by reducing or omitting their future increases. However, even this method cannot be called "practical." Labor unions also fight, albeit not as bitterly, for wage and salary increases. And, even if it were possible to eliminate all wage increases to employees, based on past (since 1950) average wage and salary increases, it would take from two to two and one-half years to reduce wages and salaries by the 10 percent required to increase product prices by approximately 5 percent. Anything less than the total elimination of future pay raises would increase this required period of time.

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<sup>1</sup>Ibid., p. 31.

### Miscellaneous Expenses

Advertising, research, development, depreciation, and depletion costs are also included in the marketing margin. While it is not possible to determine the possible increases in prices paid for farm products if any or all of these costs were reduced, the desirability of reducing them is questionable.

The importance of advertising and its role in the promotion of farm products was discussed earlier. Whether a decrease in advertising would negatively effect the prices and demand of farm products or an increase in advertising would increase farm product prices and demand cannot be stated with certainty. However, it is the opinion of most of the farmers' association spokesmen that more advertising would increase the prices of and the demand for farm products.

Depreciation and depletion costs items are important to the maintenance and expansion of firms. These costs represent funds for new equipment, machinery, and building, and usually embody technological improvements which reduce operating costs. Therefore, to reduce these would probably lead to less instead of more long-run income to the farmer.<sup>1</sup>

In the final analysis, therefore, a reduction in marketing margins probably should not be the primary objective of farmers' bargaining associations. Some significant gains may possibly be made in this manner, but this would require unusual and extreme circumstances.

### Consumers

It may be possible for farmers to raise their income by having the

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<sup>1</sup>Ibid., p. 34.

consumer pay higher prices for farm products or by his buying more of the products at the same price. The success of this method, however, depends on many factors.

Since the prices that consumers are willing to pay depends on the interaction between supply and demand, controlling the volume of supply with demand remaining constant, or increasing demand with supply held constant, or a combination of both, may be necessary to accomplish this objective. Again, this will depend on the situation.

One of the main factors to consider when attempting to increase income through the use of raising consumer prices is the price elasticities of demand and supply. In order to understand more fully how these elasticities affect total revenue under different conditions, the following definitions and formulas are given:

Elasticities of supply and demand--The elasticity of supply ( $e_s$ ) is defined as the relative responsiveness of the quantity supplied ( $Q_s$ ) to a change in price ( $P$ ) and the elasticity of demand ( $e_D$ ) is the relative responsiveness of the quantity demanded ( $Q_d$ ) to a change in price.

$$e_s = \frac{\frac{\text{Change in } Q_s}{\text{Change in } P}}{\frac{Q_s}{P}} = \frac{\text{Percentage change in } Q_s}{\text{Percentage change in } P}$$

$$e_D = \frac{\frac{\text{Change in } Q_d}{\text{Change in } P}}{\frac{Q_d}{P}} = \frac{\text{Percentage change in } Q_d}{\text{Percentage change in } P}$$

Stated more explicitly,  $e_s$  is the percentage change in quantity supplied when price changes by one percent and  $e_D$  is the percentage change in  $Q_d$  that is a result of a one percent increase in price. For example, if the  $e_D$  for eggs is .23, then a one percent rise in the price of eggs will decrease the quantity of eggs demanded by .23 percent; a ten percent price increase

will decrease quantity of eggs demand by 2.3%. It is also clear then, that all other things equal, the higher the  $e_D$ , the greater will be the percentage change in  $Q_d$ .

When  $e_S$  is less than one, supply is said to be price inelastic; when  $e_S$  is greater than one, supply is price elastic. By the same token, when  $e_D$  is less than one, demand is said to be price inelastic; when  $e_D$  is greater than one, demand is price elastic.

It can be shown, therefore, that if demand is price inelastic, an increase in price will increase the total revenue to the producer, at least in the short-run. (In the long-run, for example, this increase in price may bring about an increase in output (supply) to the extent that any or all or more than all of the short-run total revenue increase is eliminated--just how much the market supply will increase in this situation depends not only on the  $e_S$  but also on the ability of the association to control the market supply). On the other hand, if demand is price elastic, an increase in price will reduce total revenue, again at least in the short-run, depending primarily on the  $e_S$  of the commodity and the strength of the association.

How much total revenue changes with any given price change depends on the elasticity of expenditure ( $e_E$ ). Elasticity of expenditure is a measure of the percentage change in total revenue associated with a specific  $e_D$ . The  $e_E$  is simply  $1 - e_D$  and indicates what happens to the total expenditure of the buyer of a particular product (or the total revenue of the seller of the product) when the price of the product changes by one percent. For example, if  $e_D$  for eggs equals .23 percent,  $e_E$  for eggs equals  $1 - .23$  or .77 percent. Therefore, if the price of eggs increases by one percent, the total revenue of the egg producer (for eggs) will increase by .77 percent--a ten percent

increase in price will increase total revenue by 7.7% when  $e_D$  is .23 percent. This clearly indicates that as long as  $e_D$  is less than one,  $e_E$  will be positive, and, therefore any increase in price will result in, at least a short-run increase in the total revenue of the particular commodity under consideration.

As previously noted, however, any increase in price (assuming pure competition) will bring about an increase in market supply (as long as  $e_S$  is positive) unless volume is controlled by some outside force, such as a farmers' bargaining association or producer marketing boards. Just how much this increase in supply will be if uncontrolled by an outside force, will of course depend solely upon the  $e_S$ . If the commodity under consideration is price inelastic with respect to supply an increase in quantity supplied will not be as serious as it would be if  $e_S$  was price elastic.

