Bargaining by FRUIT & VEGETABLE ASSOCIATIONS *with* PROCESSORS

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The Farmer Cooperative Service conducts research studies and service activities relating to problems of management, organization, financing, processing, merchandising, sales, costs, and membership arising in connection with the cooperative marketing of agricultural products and the cooperative purchase of farm supplies and service. It publishes the results of research studies, presents recommendations to management in the course of service activities, and cooperates with all agencies and individuals interested in disseminating information relating to cooperative principles and practices.

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FOREWORD

This report grew out of work carried on jointly by the Utah Agricultural Experiment Station and the Farmer Cooperative Service. It is being issued as a means of bringing information on the subject to many agricultural groups who are interested in the use of bargaining associations.

The report is part of a study of G. Alvin Carpenter on bargaining cooperatives undertaken in partial fulfillment of his requirements for the Ph.D. degree in Economics granted by Cornell University. Other phases of the study will be published by the Utah Agricultural Experiment Station where Mr. Carpenter is Assistant Director of Extension.

Bargaining cooperatives are well known. Many dairy cooperatives have been organized to bargain with milk distributors on prices for raw milk. Likewise in the beet sugar industry prices of beets are determined largely by bargaining between the growers' organization and refiners. In the fruit and vegetable field producers of canning crops now have a considerable amount of interest in the organization of bargaining cooperatives which would represent them in dealing with processors.

In many areas the processor contracts with growers to produce the vegetables for processing. Since those contracts are initiated by the canner there may be the feeling on the part of producers that the terms favor the canner. The individual grower may be at a disadvantage since his production makes up such a small portion of the processor's needs. The canner also is better informed than grower on price, supply and demand.

Canning crop growers have sought to meet the processor on equal terms through the development of bargaining cooperatives. Some have had long and successful relations with processors. On the whole, however, producers except under very favorable conditions or location, have not been too successful to date in negotiating with processors through a cooperative organization even though there appears to be sound reasons for growers to engage in this activity.

This publication deals with some of the techniques of bargaining between the growers' organization and processors, points up some of the requirements for a successful cooperative organization and also presents a theory of bargaining.

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SUMMARY AND CONCLUSIONS

Collective bargaining is a method by which a group agreement is reached. It is usually thought of in such terms as prices, marketing facts, and business conditions.

In efforts to gain more influence over price, farmers in many areas have organized bargaining associations. Too often such associations have started with great enthusiasm and promise only to end in discouragement and failure, principally because they attempted too much without having enough factors under control. Experiences in cooperative bargaining emphasize repeatedly, the necessity for adequate control of supply and the importance of sound organization and management if success in influencing market price is to be achieved.

Most attempts at control of supply have failed principally because of: (1) inability to bring about the effective working together of a sufficiently large proportion of the producers; (2) inability to prevent the entrance of new producers into agricultural production or to control the output of those already producing; and (3) inability to prevent substitution of one product for another by the consumer.

If the farmers' bargaining association that controls the selling side has equivalent bargaining power with the processors who control the buying side, an actual price can be arrived at through the bargaining process comparable to a price attained under competitive conditions. The determination of price for contract crops under such conditions would enable both parties to have a fair chance and should strengthen the capacity of the industry for autonomous self-regulation and thereby lessen the amount of Government control or administrative pricing needed or sought.

Equal bargaining power of both sides, however desirable, is rarely if ever achieved. Bargaining power is the product of many forces which vary with circumstances and changing economic conditions. Because of inability to control all of these conditions equally well it is practically impossible to have a market situation where both sides have equal bargaining power.

The theory of bargaining as analyzed in this report indicates that the price is not a fixed value. The final negotiated price depends in part upon the relative bargaining power of the two parties. Therefore, all factors which influence the bargaining power of either side become important in determining price. Every weakness of a farmers' cooperative has an adverse effect upon bargaining strength. Every weakness that can be overcome will have a favorable effect upon bargaining strength.

The theory of bargaining discussed in this report emphasizes several important factors:

1. The function of a bargaining association is to facilitate the establishment of a price in the market which would be the same as or which would approximate the price that would be arrived at under conditions of pure competition. Other things being equal, the fewer the processors in the market the more likely the need for a bargaining association and the greater its chances for success. In a competitive market it has less chance for success.

2. To increase bargaining strength to the point where it can be effective, it is important that the growers' association control a large enough portion of the volume to be sold that the buyers cannot obtain a sufficient quantity for their needs without dealing through the association.

3. Efforts to gain sufficient control of volume for effective bargaining often end in failure. As soon as returns to farmers are increased by organization, additional supplies are usually produced which serve to undermine the bargaining strength of the association. It is very difficult for farmers to gain monopoly control of supply in their efforts to influence price. There are so many farmers producing each product and so many others who would produce it if the price were increased slightly that any permanent monopoly control is not achievable.

4. The portion of the total volume of a given commodity under control of a bargaining association necessary to enable it to bargain effectively depends upon several important factors including: (1) the elasticity of demand for the product, (2) the number of processors existing in the market, and (3) the elasticity of supply of the product. Naturally, the higher the percentage of total supply controlled the more effect the association will have in price determination.

5. Under situations where there is only one or a few processors in a producing area, a well-organized, efficient bargaining association is able to increase the bargaining strength of producers and consequently increase prices for the raw product. Also competition is reduced among the sellers and they function more nearly as a single seller. The association serves to protect the individual producer against monopoly on one hand as well as prevent disastrous competition among unorganized sellers.

6. If a bargaining association continues to press for a price beyond that which the conditions of the market warrant, the farmers will price themselves out of the market, the industry suffers and the association soon falls apart.

7. For obvious reasons, use of the strike weapon to increase effectiveness of bargaining in agriculture has its limitations. Under certain situations, however, it can be used to gain bargaining advantages. The threat of strike is most effectively used prior to planting.

