

## **IX. THE FUTURE OF FARM BARGAINING**

The interest in and the need for farm bargaining have been manifest for over 100 years. There is no evidence that farmers or the marketing system in which they operate will change in such a way that farmers will lose interest in seeking some measure of influence in the marketplace to protect and enhance their economic welfare. The economic climate for agriculture in the future will surely respond to the trends that have characterized developments of the past decade. Farms are larger, and farmers are better educated and are better managers of the business aspect of farming. Farming has always been capital intensive, and is becoming more so. Operating costs as a percentage of gross dollar sales are greater, thus placing a premium on good management and skillful financial planning. Farmers can no longer "go broke cheap." Increasingly, farmers are faced with having to deal with the group actions of others in their production operations. Those with labor intensive crops, those with crops dependent on reliable transportation, those with crops grown for processing, all are experiencing economic pressures. Such an economic environment will cause farmers to continue to consider cooperative farm bargaining as a necessary part of their farming practice. The type of association and how it may operate is the subject for this chapter.

The political climate of the future will have a great influence on the future of farm bargaining. Government programs to support farm prices are expected to become increasingly difficult to achieve or even to maintain. The conditions attached to government assistance will become more onerous. Government programs tend to be created based

on political considerations to further social goals. There is little reason to believe that farmers, in the long run, can expect to be treated any differently than others who are subsidized or who contract with the government in industry and commerce. Government programs that provide benefits to farmers can be expected to require compliance with regulations that will further the social or political goals of the party in power. As a result, farmers will need to consider other alternatives to maintain and protect their investments. One of these alternatives is cooperative farm bargaining.

The American farmer's political influence has long been on the wane. The number of farm votes, even counting those who at one time lived on the farm and still hold a measure of sympathy for the farmer's problem, has declined sharply as a percentage of the entire voting population. As the number of farmers has become smaller, the individual enterprise has become larger. With the increase in size have come greater political sophistication and the gradual recognition of the need to build political influence from a new base. Economics, and not numbers, will become the new political base for agriculture. New allies may require compromises that have in the past not been acceptable.

The nature of the marketing system will also have an influence on the future of farm bargaining. There is little likelihood that the buying power in the food industry now held by nationwide manufacturers, retailers, wholesalers, institutional buyers, and exporters, will be modified in a manner that will enhance the bargaining position of the farmer. The food industry beyond the farm gate will become more powerful as it becomes more efficient and continues to generate its growth from large volume low-unit-cost operations. The increasing buying power of the food industry will inevitably result in a move either to impose legislative restraints, or to develop some type of countervailing power for the producer of the raw product. Both parties should find the latter course more acceptable and practical.

The type of farming operation of the future will also be significant. The trends toward larger farms, greater specialization, more mechanization, and greater need for capital are bound to change the traditional ways of farming, as in fact, they already have. The farmer will become more a farm *manager* with greater emphasis on management skills. Marketing strategies and financial planning will be the tools needed for the successful farming enterprise. Besides the skills needed for farming with its many disciplines will be management skills, and this combination means a farmer executive who will make farming decisions based

on the bottom line, thus increasing the need to exercise some influence on prices and terms of trade.

I believe that the future of cooperative farm bargaining must be analyzed in the context of the foregoing circumstances of political environment, market systems, and farming operations-particularly the market systems. The fading open assembly and free markets are being replaced by a system of contract farming. Contract farming lends itself to group association by producers for negotiating contract terms. Contractual agriculture will be bargained agriculture.

Cooperative farm bargaining in the future must meet the test of operating in the public interest, as well as for the farmer's benefit. These two objectives are not mutually exclusive. The public interest is best served by maintaining an adequate supply of good quality food for the American consumer. The adequacy of the food supply, its variety, and its quality depend on a market system that provides a profit for the efficient farmer, processor, and distributor. Profit is the incentive needed to maintain productivity. Cooperative farm bargaining will be one means to maintain the profits necessary to provide the Nation with an adequate supply of food. Agricultural production is also a key element in maintaining a favorable balance of trade, and profit will encourage the production needed. The undue price enhancement provision of the Capper-Volstead Act provides the necessary limitation that will protect the American consumer from unfair or unreasonable prices beyond that of earning a needed profit to maintain production. Price is not the only means of achieving profitable results from farming; greater efficiency, better coordination, and the elimination of wasteful practices are all important factors in bringing profits to the producer while at the same time maintaining reasonable costs of food for the consumer, thus serving the public interest.

