Farm Bargaining Power: Myth? or, Reality!

by Roger W. Fox*

The recent attention focused on the subject of agricultural bargaining would suggest that bargaining is “where the action is.” There is ample evidence that U. S. farmers are in favor of some form of increased bargaining power. A Farm Journal opinion poll published last May substantiates this interest as does the growth of the National Farmers’ Organization and the expansion of bargaining association under the auspices of the Farm Bureau. There is also an implication that agricultural bargaining represents a new idea, a new approach to some of agriculture’s problems. I see little that is new in the current discussion of agricultural bargaining.

Historical Background

If we go back 70 to 80 years we find the major farm organizations involved in bargaining type activities. The Grange was promoting cooperative buying and selling in order to increase farmer bargaining power. The National Farmers’ Union attempted to fix the price of cotton and encouraged output control by requesting that members plow under 10 percent of their cotton acreage.

In the 1920’s the popular slogans were “equality for agriculture” and “orderly marketing.” The Sapiro movement was based on administered prices through monopoly control of marketing. The forces of agricultural bargaining were given substantial legislative support under the Capper-Volstead Act of 1922, the Cooperative Marketing Act of 1926 and the Agricultural Marketing Act of 1929.

In the 1930’s “parity” emerged as the slogan used by farmers and their representatives when emphasizing the need for greater bargaining power. The concept of parity was given a formal definition and became the basis for much of the agricultural legislation passed during this period. The Agricultural Marketing Agreement Act of 1937 emphasized the relationship between orderly marketing and parity prices, and it provided for marketing agreements and orders as further aid to bargaining efforts. More violent methods were also employed in the 1930’s as farmers in several Midwest states participated in what became known as the Farmer’s Holiday movement.

Efforts to exert bargaining power and to improve the legal and organizational framework for farmer bargaining continued through the 1950’s and into this decade. The unsuccessful National Agricultural Bargaining Act of 1968 being the most recent example of attempted change in the legal provisions for bargaining activity.

Thus, there is ample evidence of a fairly continuous concern with agricultural bargaining power throughout this century. There remains a strong belief among U. S. farmers and their representatives that the economic organization of agriculture places them at a severe disadvantage in purchasing factors of production and in selling their products. Consequently, they feel that greater bargaining power will eliminate some of the inequities of the economic system and result in more favorable market prices and higher net incomes.

Bargaining Defined

In order to discuss and evaluate current farm bargaining efforts, it is necessary to give a fairly specific definition of “bargaining” as it relates to the use of the term when applied to agriculture. I propose the following: agricultural bargaining is the process by which producers or their representatives negotiate with buyers and/or sellers or their representatives concerning the price and nonprice conditions of sale or purchase. The representatives in each case may be public, private, or mixed public and private. The current interest in agricultural bargaining centers on increasing private (NFO, etc.) and public (Mondale Bill, etc.) farmer representation and strength in negotiating with buyers. Little emphasis is placed on negotiation with input firms.

Evaluation of Bargaining Methods

If we agree that higher net income is the ultimate goal of increased bargaining power, then what are the general methods available to attain this goal? I see two general approaches that can be identified:

1. increase the prices received by farmers, and
2. lower the unit costs of production and marketing.

These are not mutually exclusive approaches. Increased farmer bargaining power may result in the simultaneous application of both methods. However, the current wave of bargaining effort tends to focus on raising prices received rather than on lowering unit costs.

What are the possibilities and limitations of raising net income through group efforts at employing the above methods?

Method I — Increasing Prices

On the basis of economic theory and actual experience, it is generally agreed that under certain conditions...
short run increases in prices received and net income can be achieved through bargaining efforts. The conditions necessary are not absolute, but include combinations of the following: control of a large proportion of output; geographic concentration of production; storage or secondary market; supply regulation or restriction; and organizational strength and unity. For annual crops, the increases can probably be sustained for one or two production seasons before offsetting forces eliminate much of the income gains. For tree crops and livestock, the period of adjustment may be longer.

From a longer run point of view, I am not convinced of the possibilities or the merit of maintaining prices above competitive levels. There are several reasons for taking this position.