8. Price negotiations through committee action, arbitration, or prices determined administratively by government agency, are other alternatives to determination of price by collective bargaining alone.

There are certain advantages and benefits in addition to price that can come to farmers through well organized and efficiently operated bargaining associations. Some of these major benefits may be listed briefly as follows:

1. Collective bargaining enables farmers to provide themselves with services essential to efficient production and marketing which are not otherwise available.

2. Farmers as a group can make economical use of specialized skill and equipment which they as individuals could not acquire at all or only at high cost.

3. The farmer can concentrate mainly on his production job and feel that his market job is being handled effectively.

4. Concentrating volume under one head reduces wastes of competition resulting from excessive duplication of services and facilities, thus benefiting society in general.

5. Processors can also reduce their overlapping services and realize savings in field work in contract sign-up.

6. Through collective bargaining farmers can become more familiar with needs and preferences of the market and the consumers as to the quantities, kinds and quality of products wanted. The association can serve as an educational vehicle to keep the farmers thus informed. Adequate information in the hands of farmers would facilitate closer adjustment of production to the needs of the market and would make for better integration of steps in the production - marketing process.

7. The cooperative promotes private enterprise and helps to preserve democratic institutions. Using the cooperative as a tool, farmers learn to do for themselves many things which they might otherwise insist that the Government do for them at public expense.

8. Even processors, who may be opposed to the cooperative in its efforts to negotiate prices, will recognize many benefits which organization among farmers brings to the industry as a whole. Many problems in the industry can be more effectively solved through joint attack in an organized way, (disease and pest control, cultural practices, etc.).

9. Evidence indicates that grower-processor relations can be improved and maintained on a better basis where growers are strongly organized and can safeguard their interests.

Where effective marketing control can be secured and when effective bargaining techniques are utilized the association can have considerable influence in determining price and other contract provisions. Their power to force temporary price increases that are unwise is their greatest danger. Wise, well informed leadership is vitally important to their continued success.

If collective bargaining is to succeed in the long run as a useful method of negotiating contracts both sides must learn to negotiate in good faith. They must each make forthright efforts to reach a settlement. The negotiators must know the situation and look at the facts as they really are. If both sides conscientiously strive to meet these conditions collective bargaining can be a fair and effective means of determining price and other contractual arrangements.

BARGAINING BY FRUIT AND VEGETABLE ASSOCIATIONS WITH PROCESSORS

by

G. Alvin Carpenter*

In many areas farmers producing vegetables for processing have joined together into cooperative bargaining associations. The success of these associations and others that may be organized depends upon the knowledge and application of the theory and techniques involved in bargaining.

This publication discusses why growers form bargaining associations and then goes into the theory and techniques of bargaining that these associations may use to be effective.

NEED FOR BARGAINING ASSOCIATIONS

To start with, farmers growing vegetables for processing are faced with a different situation than those producing other agricultural commodities. For example, they sell wheat and potatoes at the local market level under more competitive conditions than milk or canning crops. There are more buyers and outlets available. Also, wheat, being a commodity of small bulk or weight in relation to value, and not being perishable, can be transported long distance and stored for considerable periods of time. The marketing season can thus be prolonged.

Products such as wheat, butter, corn, wool and cotton are sold on what might be termed national markets, and some of them through facilities of the commodity exchanges are sold at or near a world-price level. When such products are sold in a local market, prices are largely based on the price as quoted in the central market less transportation and handling charges.

In the selling of such commodities there is usually sufficient competition to enable the farmer to obtain a price that fairly well reflects the central market price. Considerable market information is available and buyers and sellers can be fairly equal in strength and in knowledge of the supply and demand factors.

In contrast to this situation, farmers sell other farm products such as canning peas, sugar beets, and milk in certain areas almost entirely on a local market where there is no free play of competitive forces but instead a very few or sometimes only one processor. The individual farmer having such products for sale is under a competitive disadvantage. Canning peas are bulky and perishable; they cannot be transported long distances before being processed nor stored for any period of time. They must be processed before they are in the form suitable for consumer acceptance. This

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processing usually takes place within or adjacent to the producing area. For efficient operation, a plant requires sizable volume, adequate financing, technical skill and good management.

The individual farmer is generally not in a position to undertake such processing operations. Consequently, if he grows such crops, his choices for their sale are limited to the one or the few processors that may be operating in the area. 1/ In varying degrees, the same situation exists for the sugar beet producer and the dairyman. Because of location factors, the nature of the product, and the marketing pattern set up, the economic thing for the farmer to do is to sell to one or the other of these outlets at the local market level.

In most areas throughout the United States where canning crops and sugar beets are produced, they are sold to processors under conditions where there are few buyers and many sellers. Unlike many other agricultural industries, canners and sugar beet processors have considerable control over the volume of their purchases (and hence their output) from year to year. This results from the common practice of such processors contracting, at a fixed price, in advance, for a rather specific acreage of production of the product. The processor (buyer) usually sets the price for the product in advance of the date for planting and offers the individual growers the opportunity to grow the product at that stipulated price and under the conditions as further stipulated in the contract.

How Price is Determined

Processors, being in the better bargaining position, will try to set their contract prices at levels which will allow the greatest profits. For example, one buyer who can control demand in the local market, will attempt to offer only that price which he thinks will give him the volume necessary to make the largest profit. The lower the price the buyer sets, the smaller the quantity obtainable. At some price level, considering the quantity that can be purchased, the processing firm will make the largest profits. Over a long run period, however, the price which the processor sets must at least equal average cost of the producers, or the supply will disappear. 2/

The situation, however, is often one of a few large processing firms and numerous small ones. The large firms usually assume price leadership and to each new position taken by these dominant firms the small ones will tend to adjust on the basis of competitive behavior.