Dairy bargaining associations have served the public interest by their remarkable achievements in coordinating the production and the deliveries of fluid milk in such a way that, despite the variable production pattern in the dairy business, fluid milk bottling plants can operate at maximum efficiency; excess supplies are diverted to beneficial uses; handling costs are minimized; and the costs of milk and dairy products are maintained at reasonable levels without waste of valuable resources.

Tomorrow's farm bargaining association cannot expect to maintain its bargaining strength by dealing with the issue of price and terms of sale alone. It should assume the full responsibility for supply management, be it on a buyer-by-buyer basis, regional basis, or national ar-

rangement. Supply management in this context means that the producers of the commodity through their cooperative bargaining associations, and utilizing marketing orders when necessary, will be responsible for furnishing the necessary quantity of raw product of the quality needed to maximize the efficient operation of the buyer's plants and the marketing system. The association will have the responsibility for coordination, transport, quality control, and producer payments. Under this arrangement, the buyer will specify the quantity, quality, and time of delivery of the raw product. The role of the association will be to coordinate the members' production to meet this market requirement. Multiple-year contracts will be negotiated, thus providing producers with firm markets for certain production. The buyer will have an assured supply to encourage better planning and marketing of the finished product. The cooperative bargaining association will be a voluntary organization. Those producers who choose not to become members will have to compete with the cooperative for a share of the market.

The system of country buyers competing with each other and playing one producer off against the other is inefficient and costly. It is only justified when handlers or processors can acquire their supplies at costs that are less than their competitors. The nature of the competition is such today that few processor/handlers can achieve large reductions in cost of raw material without either violating the law or exploiting the farmer. The advantage to a farmer of doing business with one large company instead of another is not always apparent. Significant savings can be realized from better coordination by the producers. Such things as uncoordinated transportation, multiple inspection arrangements, scattered loading and receiving operations, particularly for fruits and vegetables for processing, are costly and can be improved. The prospects for cost reduction in this area loom large when compared to the overall wasteful practices that are now being used. Mergers and acquisitions in the food industry have enabled many companies to achieve economies of scale. The independent farmer can also achieve economies of scale through the operation of a cooperative bargaining association that assumes the responsibility for the coordination, the acquisition, and the handling of farm products. At the same time, the independent farmer has a chance to reduce the market risks by the use of multiple-year contracts.

The food industry's mass handling and mass marketing techniques have resulted in a system of blending the quality of the raw products

that are received. The good is mixed with the not so good to produce a finished product of average quality. A bargaining association, able to negotiate a system of proper incentives, can improve the quality of the raw product. While weather and location have a significant impact on quality, farming techniques and skills are still a basic factor in maximizing quality. Like anything else, it requires more money to produce higher and better quality. In California, many peach growers took great pride in producing cling peaches of exceptional quality, often at the expense of lower yields and higher costs per unit of production, but they were never fully compensated for their efforts. Their production improved the average of all the deliveries, but their fruit was never processed separately and identified for its real value. There simply was no way in a mass production operation to deal with separate lots of fruit. The costs would have been prohibitive. The bargaining association was finally able to negotiate a system of incentives and penalties for deliveries; those lots with fewer defects received a higher price than those with many defects or other quality problems. This served to reward quality growers for their efforts. To the processor, fewer defects meant greater efficiency in the operation of the processing plant, and so the added payments for quality were justified and have become a standard in the industry.

Farm products soon lose their identity in the large volume operation. Processors and handlers deal in total tons of production. It is the average quality that is significant. Better overall quality may improve market position for a processor/handler or even permit a higher than average price. Buyers will generally negotiate for prices related to quality that can be measured. A bargaining association can and should provide the leadership in meeting the quality needs of the primary market by negotiating the incentives necessary to achieve the results that are required.

A bargaining association can meet the food industry's needs, while at the same time meeting the needs of the farmer member. Quality control, volume regulation, and coordination of deliveries are proper functions for the association. All three of these functions are a significant part of the need for cost control on the part of the handler/processor. These functions are also important to the producer in providing a stable market and fair returns. An opportunity for significant reduction in costs may be found in transportation. In California's two largest canning crops, tomatoes and peaches, there are often as many loaded trucks going in one direction as there are in the other. Nondifferentiated prod-

ucts moving in opposite directions to supply the same industry is not an efficient operation. Coordination of deliveries could sharply reduce the handling costs for these crops.