All other things equal, the best situation for a price increase to increase total revenue in the long-run is to have both demand and supply price inelastic. In this situation, less control of supply is necessary in order to sustain an increase in total revenue associated with an increase in the price of a commodity. With supply price elastic, output tends to respond to a greater degree to the increased total revenue and more control is necessary to achieve desired results.

Another factor to be considered when determining the effect of a rise in price on total revenue is substitute products. These substitute products affect the elasticities of demand and supply; thus, they place an economic limit on the effectiveness of using farmers' bargaining associations to increase the total revenue of farmers. The greater the number of substitutes of and the closer the substitutes for (e.g. oleomargarine for butter) a

product, all other things equal, the higher will be the  $e_D$  for that product; thus, there will be less chance of increasing total revenue by an increase in the price of that product. Also to be considered, however, is not only the effect of a price increase on total revenue, but also its effect on permanent consumption. Although total revenue will increase if the price of a commodity is raised when the demand for the commodity is price inelastic, the consumption of this commodity will decrease by some percent.<sup>1</sup> Unless the consumer actually changes the amount spent on consumption, the consumption of this commodity will be reduced by product substitution. The more the price is raised, all other things equal, the more the commodity will be displaced by its substitutes. Thus, any particular association that attempts to increase total revenue through raising prices runs the risk of losing part of its market, perhaps permanently, to its substitutes through a shift in the commodity's demand curve. For example, if a consumer switched from butter to oleo because of a rise in the price of butter, the consumer may acquire a taste for oleo and fail to switch back to butter, even if the previous price spread returns. Thus, if conditions change, such as the price of butter falling to its previous level, the butter producer may find that, due to his market demand function shifting down and to the left, his new total revenue has fallen below the total revenue obtained prior to the price rise.

There are essentially two methods by which total revenue can be increased with constant population and incomes assumed. One method is to reduce the volume of output. The results obtained by this method depend on

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<sup>1</sup>An exception would be a commodity with a zero or negative  $e_D$ . In such a case, consumption will remain constant or actually increase. This is unusual, however, and limited to such cases as conspicuous consumption where a higher price may induce greater demand.



the price elasticities of supply and demand and the effectiveness of the force controlling volume. The second method is through changing the demand conditions or causing a shift in the demand function.

An association may be able to shift the demand function up and to the right or increase demand for a particular commodity by the use of several methods. It may advertise to influence consumers to switch consumption from a substitute product to their product. Advertising may eventually cause consumer tastes and preferences to change and thereby shift the demand functions for both the losing and the gaining product. The association may also improve the quality or taste of a product which may also result in consumers preferring it. Efficiency may result in lower consumer prices, which again may cause some consumers to permanently switch from one or more of the commodity's substitutes. All of these situations, if accomplished, would increase the price and total revenue of the producer.

Ladd placed limitations on the possibilities of producers gaining through the use of bargaining for higher prices in the following way:

The amount that can be gained by bargaining for higher prices is limited by the law of demand and the existence of substitute products. The law of demand tells us that charging higher prices for a product will reduce sales of that product unless population and consumer incomes grow fast enough to increase demand sufficiently to offset the reduction in purchases. Part of consumers' responses to the higher price will consist in a shift to substitute products.<sup>1</sup>

#### Cost Reductions or Savings

Reducing the costs associated with a product from the time production begins until it reaches the consumer is another method of obtaining a desired

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<sup>1</sup>Ibid., p. 52.

gain by bargaining associations.

These cost reductions or savings may be achieved by greater economic efficiency resulting from increased knowledge or the application of better production techniques obtained through research. Roy places great emphasis on this economic efficiency. He states:

Probably the greatest possibility for gains in most agricultural commodities is gains in economic efficiency. Produce organizations which have concentrated on better marketing techniques, control of product quality, cutting costs of handling and processing and product merchandising have usually succeeded in increasing the returns to their members.<sup>1</sup>

### Vertical Integration<sup>2</sup>

Vertical integration is another method by which farmers may improve their bargaining position and attain economic gains. Vertical integration or expansion is defined as:

Expansion of a business establishment by gaining control of the operations involved in the production and sale of a commodity all the way from obtaining the raw materials to the fabrication and final marketing of the commodity.<sup>3</sup>

In relation to farmers' organizations, vertical integration is most commonly found as operating cooperatives. These cooperatives physically handle and market part or all of the farmer's produce and physically supply the farmer with part or all of his goods, supplies and services on a non-profit basis. Farmers, therefore, transfer part of their management responsibilities

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<sup>1</sup>Roy, Collective Bargaining, p. 57.

<sup>2</sup>J. C. Bottum, et al., "Vertical Integration in Agriculture," Mimeo No. ED-154 (Lafayette, Indiana: Purdue University Cooperative Extension Service, December, 1962), pp. 1-11.

<sup>3</sup>Harold S. Sloan and Arnold J. Zurcher, Dictionary of Economics, 4th ed. (New York: Barnes and Noble, Inc., 1964), p. 328.

to the cooperative.