In analyzing such a situation Nicholls says,

> "Our over-all analysis would lead us to expect that prices throughout the industry would tend to be established at such a level as to maximize the profits of the most efficient of

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1/ This situation which is characterized by few buyers and many sellers is technically described as being one of "oligopsony"; a situation having only one buyer and many sellers is called "monopsony".

2/ Adapted from Due, John F. Intermediate Economic Analysis, Richard D. Irwin Inc. Chicago, 1947.

the dominant firms. This follows from the fact that while, in their relationship to each other, a few dominant firms must recognize the most efficient of their number as their leader, the dominant firms -- regardless of efficiency -- assume a position of leadership relative to the remainder of the industry by virtue of their size alone." 3/

Even though a processing firm may not be large enough to occupy a dominant position as far as the national market is concerned, even a small firm may be dominant relative to the local market. The element of location certainly affords any firm some protection from the competition of other buyers by the additional cost to the farmers of transporting the supply of the farm product in his local area to the markets of his competitors.

If, in a given market, both the number of processors and producers are few, with neither group having any particular monopoly advantage, price determination becomes largely a bargaining process. The buyers will attempt to obtain the products at the lowest price consistent with the supply they desire; the sellers will attempt to obtain the price which will give them the most profits. The price will be indeterminate and the actual market price will depend to an important degree upon which of the bargaining parties has the better alternative sources or outlets for its particular product or use of its resources.

If the number of sellers in the market becomes more numerous and the number of buyers becomes fewer, the buyers are then able to exert more control over price to the disadvantage of the sellers.

Under market conditions of buyer advantage, as may be the case in the vegetable processing industry, the individual farmer, generally having small quantities of product to sell is in a weak bargaining position and consequently is not able to exert much influence in determining the price of his product.

> "Individually the farmer is a notoriously weak bargainer because (1) he may not know in what grade his product falls; (2) he may not know the relative value of the different grades; (3) he may not know what his local price should be even when central market prices are known, and frequently he cannot even interpret wholesale market quotations; (4) he cannot follow market conditions closely enough to know at any given time whether market tendencies are up or down; (5) he finds it difficult to judge a proposition put in a new way; and (6) his own supply is so small a part of the buyer's needs as scarcely to be missed if he refuses to sell." 4/

3/ Nicholls, Wm. H. Imperfect Competition Within Agricultural Industries. Iowa State College Press. 1941. p. 143.

4/ Erdman, H. E. Possibilities and Limitations of Cooperative Marketing. Calif. Agri. Exp. Sta. Circ. 298, 19 pp. 1942, p. 11.

Alternative Actions of Producers

Under competitive conditions as described above, what alternative does the farmer have? Apparently there are three main ones: (1) He can continue to produce and bargain individually as best he can for the sale of his products; (2) he can join with his neighboring farmers and pool his efforts with that of others to create an organization which will strengthen bargaining power; and (3) he may call upon government to step into the picture to help regulate the markets with one buyer and many sellers and help establish a "fair" price (Administrative Pricing) at hearings where Government agents, processors and grower representatives each have a voice.

A fourth alternative would be for a farmer's cooperative to engage in processing the farmer's crops to carry the marketing operations on through to the wholesaler or the consumer, in other words, a vertical integration of production, processing, and marketing activities.

A fifth alternative might be to rely on Government regulation such as the Sherman Anti-Trust Act to reduce the power of the buyers in markets with one buyer and many sellers. However, the present market situation in the processing industry has developed since the Sherman Act was passed and it would appear that in order to have efficient operations larger plants are desirable rather than addition of more small plants.

THEORY OF BARGAINING

The Bargaining Association

The realization of their weak bargaining position has induced numerous groups of farmers to form cooperatives in an effort to improve their bargaining strength. The sole objective of some associations is bargaining for the sale of the products of their members. They do not handle products, process or store them, but only negotiate for the price, terms of sale, and other business arrangements involved in selling the products of their members.

The primary aim of such an association is to increase the bargaining power of the producers by bringing together under contract a large number of producers who agree that their produce shall be sold through their association. The association in this manner obtains the power to bargain for the sale of a large quantity, if not the entire supply, or produce in a particular market.

From the standpoint of its structural organization, the bargaining association may be either a local or regional, centralized or federated association. Farmers hold membership directly and sign contracts with their association and agree to accept the prices established by the association and the processors.

The history of American farmer movements has numerous examples of efforts to control the market through cooperatives. Many farmers have believed that such control would allow freedom in setting price. However, in agriculture there are few products with no substitutes to which consumers can move when price changes are unfavorable.

Even though the typical single firm monopoly control of price is not feasible for most agricultural products, some semblance of monopoly might be beneficial in terms of helping to raise prices. For instance, the growers of canning peas in a given area might feel that through the formation of a tight bargaining association, their industry by cooperating with other industries that produce relatively close substitutes would be in a position of gaining some monopoly advantage by control of supply and bargaining as a unit. If they can take additional steps and organize the tomato growers, snap bean growers, and all other farmers in the market area who produce similar crops which might be considered substitutes, then the group has placed itself in a much better bargaining position and may be able to exert more influence over price.

When farmers group together in bargaining associations and negotiate prices as a unit they reduce competitive selling among themselves and tend to function as a single seller. The association serves to protect the individual producer against the condition of few buyers and many unorganized sellers on the other hand.

The price-making power of such an organization is more limited than is commonly believed. For example, a local vegetable bargaining association cannot obtain prices substantially higher than those obtained in other States or regions. Canners are in such keen competition with other regions as to be forced out of business in a given section if prices are substantially above those with which they must directly compete.

Many associations come into existence because of prevailing practices toward one-buyer monoply in the market. The bargaining association can be looked upon then as a means of combating these practices through use of countervailing power.

