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Background for Bargaining Pros and Cons of Group Actions to Strengthen Farm Marketing

Michigan State University Extension Service

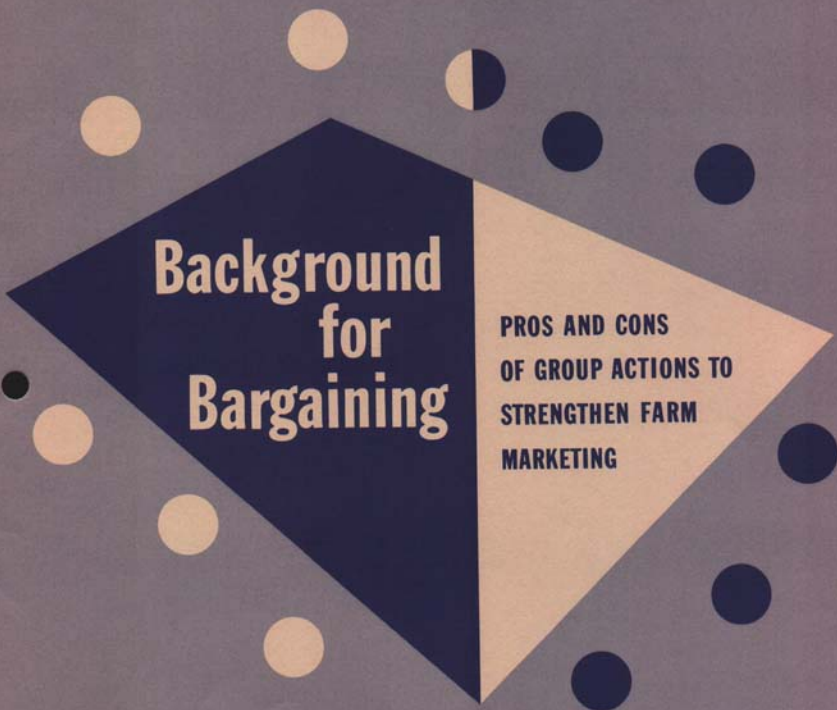
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Background for Bargaining

PROS AND CONS
OF GROUP ACTIONS TO
STRENGTHEN FARM
MARKETING

COOPERATIVE EXTENSION SERVICE

MICHIGAN STATE UNIVERSITY

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Why the Rising Concern About Bargaining?

By ART MAUGH

Extension Specialist in Agricultural Economics

THE EXPRESSION "farmers are at the crossroads" has now become "farmers are at the cloverleaf interchange." In our complex and dynamic society, farmers have been caught in a web of low prices and income while others have found the means to better their economic position in society.

Let's look at some of the reasons for farmer discontent and why they are especially concerned about strengthening their bargaining power as a means of finding an entrance to the road toward greater equity in their income position. (Bargaining power and the bargaining process are defined and discussed in Section 2 of this bulletin.)

Farm Prices and Income

Based on an index of 100 in 1910-14, the index of prices received by Michigan farmers dropped from 263 in 1951-53 to 225 in 1961-63. This was a 14 percent drop. The index of prices paid by farmers for production expenses and living increased 8 percent in the same 10-year period—from 283 to 306. Thus, the ratio of prices received to prices paid, commonly called the "parity ratio", dropped 20 percent from 93.0 to 73.5 in that 10-year period. (See Fig. 1, p. 4.)

An even clearer picture comes from income data from the Michigan Agricultural Statistics Reporting Service and the Michigan Mail-in Record Project at Michigan State University which includes more than a thousand farms. These data show that in the same 10-year period, average gross income per farm increased from \$12,352 to \$24,815. Expenses more than doubled—\$7,740 in 1951-53 to \$17,631 in 1961-63. Net farm income did increase from \$4,612 to \$7,184. However, the entire increase did not quite cover the 5% expected return on the additional investment which had increased from \$31,192 to \$83,119. Thus, the income received for labor and management declined slightly from \$3,052 to \$3,029.

