

If stagnant farm profits are due in part to the economic power of agribusiness, collective bargaining may get agriculture a better seat — and a bigger serving — at the table.

COLLECTIVE BARGAINING

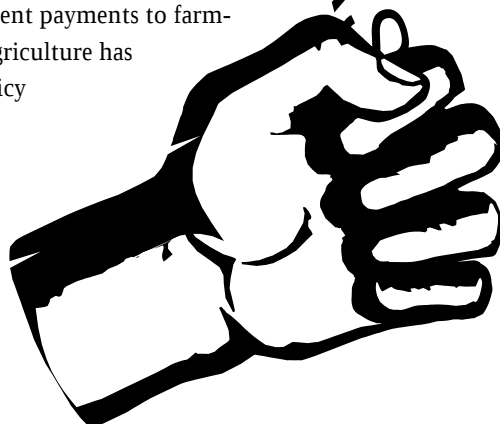
BY FARMERS

The perpetually low income of farmers has kept agricultural economists busy for most of the twentieth century. Policy after policy has been tried, rejected, then tried again in an attempt to solve the farm income problem. Ever since the New Deal, we have had price supports for many farm products. Since the Kennedy years, we have added direct payments to the relatively low price supports. All the while, supply control has been a part of most farm bills. None of this has provided a lasting solution to the problem of low farm income.

Some see the failure of public policy as evidence that we should get the government out of agriculture and embrace free market philosophies. Global competitiveness, level playing fields, farmer freedom, and increased efficiency became battle cries in the 1996 farm bill debate. Within a few years, government payments to farmers were at record high levels. Getting the government out of agriculture has proven to be more expensive than keeping it in agriculture. Policy experts around the country are now busily crafting ways to go back to the future.

Government or free markets, free markets or government? The dismal history of this debate does little to dampen enthusiasm for it. In spite of their polar differences, these two approaches have something important in common: they assume that

Time For a



FRESH LOOK?

BY RICHARD A. LEVINS

farmers will not or can not work together to increase their own well-being. Government programs are based on the view that farmers are unable to act together in their own best interest; the government must act on their behalf. Free marketers see collective action as unnecessary and a general affront to

individual freedom. As a result, the possibility of farmers acting collectively to take charge of their own economic interests has received virtually no attention in almost 70 years of farm policy debates.

Bargaining Power for Farmers, or The More Things Change...

(Editor's note: The following excerpt is from a 1968 paper by Vernon W. Ruttan, then Professor of Agricultural Economics at the University of Minnesota. Dr. Ruttan's paper was based on testimony presented at a hearing before the United States Senate Committee on Agriculture and Forestry April 10, 1968.)

Since the closing of the frontier in the last quarter of the 19th Century, the encounter with an increasingly dominant urban-industrial society has emerged as the major force in American agricultural development. The dramatic impact of this encounter during the last two decades has contributed to a crisis in social organization in both urban and rural areas. This crisis has resulted in intense concern by farmers and farm organizations over agriculture's changing role in the national economy. "Bargaining power for farmers" has turned into one of the leading issues in current agricultural policy discussion.

The milk holding action by the National Farmers Organization (NFO) in March 1967 dramatized, both to the general public and the national political leadership, the seriousness of the efforts some farmers were willing to make in order to achieve greater bargaining power in the marketplace.

In response to this new evidence of rural unrest Secretary of Agriculture Freeman took to the country for a series of "shirt-sleeve" conferences with largely hostile farm audiences across the Midwest. Task force studies and meetings with farm producers and marketing organizations to explore the interest and economic consequences of strengthening the power of farmers to bargain about terms of sale and market prices were conducted by USDA during the fall of 1967. In his January 1968 State of the Union Address and his February 27 Agricultural Message, President Johnson recommended that Congress give serious attention to legislation "to help farmers bargain more effectively for fair prices."

In February 1968 Senator Mondale of Minnesota introduced legislation that would amend the Agricultural Marketing Act of 1937 to (a) extend the collective bargaining procedures available under marketing order arrangements to a larger number of commodities (Title II); (b) establish a National Agricultural Relations Board to supervise bargaining between farmer marketing and purchasing committees (Title I); and (c) provide greater protection to farmers against coercion or discrimination by handlers or processors because of membership in a bargaining association (Title III). The objectives of Title III have essentially been achieved through the recent passage of the Agricultural Fair Practices Act.

The issue of bargaining power for farmers is not new in the history of agricultural policy discussion. Farmers have long used organization as a means of improving their political and economic bargaining power. The National Grange, oldest of U.S. farm organizations (founded 1867), grew rapidly in response to the long period of rural distress in the 1870s. The Farmers Alliance Movement in the 1880s represented a second major attempt by farmers to organize themselves, an effort that led to the formation of the Populist Party in 1891. The Farmers Union, organized in 1902, drew heavily on the old Farmers Alliance-Populist movement for its leadership and support. In contrast to earlier political efforts, however, the Farmers Union placed major emphasis on achieving economic power through cooperative marketing.

The most dramatic effort by farmers to achieve direct marketing power occurred during the 1920s. Farmer cooperative associations achieved protection from antitrust action through the Clayton Antitrust Act (1914) and the Capper-Volstead Act (1922). Under the leadership of Aaron Sapiro of California, national commodity cooperatives for wheat, cotton, tobacco, peanuts, and many other crops were formed. The objective was to obtain control over a sufficient portion of the entire crop to become a dominant factor in the market. Control of producer deliveries were to be achieved by means of long-term contracts with members.

The success of the "monopoly cooperative model" Sapiro movement fell far short of its hopes, primarily because its organizers had underestimated the economic power necessary to withhold supplies of major agricultural commodities from the market in order to achieve price enhancement....

