FARMERS' BARGAINING POWER

by

LARRY GENE COX 4871

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

A MASTER'S REPORT

submitted in partial fulfillment of the

requirements for the degree

MASTER OF ARTS

Department of Economics

KANSAS STATE UNIVERSITY
Manhattan, Kansas

1970

Approved by:

Robert L. Coppersmith
Major Professor

TABLE OF CONTENTS

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.[1]

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

---

[1]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."[1] 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.

---

[1]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.[1]

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.[2]

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,

---

[1]Ewell Paul Roy, Collective Bargaining in Agriculture (Danville, Illinois: Interstate Printers & Publishers, Inc., 1970), p. 9.

[2]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.[1]

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[2] 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.

---

[1] Ibid., p. 107.

[2] 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.[1] 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.[2]

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.

---

[1]Roy, Collective Bargaining, p. 11.

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

ILLEGIBLE

THE FOLLOWING DOCUMENT IS ILLEGIBLE DUE TO THE PRINTING ON THE ORIGINAL BEING CUT OFF

ILLEGIBLE

According to Staley,[1] 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 m[illegible] protect the producers gains. . . . Producers bargaining collect[illegible]y and meeting the volume needs of processors can greatly red[illegible] procurement costs of processors and make it possible for process[illegible] 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 . . .[2]

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."[3] The type of legislation most desired by the NFO is a sort of "Farmers' Wagner Act" which will be discussed later.

---

[1] *Ibid.*, p. 13.

[2] *Ibid.*, p. 13.

[3] *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.[1]

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

---

[1] 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.[1]

President Shuman also emphasized several points that would be covered by this Act.[2] 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

---

[1]Del Groves, "Time is Right for New Farm Law," Nation's Agriculture (April, 1970), p. 6.

[2]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.[1] 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.

---

[1] 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:[1]

(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

---

[1]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.[1]

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:[2]

(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

---

[1] _Ibid_., p. 5.

[2] _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.[1]

(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

---

[1] *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 lawsuits.

(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[1]

"[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."[2]

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

---

[1] Ibid., p. 39.

[2] Ibid.