Assuming that these farmers averaged 2,600 hours of work per year, this meant a wage of \$1.17 per hour in 1951-53 and \$1.16 in 1961-63. While these hourly returns to farmers were at a standstill, wages of pro-

duction workers in manufacturing in Michigan increased nearly 50 percent—from \$1.98 to \$2.91 per hour—and thus are over 2½ times as high as the hourly return to farm operators. (See Fig. 2, p. 4.)

For the United States as a whole this is the income picture—the disposable income (after income taxes) per person for the nonfarm population averaged \$2,124 in 1963 while for farm people it was only \$1,376 (less than ½ as much); and about a third of the income of farm people comes from nonfarm sources. (See Fig. 3, p. 4.)

This disparity between farm and nonfarm income is even more striking when we consider that the farm output per man-hour has increased an incredible 90 percent since 1947-49. This is three times the rate of increase for the nonfarm worker. Most of the gain in productivity for the factory worker has accrued to the worker in higher income. In sharp contrast, nearly all of productivity gain in farming has been passed on to the consumer in cheaper and higher quality food. Consumers in the U.S. can now purchase their food for less than 19 percent of disposable income compared with 26 percent in 1947-49.

Other Reasons for Concern

In addition to declining prices and low income relative to the productivity of farmers and relative also to nonfarm incomes, there have been significant changes in the marketing system that cause concern about relative bargaining power. Some of these can be summarized as follows:

1. **Increased wages of labor through bargaining.** Farmers are fully aware of the gains made by labor through strong union bargaining with employers and some believe that through a similar process with buyers the same results can be attained for farmers.
2. **Price setting by manufacturers and retailers.** Farmers reason that if prices are "set" by manufacturers and retailers they also can be "set" by producers of raw materials. They pay little attention to

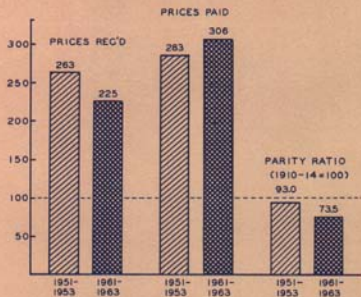


Figure 1. Index of Prices Received, Prices Paid and Parity Ratio for Michigan Farmers. (The 5-year period 1910-1914 = 100.)*

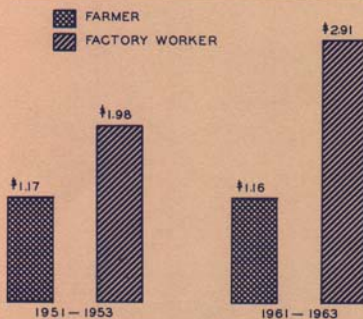


Figure 2. Hourly Returns to Farmers and Wages to Factory Workers in Michigan.

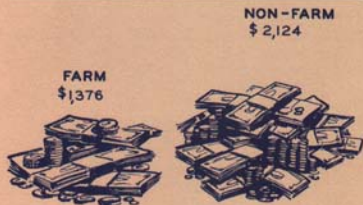


Figure 3. Income per Person after Taxes for Farm and Nonfarm People, U.S., 1963.

the fact that when the price of an automobile is set, the manufacturer must limit his production to the demand at this price. Farmers are not free to limit their production effectively in this manner.

3. Increased concentration of power in the hands of buyers of farm products in the following ways:

1. Processors and wholesale retail organizations have become increasingly large. 2. Labor, the most important cost item in marketing, has become more organized. 3. More and more "group organizations" seem to be part of the market. 4. The area from which products can be purchased and over which they can be distributed has increased until it is often nationwide in scope.

In the face of these developments the individual farmer feels increasingly small and insecure.

4. Increased selling by farmers direct to production area buyers and the resulting decline in the importance of the terminal or central market. Marketing firms are tending toward more direct procurement from producers. Many farmers felt more comfortable about the "rightness" of prices when they were discovered by many buyers and sellers negotiating in a central market facility.