Influencing Prices Through Bargaining

What then is the main theory involved and what are the possibilities and limitations of influencing prices through bargaining? The theory of collective bargaining for agricultural commodity prices holds that on a given market with a given volume the price may be established somewhere between the top and bottom of the bargaining range, depending upon the bargaining strength of buyers and sellers.

Buyers attempt to buy at as low a price as possible and sellers attempt to sell at as high a price as possible. This necessitates a certain amount of bickering or haggling until for any one product in any particular market a price is established at which transactions take place.

How is bargaining strength attained? What proportion of the volume must an association control to bargain effectively? These are important questions which immediately come to the fore when a cooperative has as one of its objectives the influencing of prices through bargaining.

It is desirable, from a seller's standpoint, that he control a large enough portion of the volume to be sold so that the buyers cannot obtain a sufficient quantity for their needs without dealing with him. From a buyer's standpoint, it is desirable that he have access to a volume sufficient for his needs without being dependent on the volume controlled by any one seller.

The difficulties that associations have in trying to obtain monopoly control of supply in their effort to influence price has long been recognized. There are so many farmers producing each product and so many others who would produce it if the price were increased slightly that any permanent monopoly control is extremely difficult.

Most attempts at monopoly control of supply have failed because of: (1) Inability to bring about the effective cohesion of a sufficiently large proportion of the producers; (2) inability to prevent the entrance of new producers into agricultural production or to control output of those already producing; and (3) inability to prevent substitution of one food product for another by the consumer.

Many writers in the cooperative field have emphasized the importance of trying to adjust volume of production to market demands. However, for the most part cooperatives have been organized to take care of the selling function rather than production. The association necessarily leaves control of production with the individual grower. In the case of temporary over-supply of a non-perishable product a marketing association may render valuable service by adjusting time of sale accordingly. Nevertheless, it is the farmer's responsiblity rather than the associations's to adjust production. The association can help by supply information on the future outlook, but this is effective only when the farmers translate this information into action on their individual farms.

A bargaining association, to be effective, must have control over a sizable volume. The portion of the total volume of a given commodity needed depends upon a number of circumstances. Most important is the nature of the demand for the product. If demand is inelastic, that is, the product has few substitutes and is more a necessity than a luxury, a small volume is likely to sell for a higher price and net the farmers a greater total return than if the demand for the product were elastic. Other things being equal, the more elastic the demand for the product, the higher proportion of control over total supply an association must have to effectively influence prices. Obviously, much also depends upon the status and number of buyers in the market.

The elasticity of supply of the product produced is also very important. The supply of most farm products is relatively inelastic, especially within a season or over a short period of time. This means that a change in the price of the product does not result in a proportional change in production in the same direction. This fact is associated with the biological and economic characteristics of the industry. For example, in the milk industry, it takes two years or more to raise a heifer to the time of first freshening. In canning crops, in most areas, only one planting per year can be grown. Production per acre can be adjusted with changing price conditions but only within relatively narrow limits. Considering all these factors, the more inelastic the supply of the product the more difficult it would be for the bargaining association to be effective in controlling production.

Stokdyk estimated that the necessary portion of the total supply needed for effective bargaining ranges from 25 per cent in some livestock markets to 90 per cent in the case of some specialty crops. 5/ It is axiomatic that the higher the percentage of total supply controlled, the more effect the association will have in price determination.

Aside from control of volume, bargaining power is attained through proper knowledge, interpretation and use of market information. More will be said about this in a subsequent section of this study.

Some Theoretical Examples

Perhaps some of the discussion on the theory of bargaining can be brought into closer focus by considering one or two examples pertaining to the processed vegetable industry.

Let us assume that two rather large chain-canning companies, A and B, operate 5 and 6 canning plants respectively in a given area adapted for growing good quality canning tomatoes. In addition to these 11 plants there are several other plants operated in the same general area by smaller, independent companies. The producing area is characterized by a relatively large number of small producers. None of them produce enough tomatoes to justify operating their own canning plant. Processors have depended chiefly upon these small producers for their total supply and each year have offered them advance contracts for their tomatoes.

5/ Stokdyk, E. A. Economic Objectives of Farmers Cooperatives. Farm Credit Administration, Washington, D. C., Misc. Report No. 90. 1945. p. 20.

Each of the two large firms considers that a contract price of $25 a ton for first grade tomatoes is to its benefit and should, therefore, be the price offered growers. The farmers, on the other hand, desire to receive a contract price of $28 a ton for No. 1 tomatoes. Under this assumption firms could pay more and still make a reasonable profit and not be forced to raise their wholesale price of the canned product.

The several smaller independent plants have been in the habit of accepting the price leadership of the two larger firms. Some of them would like to increase the contract price to the growers in order to attract more volume, but they are unable to because they would then be paying a price above that of the larger firms, and this would place them at a competitive disadvantage in selling their product. Hence, the small firms accept the price leadership of company A and B.

In the face of such a market situation, the tomato growers as individuals are quite helpless to get their prices raised. It may occur to a number of them that they could refuse to grow tomatoes and shift their land to something else. However, they are experienced at growing tomatoes and because of certain factors of immobility it is somewhat difficult for them to shift to a crop that would return them as much money per acre. They are relatively far from consuming markets for fresh tomatoes so they are limited as to alternative outlets. Also, the farmers are not united and the few that did reduce acreage would have small effect on the total production in the area.

Here then, is an example where an effective price bargaining association could be of significant aid to its members. With the majority of growers united under a strong organization, the association leaders could go to the canning companies early enough in the year and lay down their needs and demands for a better price for tomatoes. Since the companies could actually pay $28, the rise in the contract price for raw products would have no appreciable effect on the wholesale and retail price. The profits of the canning companies would be reduced some, but not enough to force hardship on any of them. The farmers could benefit materially by uniting their efforts in a bargaining association and negotiating with canners for a better price for their product.