The primary purpose of these cooperatives is to increase the profits of the individual farmers. The probability of their reaching this objective depends to a large extent on the following conditions:<sup>1</sup>

- (1) The possibility of standardized and specialized management. The more standardized work routines become, the greater the possibilities of specializing the task. Since farmers transfer part of their management to the cooperative, it is essential that part of the activities are standardized so that the cooperative management can effectively specialize in the critical planning techniques.
- (2) The possibility of producing farm products in specified form and quality. If cooperatives can promise delivery, form, quality, time, and amount, they may capture larger mass product handlers and/or higher prices. This is taking advantage of Type I or opponent-gain power. It is in the best economic interest of the handlers to have these guarantees, and they may be willing to pay more for them. At the same time, fewer handlers may reduce distribution and advertising costs of the cooperative.
- (3) The possibility of future technological developments in farm production or processing. A cooperative may be able to adopt new or previously unused techniques that the individual farmer could not afford or was unaware of. Cooperatives would be better able to afford testing, research, advanced equipment, and have more

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<sup>1</sup>J. C. Bottum, et al., "Vertical Integration," pp. 4-6.

technical know-how than the average farmer.

- (4) The possibility of reducing marketing risks. The individual farmer faces the risk of not finding an outlet for his production. The processor also runs the risk of not finding a sufficient supply. Through the cooperative these risks may be eliminated or reduced to tolerable limits.
- (5) The possibility of increasing control over supply. To improve price bargaining power, cooperatives need to increase control of the volume of market supply over a large portion of the area. Just how much of the supply must be controlled and over how large an area depends upon the product involved and other factors.

The operating cooperative may increase the earnings of producers due to a number of advantages gained. A few of these additional earnings may be:<sup>1</sup>

- (1) Greater final consumer prices paid for either new products or better products. These new or better products may be the result of cooperative research or development.
- (2) Higher prices for the same products. Cooperatives may be able to control supply to a degree that enables them to effectively demand higher prices from handlers.
- (3) Costs of operations may decrease because of standardization, quality control, reduction of waste, spoilage, and the elimination of middlemen and risks.

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<sup>1</sup>Ibid., p. 9.

## Marketing Orders and Agreements

Marketing orders are not normally thought of as a method of increasing farmers' bargaining power, but they are another form of horizontal integration. However, since farmers' bargaining associations are usually in a more formidable position to receive and/or to execute marketing orders than are individuals, they are treated in this paper as primarily being another tool or aid that farmers' bargaining associations may employ to increase their members' bargaining position.

A marketing order is a legal instrument issued by the Secretary of Agriculture specifying terms and conditions of marketing particular commodities in a given area. Unlike agreements, a marketing order is binding upon all handlers of the commodity in the specified area.<sup>1</sup>

The primary objective of marketing orders is to improve the farmer's economic position usually thought of in terms of enhancing the farmer's income. Although several methods to be discussed later are employed in an attempt to do this, the basic idea is to alter the market structure faced by farmers. This will permit them to operate in a more imperfectly competitive situation, in, that is, a market structure similar to those their opponents operate in.

A marketing agreement is obtained when a handler of a particular commodity voluntarily enters into a contract with the Secretary of Agriculture. This agreement covers a specific commodity that is marketed or produced in a specific area, and the agreement is binding on all handlers who sign it.

All agreements now in effect are accompanied by marketing orders.

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<sup>1</sup>E. M. Babb et al., "Federal Market Orders: Present and Potential Uses," Mimeo No. EC-238 (Lafayette, Indiana: Purdue University Cooperative Extension Service, December, 1961), p. 11.

This is because voluntary industry compliance has not been obtained for all handlers in the industry in the past, and many of the programs initiated by the Secretary of Agriculture require complete industry acceptance to be effective.

These marketing orders do not restrict either market entry or production at the producer level of any commodity, and they rarely set prices. The basic objective of marketing orders is to increase returns to producers. With no restriction on market entry or production, the possibility of reaching this objective in the long-run is questionable. If marketing orders are effective in increasing prices, production may expand and previous gains may be lost as the price declines.<sup>1</sup>

However, because marketing orders legally regulate handlers and are binding on all who are regulated, they may alter marketing power and improve the bargaining power of producers. Producers' incomes may not be increased by increased prices due to unrestricted output, but other techniques can and do improve producers' incomes. Some of these are as follows:<sup>2</sup>

- (1) Marketing orders develop and enforce compliance with more acceptable trade practices. This technique is more likely to help the members of an agricultural bargaining association than the buyers of their produce because the buyers are usually more powerful and able to force unethical business practices on the smaller producers.

- (2) Marketing orders have emphasized and rewarded the development

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<sup>1</sup>Roy, Collective Bargaining, p. 76.

<sup>2</sup>Babb, "Federal Market Orders," p. 3.

of more acceptable product features such as quality standards, package uniformity, and brand differentiation, etc. All these may help the producer to increase consumer demand for his product.

- (3) Marketing orders involve research and marketing development activities. These also help to improve the products so that consumer demand and, perhaps, prices may also increase.
- (4) Marketing orders have developed regulations which control the seasonal and yearly flow of products. This permits the producer to receive more stable prices and incomes.
- (5) Marketing orders may enhance the farmers' bargaining position by such actions as price supports and production control techniques. These orders may also directly and favorably effect demand and supply conditions through direct market purchases.

The effectiveness with which marketing orders enhance the farmers' bargaining power depends in part on the following factors:<sup>1</sup>

- (1) The number of unregulated close substitutes.
- (2) The number of buyers or outlets for the product.
- (3) The size of the production area and the number of producers.
- (4) The degree of perishability or storability of the product.
- (5) The degree of success which the association has had with marketing orders in the past.

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<sup>1</sup>Ibid., p. 4.

## LEGALITY OF FARMERS' BARGAINING ASSOCIATIONS

One of the barriers to effective bargaining power for farmers comes from past legislation which makes control of volume in order to influence price an illegal practice. Other barriers have existed in the past, some of which have been eliminated by later legislation while some still exist. To get a better idea of the legal limitations and possibilities of farmers' bargaining associations, the following section is a summary of the content and implications of legislation affecting farmers' bargaining associations.