5. Increased use of contracts and integration arrangements for the selling of farm products. Buyers are increasingly demanding larger uniform lots of some specified quality and some assurance of regular delivery. To get this, details of production and marketing practices as well as price have become subjects for contractual negotiation. Farmers realize that such negotiations may cover a wide range of details about which they have little knowledge.

If a contract is negotiated before the investment in production is made, the producer is in a stronger bargaining position because he still has alternatives. However, farmers are wary of depending on these contracts obtained by individual bargaining because of their relatively weak bargaining position.

6. The increased pace of innovation and change with the resulting problems of how the costs and benefits will be shared. New technologies of all kinds are being introduced at a rapid rate. Often, these are costly and must be adopted widely and quickly if the farmer is to retain his market. How should the costs and returns of these changes be shared? Farmers are raising the question whether they get a "fair deal".

7. Disillusionment with past efforts. For forty years efforts have been made through cooperatives, government farm programs, general farm organizations and commodity groups with little evidence of permanent success in raising income of farmers.

8. Modest success of bargaining sustained by government enforced marketing orders. In certain commodities higher prices have been achieved. (In fact the Michigan Milk Producers Association has been

able to bargain for a price above the order price.) Farmers recognize, too, that they have the right and the power to vote out marketing orders if they are dissatisfied with the result.

What is Bargaining?

By DANIEL W. STURT

Extension Specialist in Agricultural Economics

BARGAINING is very much interwoven into our everyday living. People seek to influence the outcome of events in such a way as to assure results which they believe to be favorable to them. We bargain in our day-to-day relationships—whether it's attempting to gain acceptance in a local organization or getting Suzie to be more understanding about the use of the family car. Bargaining power is the ability to influence the course of events—that is, influence others to accept one's terms. Most social, political and economic decisions resulting in some kind of agreement and the selection of a course of action are the result of the interplay of bargaining forces.

Your individual bargaining position is determined by your bargaining resources and the manner in which you use them. Bargaining resources are all those facilities at your command—physical, institutional and otherwise—which are useful in bringing about the consequences desirable to you.

Bargaining assumes:

- (1) A conflict of interests—recognized by opposing forces;
- (2) A convergence of these forces which focus upon the interests of each party; and
- (3) a decision which determines the outcome or flow of consequences.

Bargaining, like any other activity, is limited by the rules of society, governmental and nongovernmental. These rules establish the legal and social framework within which individuals or groups must operate. For example, the Clayton Act and the Capper-Volstead Act pave the way for farmers to join together to strengthen their marketing position. Still other laws

prohibit monopolistic control of the market. In addition, society itself must sanction bargaining activities and recognize the rights of individuals and groups to negotiate.

Agricultural Bargaining

Our primary concern here is bargaining as it relates to farm prices and income. We will deal with prices only, a major determinant in farm income. Within this context, bargaining may be defined as the process by which the price-making forces converge and interact in order to establish the price and also the conditions whereby titles to goods or services are exchanged.

Agricultural producers have long recognized their weak position in dealing effectively in the market place and playing a major role in price determination. There is a conflict of interest between farmers and society in that many farmers feel they have not been equitably rewarded for their contribution to society. Farmers have sought to strengthen their position via governmental assistance and organized associations of various types; but even so as the forces converge to determine the farmer's share in the economy, the outcome has not been in his favor, especially insofar as price and income are concerned.

The Bargaining Point

To help understand bargaining, let's use the term *bargaining point*. The bargaining point is that point at which the price-making forces come into play and determine the conditions under which the title to

goods is changed. The bargaining point and the change in title to goods and services are the heart of marketing. Many people would argue that all other functions in the process of producing, transporting, storing and processing commodities are production functions, and that marketing pertains exclusively to the market *per se* and the focusing of the price-making mechanism.