First, there are a number of substitution possibilities that can eliminate the net income gains derived from the original price increases. Consumers will substitute other agricultural commodities for the commodity in question (e.g., margarine for butter). Substitution of the same commodity from other regions and from imports will occur unless artificial barriers are established (e.g., beef imports). Finally, higher prices will increase the possibility of development, promotion, and sale of synthetics (e.g., synthetic fibers). The magnitude of these substitution effects depends upon the particular commodity; however, the phenomenon is quite general for agricultural products and can eliminate the short run gains from artificially high prices.

The second reason is that price increases will stimulate production and lead to surplus disposal problems or to an eventual reduction in price. Our experience with government programs in the 1950's supports this claim.

Third, the fact that output increases can, over time, eliminate the gains from higher prices, has led numerous people to advocate supply restriction as a concomitant to bargaining for higher prices. However, supply restriction programs are not automatically successful or free of problems. The primary problem of supply restriction efforts is that the right to produce or market the product becomes capitalized into the production or marketing costs. As a result, the impact on net revenue is substantially reduced. The capitalized value of cotton acreage allotments serves as an example.

In summary, my main point is that in U. S. agriculture as it is organized today, there is a prevasiveness for price to approach minimum long run average total costs. Bargaining efforts that ignore this general principle are not likely to be successful. The difficulty in applying this principle is in the determination of long run average costs. In a dynamic economy, costs frequently change and price adjustments are necessary. Rigidities may impede the automatic adjustment of price to costs. In this situation, bargaining organizations can perform a useful function, particularly through the exchange of information.

Method II — Lowering Unit Costs

Given the current organization and structure of the agricultural marketing system, the possibility of lowering marketing costs is fairly limited. Evidence from a number of studies indicates that before tax profits are fairly low in most sectors of the food industry. One researcher presents costs and returns data for a selected group of food and nonfood manufacturing industries and concludes that except for cereals and cigarettes, net profits as a percentage of value of production are smaller in food industries than in nonfood industries.

Not much information exists on the possibility of lowering costs of production by group bargaining with input firms. It is obvious that there is intense price and nonprice competition among sellers of inputs. It is also well known that price reductions and special services are available for large purchasers of inputs. These observations would suggest that large volume purchasing of inputs by bargaining associations could lower production costs.

General Comments

It appears from the preceding discussion, that the potential for increasing prices received or lowering unit costs from increased bargaining efforts are fairly modest. Simply forming a bargaining association and presenting demands to buyers or sellers is not likely to be successful. Likewise, localized withholding actions are doomed to failure. In order to have any impact, the bargaining organization must be prepared to provide services with their demands. For example, in the selling of products, they can improve quality through better grading, and they can reduce price variation through volume regulation and the use of contracts. Then, the modest increases in prices received might be sustained.

On the other hand, it should be emphasized that small increases in price can result in fairly large percentage increases in net income. For example, if cash costs are 75 percent of the product price, raising the product price by 5 percent will, other things unchanged, raise net returns by 20 percent. Thus, one should not conclude from my fairly negative evaluation that farmers should not organize and bargain collectively. The potential gains should be exploited within the institutional, legal, and economic frameworks. Efforts to change the framework may be required in order to facilitate the bargaining process.

Arizona farmers and ranchers have for a number of years participated in organizations that enhance their bargaining power. In so doing, they have implicitly and explicitly recognized many of the points presented above. Furthermore, in most cases, these organizations have gained market power through vertical integration. By vertical integration I mean the taking over of certain functions in the input and product markets. Examples are farmer owned fertilizer plants, ginning facilities, packing houses, etc. The potential gains from vertical integration appear to be fairly large; however, the economic principles of competition still apply: when farmer organizations undertake to perform certain functions in competition with private firms they succeed only if they can operate at lower real cost per unit.

A final comment on the potential effect of agricultural labor unions appears warranted. It is my judgment that labor unions will be successful in organizing farm labor in certain areas and for certain crops. It is already occurring for some fruits and vegetables in Arizona and California. Union leaders will not want to bargain with each individual farmer as they are now doing. They will want to bargain with groups of farmers or their representative. This situation will force farmers to join or participate in some kind of bargaining organization. To date, farmers and farm organizations have not recognized this aspect of the union movement.