## The Sherman Anti-Trust Act of 1890

Prior to the passage of the Sherman Anti-Trust Act in 1890, the House and Senate debated extensively about what should and should not be exempt from the Act. For example, Senator Teller felt that such farmers' organizations as the Farmers' Alliance were completely justified in attempting to increase the prices of their farm products. He stated:

Shall it be said that the organizations [Such as the Farmers' Alliance] are forbidden by law? . . . Does anybody believe that these organizations are inimical and hostile to the public welfare? On the contrary, does not everybody know that unless we can by some method increase the price of farm products a great many farmers in the United States will be in bankruptcy and turned out of their homes? . . . While I am extremely anxious to take hold of and control these great trusts, these combinations of capital which are disturbing legitimate trade, I do not want to go to the extent of interfering with organizations which I think are absolutely justifiable by the remarkable condition of things now existing in this country.<sup>1</sup>

Senator Sherman, on the other hand, did not believe that his bill affected the voluntary farm associations in any way, because they were not

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<sup>1</sup>Congressional Record, 51st Congress, 1st Session, p. 2561, quoted in Edwin G. Nourse, The Legal Status of Agriculture Co-operation (New York: Macmillan Company, 1927), pp. 242-43.



business combinations. The only purpose of these farm organizations, according to Sherman, was to act as tools of education and advisement to their members. He stated:

The only purpose of these voluntary associations is to . . . advance their interests and improve the growth and manner of production of their crops and to secure intelligent growth and to introduce new methods . . . They are not business combinations. They do not deal with contracts, agreements, etc. They have no connections with them. And so the combinations of workmen to promote their interests, promote their welfare, and increase their pay, if you please, to get their fair share in the division of production, are not affected in the slightest degree, nor can they be included in the words or intent of the bill as now reported.<sup>1</sup>

It is clear from the above that Sherman did not consider farm organizations would be affected in the least by the Act. However, after hearing the following rebuttal from Senator Stewart, Sherman proposed an amendment to the Act, not because he felt it was necessary, but to "avoid confusion." Senator Stewart stated:

Suppose . . . a combination is formed in Chicago by citizens of Chicago . . . to bear the prices. The farmers of different states would have no right to combine and say "We will not sell any wheat; we will help each other; we will not sell any wheat until this combination is broken up; we will not allow them to sell our wheat short, to sell something they have not got and bear the market, and we will not take our wheat to market to be robbed." That they could not do under this proposed law [Sherman Anti-Trust Act]. They would be liable to all the pains and penalties of the law if they did.<sup>2</sup>

Senator Sherman's amendment read as follows:

Provided, that this act shall not be construed to apply to any arrangements, or combinations between laborers made with a view of lessening the number of hours of their labor or of increasing their wages: nor to any arrangement, agreements, associations, or combinations among

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<sup>1</sup>Congressional Record, 51st Congress, 1st Session, p. 2562, quoted in Nourse, Legal Status, p. 243.

<sup>2</sup>Congressional Record, 51st Congress, 1st Session, p. 2606, quoted in Nourse, Legal Status, p. 244.

persons engaged in horticulture or agriculture made with the view of enhancing the price of their own agricultural products.<sup>1</sup>

Inclusion of this simple amendment in the Sherman Anti-Trust Act would have completely altered the history and future of farm organizations. However, unfortunately for farm organizations interested in increasing their bargaining power, this amendment was entirely eliminated from the bill. Thus, further legislation was still needed to improve the legal status of farm organizations.

#### The Clayton Act of 1914

Section Six of the Clayton Act reads as follows:

Section 6. That the labor of a human being is not a commodity, or article of commerce. Nothing contained in the anti-trust laws shall be construed to forbid the existence and operation of labor; agricultural, or horticultural associations, instituted for the purposes of mutual help, and not having capital stock or conducted for profit, or to forbid or restrain individual members of such organization from lawfully carrying out the legitimate objects thereof; nor shall such organizations, or the members thereof, be held or construed to be illegal combinations or conspiracies in restraint of trade, under the anti-trust laws.<sup>2</sup>

This act allows farmers' organizations to legally exist and not be considered in restraint of trade if they were organized and operated for mutual help. This act also allowed only those organizations which did not have capital stock to have legal existence, and those not having capital stock were limited to the objectives of education and service. Since most farmers' organizations either had capital stock or were organized at least partially for the purpose of bargaining for prices, this Act was of little

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<sup>1</sup>Ibid.

<sup>2</sup>Nourse, Legal Status, p. 247.

help to them.

On May 14, 1910, four years before the passage of the Clayton Act, a Mr. Cantrell of Kentucky had tried but failed to amend the Sherman Act by introducing a bill in the House that would have exempted farmers from the Sherman Act as follows:

. . . any contract or combination or any form, the purpose of which is to secure to growers or producers of agricultural products or livestock a reasonable price therefor.<sup>1</sup>

Between the Clayton Act in 1914 and the Capper-Volstead Act in 1922, there was some recognition by Congress that farmers' organizations should receive special treatment. For example, the Food Control Act of 1917 was strongly opposed to any action that would enhance the cost of food and had strong prohibitions against such actions.<sup>2</sup> However, Section 26 of this Act, while strongly prohibiting anyone from storing, acquiring, holding or destroying any food article in order to limit the supply to the public or effect the market price of the food commodity, did exempt farmers from the Act and stipulated that farmers' co-operatives were not included within the provisions of this section. One reason that this exemption was made was that the United States:

. . . was in the midst of a "food will win the war" campaign, and it was generally considered to be the part of wisdom to do nothing which actually or psychologically would operate to interfere in any way with the complete freedom of agricultural effort.<sup>3</sup>

Also, after 1914, various appropriation bills that set aside funds for the Attorney General to use in prosecuting violators of anti-trust laws

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<sup>1</sup> Congressional Record, 61st Congress, 2nd Session, Vol. 45, Part 6, p. 2673, quoted in Nourse, Legal Status, p. 246.