Many or few bargaining points may exist in the flow of goods from producer to consumer. For the farmer who sells his eggs direct to the consumer, only one bargaining point exists: where the farmer and the consumer agree upon a price. Where the farmer sells to the processor and title to the product changes many times, many bargaining points are involved. Where a farmer or group of farmers do their own processing, storing and transporting, fewer bargaining points are involved. For the farmer, however, only one bargaining point is of major concern: that point at which his product is sold, that point which determines his prices and terms of sale.

At each bargaining point a variety of forces come into play to determine price. It may be that shifting the bargaining point will result in strengthening the farmer's position. Cooperative marketing and integration may result in the farmer following his product

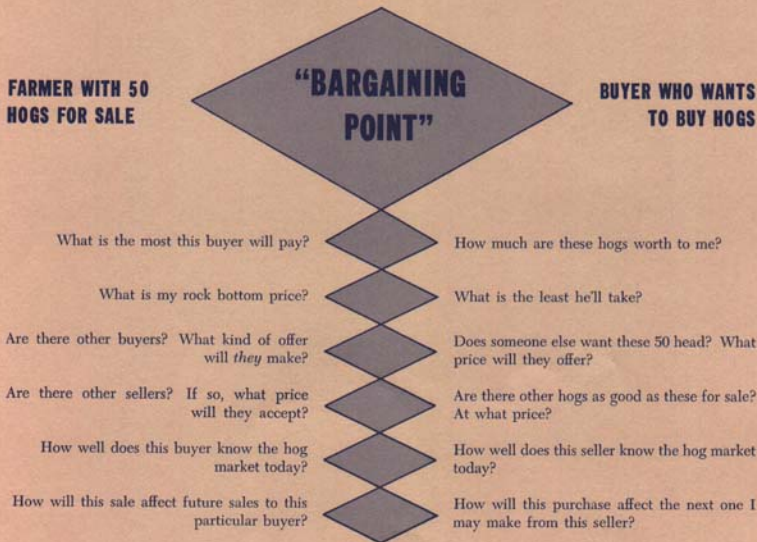
closer to market. Price-wise, the usefulness of integration and shifting the bargaining point will depend upon how well farmers can compete with individuals and organizations offering similar services. The move to provide additional services and shift the bargaining point before selling the product may result in a strengthened bargaining position, and may not.

When Seller Meets Buyer

Let us discuss some basic considerations in price determination at the bargaining point. Let us illustrate with the case of the farmer who has 50 hogs for sale and a potential buyer. The chart below lists questions being considered by both buyer and seller in this situation.

It illustrates three of the major factors underlying all bargaining transactions. They are:

- (1) knowledge about the market, the supply-and-demand situation and related factors;
- (2) the degree of control of the commodity, either by buyer or by seller; and
- (3) the comparative abilities of the buyer and seller as strategists in arriving at a price and the terms of trade.



Market Information

Information about the supply-and-demand situation, numbers of buyers and sellers, costs of production, costs of transporting, storing and processing and other pertinent costs is significant to both buyer and seller as they negotiate a price. The seller and buyer must be able to compare alternatives available to each. For example, the farmer needs to compare current prices being offered with anticipated prices plus storage costs, or the price in one area with the price in another coupled with the transportation costs involved. The U. S. Department of Agriculture and other institutions have attempted to provide farmers with more information and assist them in improving their ability to use this information meaningfully. Small individual operators may not have the time to obtain and analyze information to their advantage as might someone who is a professional buyer.

Control of Product

Farmers have had little control of their commodity. If one has control, he has alternative courses of action, and those with whom he is dealing have fewer alternatives. The large numbers of individual sellers producing in a variety of geographical areas, the

biological nature of agricultural production and the perishability of many farm products have made control of agricultural production difficult. In some instances farmers have been able to join together to partially control the product flow into the market stream and thereby strengthen their position by partially limiting the alternatives available to buyers; but even so, this critical factor has for the most part not been favorable to farmers.

Ability As A Strategist

Strategy is the ability to convert the knowledge of the market and related factors and the control which one has of the product in order to obtain advantageous results. Strategy is essential to effective bargaining, and is, in itself, a special skill. Many sellers of farm products have discovered that it is a skill well worth paying for.