On the other hand, let us assume that in this particular area there are only two canning plants and that they have about the same costs, and that $25 a ton is all that the two companies can possibly pay under the existing market conditions. If, through its control of supply, the farmers' bargaining association brings pressure upon the companies and forces them to pay more they will fail. If the canners go broke and the plants close, the farmers cannot grow tomatoes for canning and consequently an industry with a local payroll is lost to the area. The result is inevitable when the association continues to press for a price beyond that the market conditions warrant. The farmers price themselves out of the market, the industry suffers and the association soon falls apart.

The above two cases clearly show some of the strengths and weaknesses of price bargaining. Given circumstances where canning companies are paying less than the equilibrium price — that is, less than the price which would prevail under perfect competitive conditions in the market -- the bargaining association has possibilities of successfully raising prices up to that point. Given a price already equal to the equilibrium price, a bargaining association is inviting failure when it continues to demand higher prices.

On the other hand, if the processors have advantages in bargaining power and persist in offering a lower price than the equilibrium price, the agricultural producer will suffer. He may continue to produce at this disadvantage until some time as he finds more profitable alternative use for his resources.

A good analysis of the theory of bargaining in the milk industry is given by Nicholls. 6/ He used the example of a cooperative which embraces all milk producers in the area and which has control of its members' production. This cooperative bargained with the one distributor in the area, the entry to other distributors being closed. It became a clear case of one buyer bargaining with one seller. Nicholls concludes his analysis by saying:

> "We may conclude by stating that while it is possible to fix definite limits within which price may be agreed upon under bilateral monopoly, the exact price level within these limits is indeterminate from a strictly economic point of view. The actual price will depend upon the relative bargaining power of the two agencies which depend in turn on certain non-economic (essentially political) forces."

The conclusion reflects that price is not definitely established and that the actual price will depend upon the relative bargaining power of the two agencies. Consequently all factors which tend to increase the bargaining power of either side become important in the determination of price.

6/ Nicholls, Wm. Imperfect Competition Within Agricultural Industries, Iowa State College Press, 1941, p. 172.

In its experiences in collective bargaining, labor has often used the "strike" as an effective weapon to increase its bargaining power. The nature of the agricultural industry does not lend itself as readily to a strike situation. The high percentage of fixed costs, biological nature of the industry, few alternative uses for land, and the like are all well known factors which affect the ability of agriculture to adjust to price changes or to make a strike effective. Under certain situations, however, this weapon can be used by farmers to gain bargaining advantages. There are examples of successful farmers strikes in the milk industry. In certain areas canning crop growers have also been successful in improving their bargaining position by shifting and threatening to shift their land to production of other crops.

The effectiveness of such strike attempts depends upon how effective the association is and how much control it has over production. In the case of canning tomatoes, it is obvious that the threat to strike, or more properly stated, the threat not to grow tomatoes, must be made prior to the planting season. Once the crop is planted the farmer has incurred certain costs that cannot be recovered unless he continues the production process and markets his crop. The threat not to plant tomatoes can, of course, be more effective in influencing terms of the contract if the farmers have several alternative uses for their land, labor and other resources. The fewer the alternatives the less effective the bargaining power.

By centering attention upon the key importance of the threatened strike it is easier to examine the bargaining process by which the final negotiated price is arrived at.

When a cooperative demands an increase or resists a reduction in the price by threatening to withhold the desired acreage, the processor buyer must either pay a higher price than he would have paid of his own initiative or must be prepared to endure the direct loss resulting from a stoppage or a severe reduction in his supply. If resistance appears less costly than concession he will resist; if concession seems cheaper, he will meet the cooperative's demands. These are the two over-all alternatives. What are the circumstances that determine which one will be accepted?

Nicholls analyzes the bargaining process in the milk industry in which producer cooperatives use strike threats to force milk distributors to raise prices above those paid in the absence of a bargaining agency. As the expected length of the strike increases the price which distributors are willing to pay rises, and at the same time the price which producers are willing to accept decreases. When the length of time the two parties are willing to strike are equal at a single price then they will come to agreement.

With some modifications due to the differences in production and marketing methods, Nicholls' analysis of milk bargaining may be applied to the canning crop industries. One difference to keep in mind is that milk producers can shut off the supply of their product on a day to day basis, whereas the canning crop producers have to decide whether to produce or not to produce for an entire season. However, the element of time can be used quantitatively in the canning crop bargaining association just as in milk bargaining.

Canners and growers like to complete contracts well in advance of the planting season, and it is during this period which the bargaining usually takes place. The longer the cooperative can hold to the threat of withholding all or a major part of the supply of raw products, the more likely the canners are to agree to higher prices. In effect, both sides bring into play their bargaining power from the time one canning season ends until a contract is signed for another. The deadline is the planting period.

Assume in a particular area all the processors form a committee to bargain with the raw product producers and all the raw product producers have joined together in a bargaining cooperative, and now these two parties, the processor and the producer representatives face each other across the bargaining table.

The processor is interested in obtaining the right to contract with the individual members of the cooperative for an acreage which will yield a season's pack in line with his anticipated market demand, and at the lowest price possible considering quality of raw product desired. He will also have a price above which he will not go because to do so would leave him no margin to cover the costs incurred in canning the season's pack.

Facing the processor is the bargaining cooperative and it is interested in having the processor agree to take the needed acreage at the highest possible price. The cooperative will also have in mind a price below which it will not go because its members will have more profitable alternatives.