<sup>2</sup> Nourse, Legal Status, p. 249.

<sup>3</sup> Ibid., p. 251.

included provisions that these funds should not be expended to prosecute producers of farm products or farmer co-operatives that were organized for the purpose of obtaining fair and reasonable prices for their products.<sup>1</sup> This, while not providing for the organization of these cooperatives, did implicitly allow "reasonable" cooperatives to operate without prosecution by Federal District Attorneys. It was thought by the advocates of these provisions that such provisions would discourage the Department of Justice from prosecuting "fair and reasonable" cooperatives.

#### Capper-Volstead Act (1922)

The passing of the Capper-Volstead Act was preceded by an unsuccessful attempt to pass a bill called the Capper-Hersman Bill. This bill came about because anti-trust indictments brought against the National Milk Producers' Federation were threatening to undermine the progress of cooperative milk markets. The Federation persuaded the National Board of Farm Organizations to prepare and introduce the bill early in 1919. This bill would have given greater anti-trust exemptions to farm organizations than the bill that led to the Capper-Volstead Act, but it failed to pass either the House or the Senate.<sup>2</sup>

An identical bill was introduced in the Senate by Senator Capper at the same time. Three years later, in 1922, Senator Capper's bill was replaced by a substitute bill which became the Capper-Volstead Act.

The Capper-Volstead Act allowed agricultural cooperatives that were

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<sup>1</sup>Ibid.

<sup>2</sup>Ibid., p. 253.

engaged in marketing or bargaining for agricultural products to legally exist without automatically being considered in violation of federal anti-trust laws.<sup>1</sup> Agricultural cooperatives were still not allowed to "unduly enhance" prices but were allowed to assist members in marketing their products. Membership in these organizations was to be on a voluntary basis only.

Stated in greater detail, the Capper-Volstead Act:

. . . legalizes an association of farmers for the purposes of bargaining or marketing, whether with or without capital stock provided:

- (1) It is operated for the mutual benefit of its members as agricultural producers.
- (2) It conforms to one or both of the following requirements:
  - (a.) No member is allowed more than one vote because of the amount of stock or membership capital he may own, or
  - (b.) Dividends on capital stock or membership capital do not exceed 8 percent per year.
- (3) The association must not deal in products of non-members to an amount greater in value than such as are handled by it for members.<sup>2</sup>

This Act also provided that the Secretary of Agriculture have jurisdiction over these organizations for the purpose of assuring compliance with the Sherman and Clayton Acts. However, if the Secretary of Agriculture failed to act, the Department of Justice retained the authority to do so.

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<sup>1</sup>Roy, Collective Bargaining, p. 72.

<sup>2</sup>Ibid.

### Agricultural Marketing Agreement Act (1937)

This Act authorizes the Secretary of Agriculture to enter into marketing agreements and/or orders with processors, producers, associations or producers or cooperatives and with others engaged in the handling of specified agricultural products to promote the orderly marketing of farm products. These marketing agreements and orders are exempt from the anti-trust laws.<sup>1</sup>

This Act provides for (1) establishing certain minimum requirements such as grades and sizes of products, (2) regulating product flow to markets to avoid gluts and overburdening market facilities, (3) diverting supplies from the main outlet to the secondary outlet, (4) the establishment of marketing research projects, and (5) prohibiting unfair trade practices.<sup>2</sup>

Under this Act, producers formulate and approve by two-thirds of their members votes the program that they want. The program is then administered by selected producer representatives under the supervision of the Secretary of Agriculture. If producers do not wish to use this legislation, they are not forced to. However, if a program is approved by two-thirds of the producers, it is binding on all of them.

### Agricultural Fair Practices Act (1968)

This Act essentially prohibits handlers of agricultural products from discriminating against any individual producer because he is a member or a potential member of a producer association.

The handler cannot coerce, refuse to deal with, or discriminate against any producer with respect to any contract terms because he belongs to

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<sup>1</sup>Ibid., p. 75.

<sup>2</sup>Ibid.

the association. The handler also cannot coerce, intimidate or bribe the producer in order to make the producer join or quit such an association or breach a promise to the association.

A producer can refuse to deal with a member of an association, but not because he is a member. The producer can refuse, for any reason, to deal with the association itself. If a producer has given the association the right to be his exclusive bargaining agent, the handler must deal with the association and cannot attempt to deal with the producer alone.

## SUMMARY OF EXISTING LEGISLATION

The Capper-Volstead Act, while enabling farmers' bargaining associations to control supply and, thus, "enhance" prices without being held in violation of anti-trust laws, does not provide for these associations to legally "unduly enhance" prices by controlling the volume of supply. Just where the distinction between "enhancing" and "unduly enhancing" lies is a decision that has by necessity been left up to the decisions of the courts. The results of past decisions, however, have not been particularly encouraging to most farmers' bargaining associations.