The bargaining process, then, is an interplay of knowledge of the market situation, control of product, and strategy. It results in a negotiated price which reflects the relative strength of the negotiators. On all three counts—strategy, knowledge of the market, and control of product—the farmer selling as an individual often finds himself at a disadvantage in competing with the buyer.

Alternative Approaches to Bargaining

By LINLEY E. JUERS

Extension Specialist in Agricultural Economics

MUCH OF THE CONCERN among farmers over bargaining power arises because farmers acting as individuals are at a disadvantage in carrying out bargaining activities. Perhaps the farmer's major disadvantage is his size as a buyer or seller relative to the size of firms with which he might wish to bargain. Thus, major emphasis has been placed on institutional arrangements—marketing associations, government programs, federal marketing orders and the like—through which farmers might overcome this size disadvantage. These arrangements typically provide a basis for group action for meeting the common needs of a number of farmers through a single bargaining action. The following are some of the principal devices used to attain this objective:

1. Farmer cooperative associations are perhaps the most widely used institutions through which farmers seek bargaining power. There are two principal types of cooperative organizations:

(1) the bargaining association which has an agency power to transact selling or buying operations for its members on common terms;

(2) the operating cooperative which may perform marketing or processing functions in the course of buying or selling products for its members.

In recent years more and more cooperatives have tended to assume a combination of these roles. Handling and processing functions have become more necessary in the transaction of business for producer

members. The degree of bargaining power attained by a cooperative may vary considerably depending upon the proportion of producers represented by a cooperative and the degree to which farmers delegate responsibility for buying and selling to the cooperative. In some instances a cooperative may have exclusive contractual authority to sell all of the product which a farmer member may produce, and may represent a very high proportion of the farmers producing a particular commodity. In such a case, cooperative activity may give producers as a group a substantial role in determining price. In other cases, cooperatives may only offer producers an additional outlet for their product in which case benefits are limited to any increase in efficiency that might be achieved through cooperative processing or handling.

2. Government programs have been used by farmers in a number of commodity areas to stabilize and enhance prices. Government price supports, marketing orders and government purchases of surplus commodities are examples of such actions. Such government actions have typically been initiated at the request of groups of producers, recognizing that producers could not, through their own efforts, obtain improved prices or income in the market. Marketing order programs in particular represent an extension of government power to supplement the bargaining activities of producers. Many of the devices used in marketing orders are patterned after approaches used by cooperative associations, and in many cases they are complementary to producer bargaining activities.

3. Certain actions may be taken by farmers individually or collectively to improve their level of market information. Such actions might include seeking improved commodity price and supply information through the federal and state departments of agriculture, through land-grant colleges, commodity associations or other institutions. With respect to particular problems, individual or group action may be

used to influence these institutions to make additional marketing information available.

The approach selected depends largely upon the particular bargaining objectives and the kind and size of problems encountered in the bargaining process. In price bargaining, the number and geographic dispersion of producers of the particular commodity are factors of major importance in selecting a bargaining method. In the past, producer groups have achieved higher prices through bargaining on a number of commodities produced on a regional basis. But bargaining efforts generally have not succeeded where production of a commodity covers much more than one state. In such cases it has usually been necessary to seek government assistance to increase prices.

One of the essential ingredients in bargaining for higher prices is placing a limit on the total quantity of product marketed and preventing buyers from obtaining the product at a lower price. In voluntary or cooperative bargaining efforts, total cooperation from all individual producers is required to maintain such control over marketings. In practice this degree of cooperation has been difficult to obtain because some individuals have taken advantage of the group by not observing the limitations while enjoying the benefits of any price improvement. Because of this difficulty in maintaining cooperation, producers of many commodities have sought government marketing orders. When approved by a majority of producers, a marketing order can use governmental powers to assure that all producers observe the limitations set on the quantity of product marketed. This is done through regulation of handlers. The existence of a marketing order does not preclude continued cooperative activity among producers. Cooperative associations frequently conduct bargaining activities to obtain additional benefits for producers not provided by the orders, and in most cases the active support of a cooperative is essential to the continued existence of an order.

