

DISCUSSION: PRODUCER BARGAINING:
ITS CURRENT STATUS AND DISTRIBUTION OF BENEFITS

H. M. Harris, Jr.

We should be indebted to Dr. Berry for his cogent observations on some key aspects of the producer bargaining issue. At the same time, however, I would be remiss in my role as discussant if I failed to point out two major shortcomings of his paper. First, the current status of producer bargaining is treated incompletely. Second, and more glaring, is the complete omission of any discussion of the distribution of benefits of agricultural bargaining.

It should be mentioned that both these shortcomings could be remedied simply by changing the title of the paper. For example, if the address was entitled, "Producer Bargaining: Its Present Status in the Dairy Industry," these two criticisms would be largely unwarranted. I must also confess that if the assigned roles of Professor Berry and myself were reversed, he would very likely be levying the same comments about my presentation. For a complete analysis of the assigned topic involves a Herculean task -- but a task with which we must come to grips in the near future.

The first criticism can be disposed of briefly. There can be little quarrel with the selection of the dairy industry as an example of the exercise of producer bargaining power. Milk producers have traveled farther down the road toward countervailing power than have other producing sectors. Dairy men are the only producers widely dispersed nationally who have achieved substantial bargaining success. And most important, researchers have examined the bargaining process and its results in the dairy industry. In fact several well-known agricultural economists have been indirect participants in the process through their advisory roles with the regional cooperatives.

Still, the current status of bargaining developments in other fields deserve some attention. Recent efforts, results, and problems of other commodity groups, the National Farmers Organization (NFO), and the American Agricultural Marketing Association (AAMA) merit more than the cursory treatment Berry gives them.

The second criticism -- that of omission of any reference to the distribution of benefits of bargaining -- warrants more comment. There are three potential sources of gains, or benefits, from producer bargaining [4, p. 5]:

1. Gains may be secured from improved efficiency.
2. Gains may be wrested from the bargaining opponent.
3. Gains may come from a third group, generally the consumer.

Obviously, in the latter two cases, bargaining benefits for producers accrue only at the expense of an offsetting COST to another party.

Taking the dairy example, there seems to be little question that the producer gains cited by Dr. Berry have come from all three sources. Handlers and retailers have been quite successful at passing producer price increases on [2, p. 29]. Berry himself mentions efficiency gains. Effects on handlers have been "profound" to use terminology given in the most detailed study to date of bargaining in the industry, but they have also been "variable" [2, p. 29].

The question of benefits and costs of cooperative marketing and bargaining in the dairy industry demands immediate and detailed study. For example, cooperatives have recently begun to negotiate variable

H. M. Harris, Jr. is assistant professor of agricultural economics and extension specialist at Virginia Polytechnic Institute and State University.

“service charges” with handlers separate and apart from the market-wide negotiated premium. But what constitutes a service? To whom do the benefits of services accrue? At what level should they be set? Should they be administered within the Federal order system?

Moreover, the distribution of bargaining gains WITHIN the producer sector demands attention. To what extent have non-members benefited by cooperative activity? How much do distributional gains vary with size of producer or geographical location? What has been the impact on manufacturing grade producers?

The general public may have been at first mildly supportive, or at worst apathetic about dairy producer bargaining efforts – despite the fact that it is the consumer who often pays for bargaining gains. Extremely low incomes in dairy farming were public knowledge. With recent overall food price increases and rapidly rising incomes from dairying, public support may become unlikely. For example, it is easy to understand why the public might support bargaining by poverty stricken grape pickers, even to the extent of supporting an illegal boycott. Yet the public is indignant when baseball players, including super-stars with salaries in six figures, exercise their right to strike. While the fragmented consumer movement may exert no direct impact, the public’s impact on the institutional framework in which bargaining occurs is enormous.

It is laudatory that an economist writing about bargaining power should refer, as Dr. Berry has done, to the never equaled “how-to-do-it” power manual, *The Prince* by Machiavelli [3]. It seems appropriate that the discussant should turn to a more recent treatise on the same subject to cast a different light on some of the observations in his paper. Adolph Berle’s classic volume, *Power*, lists five Laws of Power [1]. They are:

1. Power invariably fills any vacuum in human organization.
2. Power is invariably personal.
3. Power is invariably based on a system of ideas or philosophy.

4. Power is exercised through, and depends on, institutions.
5. Power is confronted with, and acts in the presence of, a field of responsibilities.

Much of what Dr. Berry has said ties directly to these five Laws of Power. He has categorized the power void that spurred the rise of bargaining organizations, particularly in the dairy industry. He has alluded to the philosophy of self-help and cooperative action in American agriculture that has fostered the thrust for bargaining power. A genuine contribution is his recognition of the fact that power in bargaining is largely PERSONAL. In the dairy industry for example, power rests not in the regional cooperatives and cooperative federations as organizations, but in the hands of a tiny handful of aggressive, intelligent and dedicated producer leaders. The implications of this recognition are manifold.

Berry has commented on the institutional setting as a factor in bargaining success, and its importance cannot be underplayed. There are several questions regarding institutions that will be keys to bargaining success in the 1970’s. Among them are: What type of bargaining legislation is needed? How far is the public willing to go in granting bargaining power? What are the absolute limits of cooperative power under the antitrust statutes? In the dairy industry particularly, what are the legal and equity issues involved in national and cooperative supply management schemes? Does the industry want a system of administered prices or the right to bargain?

The final Law of Power states that in power is vested responsibility. With few exceptions, the power cliques in agriculture have recognized this responsibility, both to producers and to society. But in the future, this issue will become more critical. A final example in the dairy industry serves here. Who will be the beneficiaries of the recently initiated trend of regional dairy cooperatives to integrate forward into large-scale fluid milk producing – consumers, producers, co-op managers, or nobody at all?

REFERENCES

- [1] Berle, Adolf A., *Power*, New York, Harcourt, Brace & World, Inc., 1969.
- [2] Knutson, Ronald D., *Cooperative Bargaining Developments in the Dairy Industry, 1960-70 – With Emphasis on the Central United States*, USDA, FCS Research Report No. 19, 1971.
- [3] Machiavelli, Nicollo, *The Prince*, London, Oxford University Press, 1935.
- [4] Special Department of Agricultural Economics Committee, *Group Bargaining Power for Farmers*, Purdue Univ. Coop. Ext. Service Mimeo EC-214, 1961.