In one U.S. Supreme Court case involving a major dairy cooperative charged with conspiracy to restrict, limit, control and restrain the supply of milk in interstate commerce, the Supreme Court held that cooperatives did not have the legal immunity to restrain interstate commerce and set prices; cooperatives may cooperate only for the purposes of preparing and marketing products. In another case, the Supreme Court held that the Capper-Volstead Act does not grant farmers as a class any special privileges--the Act was passed only in order to give farmers the same exemptions and immunity already enjoyed by business corporations.<sup>1</sup>

Presently, under the Clayton Act, any individual or group found guilty of violating anti-trust laws are liable for treble damages. This fact, when combined with the possibility of being found guilty if price-setting is attempted, greatly increases the risks of and decreases the potentials for effective farmers' bargaining power.

The Agricultural Fair Practices Act of 1968 makes it unlawful for

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<sup>1</sup>Dechant, Bargaining Power for Farmers, p. 18.



farm product handlers to discriminate knowingly against any member of a farmers' organization merely because he is a member of the organization. However, neither this Act nor any other present legislation prohibits handlers from knowingly refusing to deal with or discriminate against a farmers' organization merely because it is a farmers' organization!

The Agricultural Marketing Agreements Act of 1937 provided for mandatory marketing orders for certain commodities between producers or producers' organizations and the Secretary of Agriculture when producers voted the order into effect. These marketing orders have, in some areas and for some commodities, strengthened farmers' bargaining power; however, one drawback to these orders is that all crops and farm products are not now covered. Another provision, whether desirable or undesirable, is that marketing orders do not restrict producers' production volume or entry into the industry.

AMENDMENTS AND ADDITIONS TO PRESENT LEGISLATION<sup>1</sup>

Several suggestions have been made with respect to amending present legislation that might increase farmers' bargaining power. Revising marketing orders, amending the Capper-Volstead Act and the Agricultural Fair Practices Act of 1968, and reducing the power of big labor unions and big government are a few of the suggestions that have been made. Suggestions have also been made with respect to increasing farmers' bargaining power by presenting and adopting new legislation. The following pages examine a few of the suggestions that have been proposed.

## A Wagner Type Act for Farmers

The Wagner Act of 1935 was designed for and primarily benefits members of labor unions. The legal definitions of labor unions and agricultural bargaining associations are as follows:

The Wagner Act defines a "labor organization" as any organization . . . agency or employee representation committee or plan, in which employees participate and which exists for the purpose, in whole or in part, for dealing with employers concerning grievances, labor disputes, wages, rates of pay, hours of employment or conditions for work . . . [while] . . . Legally, an agricultural bargaining association, under state laws and the Federal Capper-Volstead Act, is a voluntary association of farmers organized for their mutual benefit, which votes one-man, one vote or votes on some other basis but limits interest paid to 8 per cent and does business with farmer non-members which does not exceed that of members.<sup>2</sup>

The following is a list of some of the main legal features of the Wagner Act as applied to labor unions and the legal restrictions placed on

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<sup>1</sup>Roy, Collective Bargaining, pp. 144-55.

<sup>2</sup>Ibid., p. 61.

agricultural bargaining associations:<sup>1</sup>

- (1) The Wagner Act prohibits employers from discriminating against employees because they belong to labor unions.--The Agricultural Fair Practices Act of 1968 affords members of agricultural bargaining associations the same legal protection.
- (2) The Wagner Act requires employers to recognize and bargain with labor unions that have been approved by the workers.--No processor, handler, or buyer of farm products is required to recognize or deal with any agricultural bargaining association. They may discriminate against the association merely because it is an association if they so desire.
- (3) The Wagner Act provides that employers must have valid reasons for failing to accept union proposals, offer counterproposals when proposals are not accepted, and sign written contracts when agreement between the employer and employee is reached.--Agricultural bargaining associations are afforded none of these advantages.

#### The McCormick-Bunje Proposal

The McCormick-Bunje Proposal is a legislative proposal introduced by Lloyd W. McCormick and Ralph B. Bunje of California. This proposal describes the creation of a Wagner-type act for farmers. This proposal has been tentatively named the Agricultural Marketing and Bargaining Act.

This act would create a National Agricultural Bargaining Board consisting of five persons appointed by the President of the United States and

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<sup>1</sup>Ibid., pp. 156-57.

approved by the Senate. This board would have the responsibility for sanctioning and accrediting qualified bargaining associations. For a cooperative to qualify for sanction or accreditation, the cooperative must: (1) have an open membership, (2) be producer-owned, (3) be financially sound enough to carry out potential contracts and agreements, (4) have qualified management and a staff capable of performing the specified duties of the association, and (5) represent a sufficient amount of the volume of the products it handles to make it an effective bargaining association.

After accomplishing this duty, the board would notify all parties that would have reason to deal with the commodity or commodities sold by the qualified cooperatives that they must bargain in good faith with the cooperative for prices of commodities sold by the cooperatives. If any of the affected parties would fail to do so, the board would have the power to compel them to do so and/or award damages to the cooperative.

Finally, this Act would acquit the above parties from being in violation of any U.S. anti-trust laws for any bargaining or negotiating action over prices.

#### Producer Marketing Boards

The use of producer marketing boards is another suggestion for increasing farmers' bargaining power. These boards would at times and through various proposed schemes, attempt to control output along with issuing marketing orders.

Compulsory marketing boards may use such devices as marketing commissions. These commissions may set prices and regulate the terms of trade and delivery without actually controlling output. These commissions would

prevent the integration of producers and distributors into one unit. Filling orders would be on a rotating basis, with the commission keeping a list of all eligible growers, their products, and their volume on hand. If an order was placed by a handler, he would place it with the marketing commission. The commission, in turn, would notify the next eligible grower or association on the list to deliver the product in proper grade, quantity, and size to the handler. The handler would pay the commission for the transaction, and the commission would distribute the proceeds to the growers and associations on a pooled basis.