Some Possible Gains from Group Bargaining

BY ROBERT C. KRAMER

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DAIRY PRODUCERS in Michigan have been bargaining for nearly 50 years. Over \$100 million were added to Michigan dairy farmers' gross incomes in the 1957-64 period as a direct result of bargaining. Producer groups in other commodity areas and in other states have had many years of experience in bargaining.

It should be recognized that all bargaining efforts have not been successful in terms of immediate price or income gains. But there are other objectives of bargaining. Frequently, organized agricultural bargaining can benefit both buyers and sellers of farm products.

Let's say that higher prices and/or incomes are the "direct" objectives of bargaining. The other items discussed below may be termed "indirect" and may contribute to price or income increases only in the long run. Yet, in the short run, they contribute to better marketing.

Information

Bargaining associations can contribute to improved marketing through the collection and analysis of marketing and economic information. With both farmers and processors seeking out such information, possibilities are increased for establishing realistic and more stable prices.

Understanding Economics and Marketing

As farmers collect, examine and use marketing and economic data in their negotiations, they will increase their understanding of their industry. They will become more aware of the market trends, the supply and demand aspects of their commodities, as well as the magnitude of processing and marketing costs. Also, they will understand many processor problems. On the other hand, processors will understand farmer problems as they analyze marketing and economic data and negotiate with farmers.

Orderly Marketing

Buyers in today's mass distribution system need a large, assured volume of products with specific quality characteristics. The operation of a bargaining

association, with its consolidation of the products of many relatively small farms, can provide an efficient means for meeting these specifications of large-scale processors or distributors.

It should be noted that non-bargaining group efforts can also meet the needs of large-scale buyers. Agricultural bargaining associations often use contracts and are more tightly organized than non-bargaining groups. Consequently, they may be more able than other groups to meet the needs of buyers.

Quality Improvement

The joint efforts of a processor and a bargaining cooperative often provide a more effective means for improving the quality of a product. Member education programs of bargaining associations relative to varieties, cultural practices, harvesting, handling, transporting, as well as disease and pest control, can provide an efficient means for meeting the specification needs of large-scale buyers.

If quality improvements result from bargaining efforts, the whole industry benefits. Also, consumers are provided with better products.

Market Expansion

Organized farmer groups, such as bargaining associations, working jointly with processors often provide effective means for commodity promotion, advertising, new product development and market expansion. Cooperation enables the industry to raise the funds necessary for these programs. Frequently, sufficient funds cannot be raised when farmers are not organized.

Expert Marketing Assistance

An organized association permits its members to hire a trained marketing specialist to manage the off-farm aspects of individual farmers' businesses. This specialist, who devotes full time to the many parts of bargaining, can develop strategies for the directors and members of the association. Farmer members of a bargaining association are then left free to concentrate on the technical aspects and efficiencies of production.

Balance Power of Buyers

The formation and operation of an organized bargaining association can enable farmers to balance the power in the hands of large buyers. This is often called "countervailing power." Effective group programs can help farmers retain control over major decisions in marketing. At the same time, such programs help to reflect more accurately the forces of supply and demand needed to establish an economic price for the raw products produced by farmers. By joining together, the number of sellers in the market is reduced. Price determination is then a matter of negotiation between one or a few sellers and one or a few buyers.

There is always a range within which price must be negotiated. The actual level of price will depend upon the relative bargaining strength of both the buyer and the seller. Where a bargaining association of farmers has a sufficient quantity signed up and adequate marketing and economic information, the bargaining strengths of farmers (the association) and processors (the buyers) are more nearly equal.

We do not have perfect competition in U. S. agriculture. In an imperfectly competitive situation, the equalization of bargaining power can be reflected not only in better farmer prices, but also in other contract terms which directly or indirectly affect farmers' net returns. Farmers, processors, and consumers benefit if negotiations add stability to prices over time.