Every commodity has experienced dramatic changes in its marketing system. Changes in life-styles of the consumer, changes in eating habits, changes in handling methods, processing techniques, and distribution systems all have a final impact on the farm. Consider the dramatic changes of the past 15 years in the handling of fluid milk: the advent of refrigerated handling, bulk deliveries, and new technology has resulted in fewer dairy farmers with more cows, fewer and larger processing plants, and a virtual revolution in the system of buying and handling of fluid milk. Bargaining associations have become regional in nature. They perform services that complement the marketing system. Today's Wisconsin dairy farmers don't know if their milk will be consumed as fluid milk or cheese in Chicago, Minneapolis, or Cleveland. They do know that they have a home for their production and that their returns will be based on the efforts of a bargaining association that has become a part of the marketing system.

An example of the impact of the change in eating habits can be found in tomatoes. Fast food franchises and the popularity of pizzas have dramatically changed the demand for tomato products. This change in the market was one of the factors that led the tomato growers in California to undertake a successful bargaining operation.

The increase in the demand for boxed beef, replacing the traditional system of dealing in carcasses, will have an important impact on the manner in which beef cattle will be marketed. Some feedlot operators in the Pacific Northwest have entered into long-term participation contracts with a major packer of boxed beef. There is a mutual need in the livestock industry for assured supplies and an assured market. The cattle cycle which haunts the industry may lend itself to a cooperative bargaining effort more than any other major commodity if one considers the needs of the producers, and of the handlers and processors, for a stable market and improved methods for handling and coordination. Every time there is a major change in the marketing system of a commodity, some opportunities are opened up for the bargaining process. This appeared to be the case with respect to broilers, and a real effort was made, but later abandoned by the Farm Bureau. There are some, however, who feel the efforts will be resumed in the future when the mutual needs of the producers and the integrators can both be served by cooperative bargaining.

## ***The Future of Farm Bargaining***

Handlers, buyers, and processors are looking for ways to reduce costs and increase efficiency. The larger the organization, the more difficult it is to deal with many individual producers. A modern food conglomerate is programmed to deal with large customers, large suppliers, large labor unions, and larger vendors of services. They deal with chain-store executives and the executives of large industrial concerns who supply their manufactured items. They deal with computerized systems that require good cost controls. Yet, when it comes to farm commodities, they deal with many individuals. Many food companies deal with more individual farmer suppliers than the total of all of the other suppliers they do business with. Their method of dealing with farmers is the same as that used in dealing with any other large company. Dealing with many farm suppliers has been profitable. By using their buying power, buyers have been able to maintain low costs for their raw materials. As the number of farmers has declined and the individual farmers have become larger, they have also become more sophisticated. In many commodities, farmers have joined cooperative bargaining associations. The cost advantages that the buyers have enjoyed from doing business with many individual farmers are no longer as significant as they were. There are potential cost advantages in dealing with cooperative bargaining associations capable of recognizing and coping with the complex needs of a large volume operation.

This is a system ready-made to deal with organized producers capable of supplying their needs on a stable basis. The escalating costs of energy, labor, and capital make the prospects of dealing with producers on a responsible basis most attractive. The main fear of a buyer is that a competitor may be able to purchase raw products at a lower cost. Experience has been that this is increasingly difficult to achieve without resorting to sharp buying practices or cheating the producer. What is important is being able to handle a large volume of raw products in a most efficient manner. The prospects of entering into long-term supply contracts at reasonable prices on a basis calculated to maximize plant efficiency can be mighty attractive. The price of the product may be less important than the manner in which it is handled, provided that the competition does not receive a price advantage. "Why," the reader may ask, "if this arrangement is so attractive, hasn't the practice become universal?"

There has been a long record of growth and development of a successful system of cooperative bargaining that operates to fulfill the needs of an industry. It is the only bargaining method that has continued to

grow. The idea that the very formation of a collective bargaining agency will by itself bring handsome results has not proven to be the case.

Bargaining associations of the future must fulfill a marketing service and be able to demand and receive a price for such services that the market can afford. The bargaining association of the future must perform some of the same functions of mass assembly and coordination that a large corporation now performs. The bargaining association will perform the service for its members, while the food corporation will perform the service to increase the shareholders' returns from their investments. The bargaining association is in a unique position to perform a service for a processor/handler dealing with many growers. Why then hasn't this happened to a greater extent than it has?