While these commissions would deal with individual producers and, thus, enhance their bargaining power without the necessity of their joining bargaining associations, bargaining associations would usually enhance the probability of their members being placed on the commissions list. Bargaining associations, by legally representing several producers and their products, would generally be able to come closer to fulfilling handlers' order size and quality requirements than would individual farmers.

#### The Mondale Bill

The proposed Mondale Bill (the National Agricultural Bargaining Act of 1968) would establish a National Agricultural Relations Board (NARB), comprised of five members and established by the same method as the proposed National Agricultural Bargaining Board--Presidential appointment and Senate approval. Under this proposal, if producers feel that prices are below a "fair and reasonable" level, a producer marketing committee may be established. Usually, farm producers would select a committee and farm product purchasers would also select a committee to negotiate with the producers' committee. If the handlers or purchasers refused to select a committee, the

NARB would select the committee for them.

This Bill would then require the committees to bargain or negotiate "in good faith." If a minimum price for a particular commodity still could not be agreed upon, the NARB would act as a mediator. If a stalemate should still persist, a joint settlement committee of three members (one representing producers, one representing purchasers, and one neutral member selected by the other two or the NARB) who would determine the minimum price. This price, except under extreme circumstances such as the neutral member's prejudicial interests for one party, would be the minimum price at which producers or purchasers could sell or buy the particular commodity. Both parties would be exempt from anti-trust prosecution.

If the marketing committee determined that the final agreed upon minimum price was causing or might cause supply to exceed demand substantially, the NARB could, with producer approval, implement a program of marketing allotments designed to control supply. The procedure used for this purpose would be similar to that proposed by the Kansas Plan.

Senator Mondale, while introducing his bill to the Senate, made the following comments:

This legislation, or something very nearly like it, is sorely needed and must be passed if we expect the American family farmer to continue in the business of farming. Without it, farmers are doomed to economic dis-enfranchisement. Without it, farmers will continue to be the low man on our economic totem pole, without any real hope of attaining the just portion of national income to which they are entitled.

No business . . . could function or stay in operation under the conditions under which farmers operate. . . . they are at the mercy of many variables, including the weather, entirely outside of their control. In addition, farmers have no economic power to establish the price on the commodities they produce. They must take, in all reality, whatever is offered by way of the market price or federal programs. They have no alternative.

There is no doubt, and the records are clear, that this inherently weak bargaining position has caused the American family farmer to lag far behind the prosperity enjoyed by nearly every other segment of our society. . . . Consumers . . . expended about \$85.5 billion during 1967 for domestic farm products . . . an increase over the last 20 years of 100 percent . . . [while] the farmer's share . . . of that food marketing bill is only \$27.5 billion and has increased in the last 20 years by only one-half.

It is fact [emphasis mine] that the American farmer subsidizes his consumer counterpart, by continuing to produce food for sub-standard return. At the same time, the farmer has been increasing his own productivity fourfold over the last 30 years. . . . There is little doubt that this measure [the Mondale Bill], or something very close to it, must be adopted if the American family farmer is going to stay in the business of farming. Without it, thousands of farmers and farming as we know it are doomed to extinction.<sup>1</sup>

The above remarks by Senator Mondale were included in this paper, not only to re-emphasize the present position of the American farmer, but to illustrate the thinking of many about the American family farm. Senator Mondale has assumed that "family farming" is a "good and desirable" institution which should be preserved. This is a value judgment on his part and it may or may not be a valid assumption. However, it is the opinion of this author, that until farming becomes an institution based more on economic facts and less on social emotions, its bargaining position will remain weaker than it would otherwise be. For, retention of inefficiency within any institution will lessen the economic effectiveness of that institution. The reasons for this opinion are as follows: (1) The "family farm" is usually smaller than the "farm" that the public envisions as replacing it (corporation farms, partnership farms, etc.), (2) the smaller the farm, all other things equal, the less efficient the farm, and (3) the more inefficiency that an industry retains, the more economic harm that the industry as a whole will sustain,

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<sup>1</sup>Congressional Record-Senate (February 15, 1968), pp. 1288-98.

primarily because it places a limit on their bargaining power.

To conclude that the proposals by Senator Mondale and others would substantially increase farmers' bargaining power might be misleading. Effective volume control is an "essential" for any relative degree of success in farmers' bargaining. A group with the ability to set prices without the right to control volume cannot expect favorable long-run results. While some of these proposals would give farmers and/or their associations the power to control volume, can it reasonably be assumed that the federal government would allow them to retain this power? Most of the gain that farm producers would achieve through this power would probably come from consumers, and not farm-product handlers. And, with consumers outnumbering producers 94 to 6, consumer-oriented federal intervention is not at all unlikely.

However, to conclude that none of these proposals would increase farmers' bargaining power would also be misleading. Such measures as obtaining mandatory recognition for farmers and/or their organizations and requiring "in good faith" negotiations could only be conducive to increasing farmers' bargaining power.



## CONCLUSION

Many farmers today are in an untenable economic position. They have neither the financial strength, legal aid, technical knowledge, negotiating skill, nor the market conditions to place them in an effective bargaining position with most of their opponents. If they adopt new farm technology, cost reduction savings are usually relatively quickly eliminated. Adoption of new technology will cause farmers' income to rise in the short-run, but soon, expanded output will cause prices to fall which will negate part of or all that was gained. This is but one example of the many difficulties faced by farmers in their attempt to improve their bargaining position.