In this type of bargaining each party threatens to withhold their product or services from the other. The processor says he will not contract any corn at the price offered by the cooperative, and in turn the cooperative refuses to allow its members to contract with the processor unless its price is met. In effect each party judges the other's bargaining position and the prices each would be willing to accept at any given time during the bargaining process. Customarily the opening price in the bargaining process is based partially upon the last season's price with the processor's offer perhaps under the past year's price and the cooperative's offer some above last year's price. Within this range bargaining takes place and agreement is reached at a price unsatisfactory to both, and yet at the best price each side thinks possible in light of his respective bargaining power. For example, if the cooperative demands a price above the price determined at the bargaining equilibrum, the processor will refuse it if he correctly concludes that the cooperative is unwilling to withhold acreage in order to obtain this price. If the processor demands a price below this equilibrum price the cooperative will refuse it if it correctly judges the unwillingness of the processor to carry out his threat. The two bargainers will get together at a price where each judges the other would be unwilling to make any further concessions. At whatever point price negotiations begin, assuming correct assumptions on the part of each concerning the others positions, they must end at a price which correctly reflects the relative bargaining strength and skill of each. At this point each concludes that the other would be willing to carry out his threat rather than make any further price concessions. As Nicholls says, "This price will be reached by a special form of higgling - by threats, not by competition." 7/

7/ Nicholls, Wm. H. Imperfect Competition Within Agricultural Industries. Iowa State College Press. 1941 p. 174

Although price is emphasized in this hypothetical case there are many other benefits which are bargained for in the process. These have been indicated in other places in this publication and are not repeated here.

The psychological effect of the threat by the cooperative to induce its members to shift their land to other uses coupled with a sound knowledge of market facts, profitable alternatives, and the ability to use and interpret these facts are the important factors in the negotiations process. Of course, at any given time the cooperative must balance the costs of concession against the advantages of their other alternatives. At its maximum asking price the cooperative would have no reason to withhold acreage at all; it may want to increase it.

The processor will also employ the psychological effect of a threat to let his plant lie idle for the season or to grow the crop himself, unless his price is met. He will also use his knowledge of market conditions particularly with respect to the profitableness of the relative alternatives open to the producer. However, if only a small acreage is available, the processor may not find it profitable to run his plant because of high unit costs involved. The processor is also aware of the loss he would probably incur if he did not operate at all, and he will consider the costs of growing the crop himself.

These factors are uppermost in the minds of the bargainers as they sit across the table from each other. It is extremely difficult for one bargaining party to know the other party's willingness to strike or resist. The judgment may easily be incorrect since there are many subjective things in the picture involving not only money costs of striking but also such "costs" as unpleasantness of conflict, loss of public goodwill and the like.

In an exceptional case, a strike may even be considered an asset by one or the other party. On this point Hicks says, "Weapons grow rusty if unused and a union which never strikes may lose the ability to organize a formidable strike, so that its threats become less effective." 8/ Thus the cooperative may have to try out its weapon occasionally to demonstrate its effectiveness. Also, if the processor feels fairly certain that the cooperative is unable to hold its membership in line, he may welcome a strike as a chance to reveal the actual weakness of the cooperative.

If as a result of effective bluffing and counter-bluffing, each overestimates the other's willingness to carry out its threat, it would be fairly easy for the parties to agree upon a price range considerably narrower, each thinking he has obtained an unusally good bargain. Within this narrow range, amiable negotiations are possible and the probability of an agreeable price being reach is high.

8/ Hicks, J. R. Theory of Wages. MacMillan, London 1932, p. 146.

If, on the other hand, each party discounts the other's bluffing too much, thereby underestimating the extent of the other's willingness to carry out its threats a conflict must result unless, as is likely during the course of the negotiations, each is able to correct his estimates.

Since each party would, in general, prefer a peaceful settlement, the actual materialization of a situation where the crop is not planted will result only from faulty negotiations, arising from errors in the estimates of each concerning the other's actual position. Errors in estimates concerning the other's actual position should be lessened as a result of negotiations.

Under actual conditions the bargaining by the buyers may be done through a "milk dealers association" or a "canners association". In such cases, one of the dominant firms usually assumes the role of leadership in the negotiations with the cooperatives, or they do it through a representative committee system. Usually the dominant firms show more interest and cooperation in the bargaining process by virtue of their superior research facilities, larger financial resources, and their general opposition to "cutthroat competition". On the other hand no cooperative is in the position of a complete monopolist, since its control over its membership and total production is rather imperfect and its financial resources may be inferior.

In some cases it may be exceedingly difficult for the two parties to compromise their differences because each is afraid that the other will interpret any concession as a sign of weakness and might insist more firmly than ever on its original price. In such situations a mediator who commands the confidence of the two sides may be exceedingly useful in helping them arrive at a compromise. Or, the deadlock may be broken, as it frequently is in bargaining over wages or the price of milk, by referring the dispute to an arbitration committee. Such a committee impartially reviews the facts on each side and decides where the prices should be. Each party is then requested to abide by this decision.

Bargaining and Administrative Pricing

The third major alternative for determining price under a buyer-dominated situation is that of utilizing a Government agency to help regulate the industry and establish a "fair" price at hearings called for that purpose. This practice has not been followed to any great extent in the processed vegetable industry, although during the World War II State Agricultural War Boards were given certain authority to help regulate contract prices for canning crops which would encourage growers to meet production goals as set by the U. S. Department of Agriculture. In order for processors to qualify to sell canned goods to the Government, and the War Department, they had to agree to pay producers a certain schedule of prices according to grades. This price schedule was developed by government officials in consultation with representatives of the industry. Following the war the procedure was abandoned.

In the case of milk marketing, prices for fluid milk are determined in many of the larger city milk markets through marketing agreements and orders administered by government authority. When a price-determining arrangment of this sort is established, no particular change takes place in the structure of the market, but the machinery for price determination is changed. Prices are set, not by the unregulated forces of supply and demand operating through the interplay of many buyers and sellers all over the market, nor by the bargaining of a cooperative with a few processors, but administratively by a government agency.