Change in any industry comes slowly. Perhaps in the business of farming it comes at even a slower pace because farming is not a transitory business. Most farmers come from farm families. The land is held for long periods of time. Farmers, above all, value their independence. There are few farmers who have not had difficult times brought on by weather, insects, government regulations, and depressed markets. They don't panic easily. Changes do come, though often at a pace that may seem slow. Given the fact that farmers measure changes by seasons or by crops rather than day to day, change has been rapid, particularly in production technology.

Tradition has a significant influence in the farming business. Farmers, for example, have traditionally maintained a loyalty to those who buy their production. Experience over the years has demonstrated the importance of maintaining a relationship with the buyer. This loyalty has been shaken in recent years by the many mergers and changes among companies that have been buying the farmers' production. New people and new policies often lack a reciprocal sense of loyalty to the farmer.

The idea of cooperative farm bargaining is just reaching a new threshold in its growth and development. The experience of the past 20 years has shown what will work and what works best. Changes in the market structure, the political strength of agriculture, and the business of farming itself have served to limit the number of options available to agriculture to maintain access to a fair share of the consumer's dollar.

Notwithstanding the growth of cooperatives, not all farmers are "cooperative minded," particularly in marketing. They are basically competitive with each other. Many cooperatives came into existence because of hard times, and because farmers had few other options to



consider. Many cooperative bargaining associations were formed because of low prices and unfair treatment by the buyers. In the future, bargaining associations will come into being and grow in importance because they can perform a service that is beneficial to both the farmer members and the particular industry their commodities fit into. Bargaining will grow because it is a natural fit in today's food marketing system. The capital investment required to produce most commodities is largely held by the farmer. Even when taking into account the finished product, the major portion of the capital required to produce food is furnished by the farmer.

Many food companies are just beginning to realize some of the advantages that are associated with a strong, well-organized, and well-managed bargaining association. Bad experiences in the past are often an inhibiting factor in coming to terms with the idea of farm bargaining, but as the prospects for a more stable supply of raw materials become evident, the food industry will support and recognize bargaining associations if it believes that the services that the associations can perform will complement its operations.

The function of a bargaining association in the future might include the following:

Contracts:

- A. Negotiate multiyear supply contracts for all or most of the supplies of the handler/processor.
- B. Contract with the members through membership agreements to handle and market the production from specified production units.
- C. Annually negotiate the prices and the terms of sale for the members' commodities on a delivered-to-the-plant basis, and cover those matters that are not included in the multiyear contract.
- D. Contract for the diversion and sale of the production not needed in the primary market.

Services:

- A. Provide both field inspection and plant inspection of the members' commodity.
- B. Promulgate uniform standards of quality and production necessary to meet contract requirements and to maximize total returns.
- C. Furnish transportation from farm or receiving station to buyer's facilities.

- D. Coordinate all deliveries to all buyers in accordance with pre-established pickup and delivery schedules set forth in the contract.
- E. Effect prompt payment for commodities delivered and pay the members.

Planning:

- A. Assist the members in planning production for the market, quality, volume, and possible diversion.
- B. Assist the buyers in planning deliveries to maximize plant efficiency.
- C. Carry out directly, or by contract, research on production problems, new varieties, and market opportunities.

The bargaining association of the future will be involved primarily with providing services to the members which the individual member is not able to perform as efficiently. The volume handled by the association can develop economies of scale that the individual cannot achieve. Such a bargaining association would not require large amounts of capital. It would be operated on a not-for-profit basis with financing derived principally from a service charge per unit of production that is handled.

Many obstacles will need to be overcome before such a system will become generally acceptable. Farmers in commodities where bargaining has not existed, or where it has failed in the past, may have bitter memories of other plans that failed, both governmental and private. There may be reluctance to accept the disciplines that are associated with the kind of bargaining association outlined. Hopefully, the records of successful associations will help overcome such reluctance. Handler/processors, particularly those who have an efficient buying and handling operation, will be reluctant to embrace this idea because they will have little to gain. Others will point to bad experiences with bargaining, where, for example, a high price at any cost was the sole objective of the association.

The kind of bargaining association that is contemplated will require skilled and dedicated management. Few people are trained to step into such a responsibility today. Responsible and reliable management will tend to quiet the fears of many, and such management is not easily found. It must be paid at a level commensurate with the responsibility of the organization. The current lack of trained management to operate bargaining associations is probably the most significant deterrent to successful growth. It is to be hoped that, as the need becomes more evident,

universities will offer courses that can prepare individuals to take up the work as a profession.