How to Strengthen Your Bargaining Position

BY DANIEL W. STURT

Extension Specialist in Agricultural Economics

IN AN "ECONOMY OF BIGNESS," the agricultural producer as one of many thousands finds it difficult to strengthen his bargaining position. There are many sellers selling to a few buyers. This situation is the source of much of the farmer's bargaining weakness. Even so, there are a number of things the individual producer can do himself, while recognizing that greater gains are usually possible through group action. Membership in an association and engaging in group activity places the individual in a situation somewhat different from his situation as a single producer. Nevertheless, the group and the individual face similar problems. Because of this, an understanding of what the individual can or cannot do will help understand group action.

As an Individual Producer

Things the individual might do are the following:

1. **Maximize your selling alternatives.** Create as many selling opportunities as possible. This kind of action may require further investment in order to change the form of your product or an increase in transportation costs to take advantage of other markets. In some instances the producer's position is strongest when the product is still on the farm. While farm sales are not always feasible, the fewer restric-

tions upon market exploration by the producer, the better. Where a load of livestock is shipped hundreds of miles before it is sold, or where fruits or vegetables are shipped to a distant market, the seller may find himself in a disadvantageous position with regard to the sale of his product. There may not be time to try other markets. Moreover, the additional investment in transportation discourages further market exploration.

2. **Use forward bargaining insofar as possible.** Establish prices and terms of trade in advance of production. This puts the seller in a stronger position. He has not yet invested many of his resources in the product, and if he is unhappy with the results of his bargaining, he can divert his resources to other products. As a means of forward pricing, contractual arrangements can be very useful in establishing a price at a time when the seller has greater alternatives than he would have once he has more completely committed his resources and the product has been produced.

3. **Lengthen your holding potential.** While you may have to sell within a given time period, if you are free to select the time of sale, you're in a stronger position. Adequate storage and adequate financing are two key factors in strengthening your holding power. When the time of sale is not flexible the available alternatives are often drastically reduced.

4. **Use market grades and standards.** Using these common denominators, the bargaining forces will be in clearer perspective. The market is widened as you are able to interpret the significance of prices at distant locations. Sales in titles alone are possible where ownership is transferred without physically moving the product, and movement of products can be more direct with less transportation and handling. Also, the use of grades and standards is essential to effective forward bargaining.

5. **Differentiate your product—give it distinctive-ness—make it different.** Although many farm products are difficult to differentiate, some producers have packaged and branded their products, and advertised them by brand. To the extent that you can convince buyers that you are the sole producer of your "different" product, you are in control of the supply and can bargain more effectively. Although you may only partially differentiate your product through branding and advertising, if you can do that much successfully, you may strengthen your position by giving the buyer fewer choices.

6. **Know the market.** Obtain all the information you can on supplies and demand, buyers and sellers, various marketing costs, availability of substitutes, and the like. Learn to interpret this information in order to make useful comparisons of available alternatives.

7. **Develop your skills in the strategy of selling.** Make sure that you use your knowledge of the market and your market flexibility to your own advantage.

As a Member of a Group

In group action, the individual commits certain resources and decisions to the group or association to which he belongs. Thus, he can often accomplish objectives which he could not reach as well, as an individual. The seven courses of action listed above will work equally well for a group with a closely-knit, loyal membership willing to act together.

Large volume and specialization in selling are characteristic of modern marketing. Many specialized marketing tasks can be performed better by an association than by individual producers. Also, many efficiencies can be achieved from combining marketing operations. In terms of bargaining strength, there are three factors which tend to favor, if not require, association bargaining as opposed to individual bargaining. They are: (1) the cost of expanding the seller's alternatives by storage, processing, etc., or in

reducing the buyer's choices through advertising and promotion; (2) the special skills and knowledge required, including the skills of the market analyst and strategist; and (3) the necessity of controlling the supply of the product.

Sharing Costs

Costs of holding or storing farm products are often more easily borne by the group. Sometimes producers find it necessary to process a product into a different form, or attempt to sell in distant markets to relieve local surpluses. An association of producers is usually more successful in advertising and promotion; seldom can the individual producer finance an effective advertising and promotion program.