Farmers usually face a more competitive market situation than do most of their opponents or the handlers of their products. Until farmers can devise some method or plan to overcome this situation, their bargaining position will remain relatively weak. One suggested method to help overcome this obstacle is the use of marketing orders and/or marketing boards.

The basic idea behind the use of these marketing devices is to alter the market structure, thereby placing farm-product producers on a more equitable market structure and thus providing them with more economic "muscle" with which to bargain and enhance their incomes. However, these devices rely upon government legislation; therefore sole reliance upon them may prove economically unwise.

The formation of farmers' bargaining associations may prove to be the most effective method of improving the farmer's bargaining position. Farmers, when combined into and legally represented by such associations, may improve their bargaining position in many ways. A large, cohesive group, speaking as one voice, may gain more effective and favorable farm legislation,

exhibit greater negotiating skill and power over their opponents, more effectively control the volume of production, improve market coordination, and increase farm prices through increasing consumer demand for their products.

The objectives of farmers' bargaining associations vary all the way from improving farm-product price to assisting farmers in their attempts to retain the management of their farms. However, some of these objectives, such as helping farmers retain the management of their farms, may be, in part inconsistent with association membership, for, in actuality, such associations themselves often require that the farmer surrender a measure of his decision making to the association.

Farmers' bargaining associations face many problems and limitations in their attempts to obtain desired objectives for their members. Probably the greatest problem and limitation is associations inability to effectively control the market supply. If market supply cannot be controlled any price gains achieved by farmers are likely to be negated by increased output. Possible methods by which farmers' bargaining associations might more effectively control the market supply include the increased use of marketing orders, establishing marketing boards, increasing association membership and obtaining greater member unity and loyalty from existing and future members.

If farmers are effectively to improve their economic position, they must learn to separate facts from emotions. The emotional statement that "the farm is the best place in the world to raise a family" may be an old and romantic cliché, but, unfortunately, the "family farm" in many cases may prove to be too small to maximize efficiency. So long as inefficiency is tolerated within the farming industry, the industry as a whole will suffer. Both individual farmers and farmers' bargaining associations will achieve

less bargaining power than would otherwise be possible as long as inefficiency is retained within the areas of farming that applies to them.

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FARMERS' BARGAINING POWER

by

LARRY GENE COX

B. S., Fort Hays Kansas State College, 1969

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AN ABSTRACT OF A MASTER'S REPORT

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The present day American farmer is becoming increasingly concerned over his relative economic and social status. Farmers have often been termed "price-takers" because of their lack of bargaining power over prices for their products and/or supplies.

One reason for farmers' declining economic status is their lack of effective bargaining power. To have bargaining power is to be able to influence the outcome of negotiations over prices, terms of trade, or some other desired outcome. The greater the influence exerted, the more effective the bargaining power.

One of the primary methods by which farmers may increase their bargaining power is by group action through the formation and use of farmers' bargaining associations. These associations may legally represent farmers as their exclusive agents in all or part of their buying and selling activities. The association may also provide other services for its farmer-members.

Through collective power, these associations may be able to use various methods to gain more favorable conditions and prices for farmers' sales and purchases than farmers could individually attain. These associations may also provide their farmer-members with other benefits, such as cost-reduction techniques and helpful production and marketing information, which farmers could not individually attain.

Farmers, for the large part, operate in a market structure approaching pure competition. The handlers of their farm products and supplies, for the large part, operate in some type of less competitive market structure. This inequality is reflected in farmers having relatively less bargaining power. Operating under more competitive conditions, they are less able to control output and prices than their opponents.



Bargaining associations have several potential sources from which to obtain gains for their farmer-members. Reducing their opponents marketing margins, increasing consumer demand and prices for their farm-products, reducing their members production and/or procurement costs, and vertical expansion are a few of these.

Empirical evidence has indicated that increasing farm-product prices by reducing handlers' marketing margins will not usually be a feasible solution. In some cases, such as reducing advertising and depreciation expenses, it is doubtful that long-run income gains would be enhanced by such action.

The long-run success obtained through increasing consumer prices for farm products depends to a large extent on the elasticities of supply and demand, and the ability of the individual or group to control market supply. The greater these elasticities, all other things equal, the lesser the chance of achieving long-run gains through increasing consumer prices.

The use of marketing orders may also improve the farmer's position. The basic idea behind the use of marketing orders is to alter the market structure faced by farmers and thus enhance their income. Developing and enforcing acceptable trade practices, specifying market terms and conditions, rewarding product improvement innovations, expanding farm-product research, and regulating the flow of farm products are a few of the techniques by which marketing orders may enhance the farmer's income. Their effectiveness is limited because not all commodities are covered and output is not controlled.

The Sherman Anti-Trust Act of 1890 made the existence of farmers' bargaining associations illegal. The Clayton Act of 1914 made non-stock, non-profit, farmers' associations legal, but only if they were instituted for the purposes of mutual self-help. The Capper-Volstead Act (1922) allowed the

legal existence of farmers' associations that were engaged in marketing or bargaining activities for their members. This Act also permitted these associations to control voluntary members output, but not to the extent where prices were "unduly enhanced" by doing so.

Proposed legislation for amending and expanding present legislation to help the farmers' cause, include the McCormick-Bunje Proposal and the Mondale Bill.

The Mondale Bill would establish a National Agricultural Relations Board (a marketing board) which could both set prices and control output under certain conditions. The McCormick-Bunje Proposal would create a National Agricultural Bargaining Board which would provide farmers with many of the benefits that the Wagner Act provided for laborers.