Over time, I believe these problems can be overcome. Surely there is a place for an organization that can bring to farmers stable and fair returns for all of their production grown under a contract, while at the same time supplying to the handler/processor supplies of a quantity and a quality that are needed at fair prices. Such an arrangement would serve to increase the returns for both through efficient handling and coordination.

Farm bargaining in the future may find that regional or area multi-crop associations will be formed to handle the administrative responsibilities such as accounting, insurance, personnel development, economic research, and public relations. The bargaining process, however, will, in my opinion, continue to be carried out commodity by commodity. Those farmers who produce the commodity will continue to control the bargaining for their commodity through the election of their bargaining board or committee. The regional or area association will provide a service function but not a bargaining function. Bargaining for many commodities by one association is fraught with problems such as trade-offs between commodities and control by the representatives of the dominant commodity in the area. It would be a very complex operation that might tend to attract regulatory laws designed to limit its power. In addition, there are natural economic conflicts: a grain producer will not want a fruit producer to vote on or influence a price decision on grain and vice versa.

The Michigan Farm Bureau's bargaining arm, MACMA, operates as a service agency to the various bargaining committees which are elected by the members who grow and produce the crop to be bargained for. Each commodity group operates with its own staff. Whether this type of operation under the auspices of AFBF will spread remains to be seen. Michigan State law provides for exclusive agency bargaining. There will be a need for regional service agencies if farm bargaining continues to grow. It is to be hoped that the question of who will control the regional service agency will not bog down in a struggle between farm organizations where who does it is more important than providing the needed services.

From time to time proposals have been made that marketing orders should provide the institutional mechanism within which formalized price negotiations could take place. Such proposals will no doubt be made again should the voluntary type of bargaining association

described in these chapters fail to bring about some measure of equity between producers of farm commodities and food manufacturing and food distribution industries. Marketing orders continue to come under attack from consumer-oriented members of Congress and administrative agencies not familiar with the complexities of agricultural marketing and production problems, or seeking to find scapegoats for the rising prices of food. Marketing orders are not free from government control and influence, and there is always the risk that political and social goals will receive priority over economic or orderly marketing goals.

Legislation requiring good faith bargaining on the part of both parties is under consideration. Similar legislation has been considered in the past. This time, however, prospects are improved due to the widespread support for the idea among all the major farm organizations. Such legislation, if passed, should serve to close the last loophole for refusing to bargain with a bona fide farmer owned and controlled bargaining association. Legislation based on the Michigan bargaining legislation which establishes a bargaining unit and provides for exclusive agency bargaining may not be necessary if the trend moves toward the adoption of the type of organization projected in this chapter. On the other hand, if the legitimate needs of the farmers in the Nation who find themselves operating in a market environment that is dominated by a handful of powerful handler/processors are frustrated, the Michigan type of legislation is likely to be used as a means of satisfying the farmers. However, even within the framework of exclusive agency bargaining as provided for in the Michigan example, the functions of a successful bargaining association must be oriented toward the needs of the primary market, the public interest, and the needs of farmers.

Cooperative bargaining associations should expect that the undue price enhancement provisions of the Capper-Volstead Act will be given greater attention by the Federal Government. The absence of any legal history leaves an interpretation that may result in doubt. What is undue enhancement? Is it a price in excess of parity or some other formula? Is it a price over and above the cost of production? If so, what is a fair margin of profit? These and other questions will no doubt dominate the discussions that will take place over the administration of this provision in the future. The growth and development of the kind of cooperative bargaining association contemplated in this chapter would certainly hasten a decision to make greater use of the undue enhancement provision if that decision has not already been made. As farmers gain power

and influence in pricing their production, others will seek to restrain and limit that power. The political realities almost guarantee such a result. This, however, may not be as bad as some may think. The Secretary of Agriculture has had such powers since the Act was passed in 1922. The fact that little was done about it is an indication that farm prices simply have not been unduly enhanced. The growing strength of dairy bargaining associations has brought the issue into focus and raised many questions. Perhaps for the first time, some farmers have gained a measure of influence over the prices for their production.

Bargaining associations might find it in their best interest to work with the Administration and the Congress to develop a procedure that will be responsive to the desire to prevent undue price enhancement by a bargaining association. The public interest is served by adopting a policy of encouraging agricultural prices to rise to the point necessary to maintain enough production of a commodity to meet the needs of the Nation. Such a policy rewards the most efficient producers and discourages the inefficient. It is a policy that would allow bargaining associations of the kind described in this chapter to grow and prosper.