Gathering Market Information

The association is in a better position to obtain and analyze market information and other facts to its members' advantage. It can hire the kinds of strategists needed to deal effectively with comparable representatives of buyers. The market strategist who knows how to bargain effectively with buyers can provide a very useful and specialized service for producers.

Controlling Supply

Controlling the supply of a product effectively—thus limiting the buyers' alternatives—is more easily accomplished through an association. The actions necessary to regulate the market flow of commodities are complex and the results are variable. The large number of producers and the large number of points of production, as well as the availability of substitutes, tend to discourage this approach, especially in the long run. However, partial control of particular commodities has been effective in the short run.

Control is most effective when there are a few producers and fewer substitutes for the commodity, and where additional suppliers must overcome distance, tariff, or other barriers. The association must have holding power, and must itself have alternatives. Adequate financing is often necessary to exercise holding power. For some producer groups, producer controlled handling, storage and processing facilities have made alternative outlets possible. To assure additional outlets and increase their holding power, some fruit and vegetable marketing associations have found it necessary to process and store their products themselves. Similar action has been taken by milk marketing groups.

Longer-Run Implications of Bargaining

BY LINLEY E. JUERS

Extension Specialist in Agricultural Economics

THE MAJOR OBJECTIVE of bargaining is improved farm income. In the short run there is a tendency to assume that higher prices and improved income are one and the same thing. However, over longer periods of time, this assumption of inelastic demand—that consumers will continue to purchase nearly the same quantity even at higher prices—may not hold.

In addition, higher prices during one period of time may induce additional supplies on the market; this increased supply will lower the price, thus eroding the benefits producers may have received, in the short run, upon achieving the higher price.

The following are some questions producers should consider when undertaking actions to improve their selling price:

1. Will it be necessary to find some way to control supply in order to prevent producers from increasing output in response to higher prices achieved through bargaining? How can producers from other areas or producers who are not members of the bargaining organization be prevented from entering the market or increasing their production?
2. If a higher price is achieved, are there substitute products to which consumers might turn? If there are none now, would the higher price make it profitable for processors to invest in research to develop new substitutes so as to increase their alternatives?
3. Will higher domestic prices for a particular commodity induce other countries to export to the U.S.? If imports of that commodity enter U.S. markets, is there a possibility of import restrictions, keeping in mind that the U.S. is also interested in maintaining foreign markets for its farm products?
4. How would the public react to a particular bargaining effort? Would the public react against efforts to increase the price of a particular commodity? Might this reaction lead to legal re-

straints against carrying out the bargaining scheme? Would public reaction against the bargaining efforts result in lower sales for the product?

5. If higher prices and higher incomes result, will this induce farmers to bid up the price of land or other fixed factors of production? If so, in the long run only the original owner will benefit and the new owner will be saddled with higher costs, nullifying the original increase in price.

While it is relatively easy to appraise the short-run benefits of higher prices for a commodity, the longer-run prospects of controlling supply and maintaining the level of sales are not so easy to predict. The income benefits of a bargaining activity are not based on price alone but on the price and quantity of the product sold. Because demand and supply characteristics are different for each farm product it is difficult to generalize the outcome. Also these relationships are continually changing in response to long-run shifts in technology and consumer preferences. Actions which may have a favorable effect on price as an immediate result may collapse at some future date because of (1) increased supply resulting from the more favorable price, or (2) reduced marketings resulting from change in consumer demand or from the higher price. In developing a particular approach to bargaining, attention should be given to warding off such adverse consequences.

Finally, higher prices, whether obtained by bargaining or through government programs, cannot solve the income problems of all farmers. The problem of many low-income farmers is lack of sufficient resources to produce an adequate income at any foreseeable level of farm prices. The demand for agricultural products is not great enough to permit all present farmers to expand to a size where they could attain adequate incomes in farming. Thus the best alternative in many cases may be employment in other fields.