So-called administrative pricing of farm products is not a new development. Its history extends over many years and many countries. In the depression years of the 1930's it was used to alleviate the plight of the producers. In this case the government acted to increase farm prices and incomes. At other times, as during World War II, the situation was reversed, and the government acted to hold down prices in an effort to prevent the cost of living from rising. Because government represents the entire population, it should consider the interests of all groups and endeavor always to reach a balance that is fair. The collective bargaining association, if there were such in that particular market area, would likely act as the representative of a large number of producers in hearings held to develop the basis for administrative pricing and would have an important voice in final price determination. Its bargaining would thus be more with the government agency than with the processors.

The real problem in administrative pricing pertains to the level at which the prices are fixed. Minor deviations from the levels that would prevail under competitive market conditions might not have a significant effect. Dislocations would beome serious, however, when prices are set out of line with competitive prices for any considerable length of time. Under conditions of relative stability in the general price level a fairly close approximation may be achieved. But under conditions of widely fluctuating prices, this task is very difficult.

The history of government price fixing efforts provides a wealth of examples of the dislocations which are encountered in administrative pricing when too little consideration to fundamental economic principles is given. 9/ Further emphasis on this point is made in the conclusions of the New York Milkshed Price Committee which states:

> "In any program of administrative pricing by government, it is important to keep clearly in mind (1) that the long-run interests of producers and consumers should be considered as more important than their short-run interests and (2) that many objectives which are desirable from the standpoint of

9/ For examples see Blackman, Jules, Government Price Fixing, Pitman, N.Y. 1938 - or review some of the cases of Price fixing by Office of Price Administration.

improving the welfare of producers and consumers cannot be attained by the simple expedient of fixing the price of this or that product at some arbitrary level." 10/

Cooperative Vegetable Processing

Growers may also acquire an operate their own processing plants. However, vegetable processing is a hazardous industry involving many risks and failures. Organizations that are able to distribute their risks over a number of plants or among a number of commodities are better fortified against losses arising from local crop failures or other adverse developments than those primarily or solely dependent upon one or two crops grown in a restricted area. This circumstance may account in part for the concentrated character of the vegetable canning industry, which includes large nation-wide corporations that pack many different products in plants located in most of the large producing areas.

Vegetable processing cooperatives in contrast to large private processing firms, are more localized, and usually confine their operations to fewer products. Hence, most of these cooperatives have less opportunity for spreading risks geographically or in terms of products.

When conditions aren't favorable for a cooperative processing operation, producers may improve their marketing situation by perfecting and supporting sound bargaining associations.

TECHNIQUES OF BARGAINING

Important as it is for a bargaining association to have adequate volume control and a sound organization structure, it is also important for it to develop effective techniques for the conduct of collective bargaining negotiations. Whether certain techniques work effectively or not depends upon their nature and how they are initiated and carried through the negotiation process. Collective bargaining is essentially a process whereby two groups reach an agreement on various points. It is a dynamic process involving human emotions and psychological attitudes. The attitudes developed by both sides at the bargaining table go far in establishing the atmosphere, and the working relations between members of the two groups.

Preparing for Negotiations

Before bargaining can take place it is apparent that the processors or buyers must recognize the association as the bargaining agent for the producers. Obtaining this recognition is usually the first step for an association. Such recognition comes rather easily if the association has a large percentage of total supply under its control and the buyers perceive that the spokesman truly represents the rank and file of the producers.

10/ Report of the New York Milkshed Price Committee, Febraury 1949, p. 188

Detailed study and thorough advance preparation are highly essential in successful negotiations. No salesman, not even the seasoned veteran, endeavors to present his proposition until he has studied the most frequently encountered objections to his product and has developed a plan for meeting them. Unexpected objections work havoc with any case presentation. All weak points and objections to the proposed presentation should be anticipated and reviewed so that a strong defense can be organized. Likewise, the negotiators for each side should anticipate most of the strong points of the other side and be prepared to meet them. This, of course, requires adequate knowledge and interpretation of all important economic facts and conditions surrounding the industry.

Information Needed

A most important requisite for efficient and sound handling of negotiations is economic information of a type which allows a thorough analysis of current problems in the industry and in the market. The more complete and accurate such information, the closer the negotiations can be guided by intelligent decisions rather than blind guesses. If each side has the facts and a sincere desire to bargain in good faith, it is much more likely that negotiations will move smoothly and that equitable results will be achieved. The determination of an equilibrium price by collective bargaining, of course, assumes that each side has full knowledge of the market and relatively equal bargaining ability and techniques in negotiations. To the extent that one side has more and better information than the other and uses it intelligently, the greater will be its bargaining power.

Bargaining power is dependent not only upon strength which comes from control of adequate volume, but also upon ability to bargain effectively. Ability is attained through a knowledge of market facts, proficiency in evaluating them, and skillfulness in convincing others to make transactions. It is gained through study and experience. It is an ability highly regarded in a competitive economy.

In general, to be effective in bargaining, each side needs to know: The economic conditions in the market at all times, what the results of existing prices and other conditions are likely to be, what forces combined to bring about exisiting conditions, and how their organization may anticipate and modify the effect of these forces.

More specifically, each side will need accurate and current information on:

1. Factors affecting supply of the product.
2. Factors affecting demand for the product.
3. Trends in general economic and business conditions.
4. Strengths, weaknesses and attitudes of the other party.
5. Other facts about the industry including attitudes of growers, processors, and the public.

It is important that such information be compiled in a form that will be most useful for negotiation purposes. This will require keeping accurate records based on reliable sources. The particular type of records needed and the detailed nature of them will depend upon the product. In most cases, farmer's bargaining associations are guilty of keeping too few records rather than too many. Naturally, as the scope and operations of the association broadens the greater will be the need for more records and information. Very often associations may have need for certain types of information for which they have not kept records. In such cases they must rely on less reliable information from other sources. As a matter of insuring the association the specific information it needs for effective bargaining, it would appear to be sound policy to compile regularly all the pertinent statistics and other facts rather than depend on getting such information elsewhere on short notice.

Organization of Material

Before actual contract negotiations begin it is essential that the negotiator or spokesman be sure that the material he wishes to present is clear in his own mind. This is especially important when it is realized that he represents a large body of growers. To be sure that he truly represents the best thinking of the group, it is perhaps well to hold meetings of grower representatives in advance of the negotiation meetings to get a cross section of their thinking and crystallize opionions concerning the important issues.. To be most effective, the spokesman needs the assurance that he has the full backing of the members of his association regarding the important issues for negotiation.

After the basic issues are determined, allowing for participation of members in such determiniation, the presentation of points should be organized in the most logical order, keeping in mind also the possible reaction of the other negotiating party. Well planned presentations, backed by sound data, illustrated with graphs and charts along with sound reasoning will very likely yield better results than verbal argument alone. If the other side sees that the arguments are supported with reliable data, and if the controversial points can be clearly illustrated, negotiations are likely to progress more smoothly.

Actual Negotiations

The leaders or spokesmen on each side must necessarily be of high calibre and ability. The type of leadership should not be that which would dominate or try to exercise unwarranted power over people. Rather, it should be the type of leadership that is effective in working with people and encouraging them to reach agreement. To effectively work with people a leader should have tolerance instead of zealotry, self-discipline instead of self-assertion, and restraint instead of belligerence.

Experiences from collective bargaining in the labor field indicate:

> "Many earnest men in the ranks of both management and unionism have learned that in negotiation they have had to disregard preconceptions of 'what ought to be' in favor of 'what is'; namely, a new set of human relationships that need constant, concrete guidance. They have learned too, that resort to 'principles' is less practical than to resort to the operational approach of taking a long hard look at what actually makes the wheets go round." 11/

Negotiations are usually conducted through committees representing both sides. For best results, however, only one man should be authorized to speak for each side. Other committee members should, of course, be free to ask questions or give supplementary information. Only the spokesman, however, should be allowed to make statements that may be considered to commit the association. The committee should agree in advance about methods of presenting proposals and meeting counter-proposals, but actual commitments should be left to the spokesman. Too many talkers add confusion to negotiations.

No fixed rules can be laid down for conducting collective-bargaining negotiations, although good common sense approach is paramount. The representatives on both sides should be able to judge the situation and conduct negotiations accordingly. At the first meeting, it would seem that the main objective should be to establish an atmosphere of friendliness and confidence so that negotiations can develop smoothly. The meeting should be as informal as possible. The discussion of current events or non-controversial matters might be a good way to break the ice. Better progress may be made if a rather definite agenda is agreed upon as well as how long the meeting is to last. Other specific points concerning arrangments can usually be agreed upon as the meeting progresses.

Meeting Objections

Negotiations are often replete with objectives from the opposing party. To win his points, the spokesman must meet such objections. Suggestions for meeting objections are given by Hill and Hook as follows: 12/

1. Anticipate them - An objection answered before it is actually stated loses its power.
2. Agree, then refute - This method may be termed the "yes, but" answer. The negotiator agrees with the objector and then explains the difference by starting with "but".
3. Postpone the answer - Say "I am coming to that " and then answer the question later when it may seem more opportune.

11/ Williamson, S. T. and Harris H. Trends in Collective Bargaining. Twentieth Centru Fund, N. Y. 1945, p. 201.

12/ Hill, Lee H. and Hook, C. R. Management at the Bargaining Table. McGraw-Hill Co. N.Y. 1945. pp. 243-245.

4. Interrogate them - "Why do you ask the question"? Following this plan avoids making a hasty reply. It may also bring out additional information that would not otherwise be heard and that might be very valuable to the negotiations.
5. Offset with a compensating advantage - Try to offset a real objection by pointing out or offering compensating advantages.
6. Capitalize the objection - Sometimes the opposition may give an objection that can be turned into a good reason for accepting the proposal.
7. Ignore the objection - The only objection that can safely be ignored is one obviously made as a joke and not intended to be taken seriously.
8. Deny the objection - This is the "head on" situation. Care should be exercised to avoid appearing argumentative or impatient.
9. Analyze the situation - This is similar to method 4. The negotiator may be somewhat baffled so he counters with "Well, let's analyze the situation". He then begins to ask questions about his opposition's points. From here on both sides may contribute something which eventually leads to new and perhaps smoother negotiations.

The negotiator must always remember that something once offered cannot be withdrawn without great difficulty. Just as with the commercial salesman, once he mentions that he will sell at a certain price it is practically impossible for him to raise the price.

Developing Effective Bargaining Machinery

Effective machinery for bargaining does not develop all at once. Since bargaining is a dynamic process involving human emotions the pattern that works best evolves slowly. As more experience is gained alterations will be made in procedures to meet the conditions that arise. Marketing conditions are so varied in different sections of the country that plans and procedures which bring results in some sections may prove almost worthless in others.

The machinery for negotiating contracts between cooperatives and processors can be fairly simple. It can consist primarily of formal conferences on a local or regional basis between representatives of both sides. Provisions should be made for arbitration of issues when the two sides cannot agree. This is largely the type of machinery used in negotiating labor-management wage contracts. Such machinery does not, of course, always guarantee prompt and peaceful settlement of all issues involved.

Both processors and associations representatives must be aware of the danger of making unreasonable demands. If price offers made by the processors are unreasonably low, animosities will be built in the minds of producers. Likewise, if the cooperative asks for prices or other contract provisions beyond that justified by market conditions, the negotiations will likely bog down. If the parties are unable to agree on a certain issue, it is desirable to drop that issue for the time being and proceed to the next. If tempers appear to be getting on edge it might be advisable to adjourn the meeting until later. Each side can then assemble and analyze more facts and decide on further procedures. It may happen that negotiations are still deadlocked after a whole series of such meetings. If possibilities for settlement seem too distant, the dispute can be referred to an impartial arbitration committee for review and decision.