Market Efficiency...Or Economic Power?

The lion's share of most non-farm sectors of the food system, from seed production to food retailing, is held by no more than four or five major corporations. For example, the October 23, 2000, issue of *Business Week* carried an article entitled "Will Agribusiness Plow Under the Family Farmer?" The article noted that the nation's four largest beef packing companies hold 81 percent of the market (up from 36 percent in 1980), and that one of the four was a takeover target. This dramatic change in the structure of our food system is the most compelling reason to take a fresh look at collective bargaining by farmers.

Profits in agribusiness, compared to those in farming, are also high enough to raise concerns. Agricultural economist C. Robert Taylor gave testimony to the Senate Committee on Agriculture, Nutrition, and Forestry in January of 1999, demonstrating that the rate of return on equity for retail food chains and food manufacturers exceeded 17 percent during the 1990s. The corresponding figure for the farm sector was 2.39 percent. According to Taylor, "these comparative returns reflect comparative market power, and not relative economic efficiency."

Economic power can be used to manipulate prices, to influence terms of contracts, and to affect the "rules of the game" set by government agencies at all levels. The end result of economic power is that those who have such power are able to earn profits that are not available to those who do not have it. In our present food system, farmers are the ones without economic power.

While size and monopoly can increase economic power, there is one thing that can certainly reduce it: competition. Of all the economic sectors of our food system, farmers are universally regarded as being the most competitive among themselves. In a world of giants, however, such competition works against farm income. For example, why do farmers rush to adopt technology that will benefit a few in the short run, but hurt everyone in the long run? The answer is competition among farmers. Why do farmers constantly strive to produce at levels that keep product prices relatively low? Again, competition. And why do farmers have such low economic power that they lose profits to landowners and agribusiness giants? Once more, the answer is competition.

Collective Bargaining: Scale in Response to Scale

Collective bargaining, unlike competition, has the potential to increase economic power in the farm sector (by "collective

bargaining," I mean face-to-face negotiation between a powerful farmer collective bargaining unit and some other food industry value chain powerhouse).

One type of bargaining might take place with a buyer of farm products. Farmers may reach an agreement with a certain company to sell grain to that company for no less than a certain price. Or, farmers might agree to sell no grain at all to a company that is investing in ways that will help foreign competitors. Success could bring about higher prices in the long run.

Collective bargaining could also be used with powerful input suppliers, not necessarily to use less of an expensive input — rather, to pay a lower price. Bargaining with seed companies over "technology fees" presents a clear opportunity. Farmers could also bargain to change the behavior of suppliers. For example, as long as a company charges less for seed in another country than in the U.S., a strong farmer group might boycott the products of that company.

Working conditions and benefits questions offer additional opportunities. A bargaining unit could come to an agreement with its members that no farmer would farm more than a certain number of acres. Or, collective bargaining with landlords could result in the landlords' participation in paying for health insurance for farmers and their families. Farmers, as a group, might bargain with suppliers to make safer chemicals or with equipment companies to make safer equipment.

Finally, a strong farmer organization could bargain with the government for laws that would better suit their purposes. For example, a bargaining unit could negotiate for beneficial trade agreements rather than for government payments. Strong, well-enforced corporate farming laws would also be high on the list of legislative priorities. Or, organized farmers could demand that government food purchases for school lunches and other such programs be made only from farms that belong to the bargaining unit.

Are There Too Many Farmers to Organize?

Some say that one immediate obstacle to farmers working together is that there are just too many of them. The United States Department of Agriculture reported that there were slightly fewer than 2.2 million farms in the United States in 1999. This seems like a lot of people to organize into an effective bargaining unit, but a closer look at the data reveals a different picture. A "farm," according to USDA, is "any establishment from which \$1,000 or more of agricultural products were sold or would normally be sold during the year." It is clearly not

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necessary to organize rural residences with minuscule farm sales to achieve effective economic power.

In fact, there are no more than 350,000 family-sized farms that could possibly gross enough to make a decent living. These farmers would form the core of any bargaining unit.

Is this too many to organize effectively? The American Federation of Teachers has one million members. The National Association of Letter Carriers effectively represents the interests of 315,000 postal workers.

Consider, too, that all workers in an industry need not be in the same union: 59,000 airline pilots bargain together while others who depend on airlines for a living have other unions. How big is 59,000 members? For comparison, the American Soybean Association has roughly half as many members.

The number of family-sized farms appears to be within the range that could be organized into a powerful economic force. Organizing 350,000 farmers may be difficult, but the experience of many other industries indicates it is not impossible.

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Uncle Sam or Joe Hill

A second objection to collective bargaining concerns the alternative of still more, and possibly different, government programs. Farmers have so long been dependent on Washington that even relatively conservative commodity groups routinely advance new ideas for farming the government. Could some new government program come to the rescue of farm income?

To be effective, new programs must give farmers economic power commensurate with agribusiness. This would involve what amounts to operating the entire food system as a public utility. With such an approach, profits in all sectors of the food system would be regulated to improve farm income. Even if such a system could overcome operational weaknesses inherent to command-and-control systems, the current trend toward privatization in the utility sector makes this scenario unlikely.

In today's food system, low farm income results from weak economic power. Programs to improve farm income must increase the economic power of farmers. That power could come from collective bargaining, or through broad public utility regulation of the food system. Neither will be easy, but collective bargaining is, by far, more widely understood and (relatively) more politically acceptable.

The Interest Is Out There

In my writing and in speaking with farm groups on issues of market power and collective bargaining, I am constantly surprised by the level of interest shown by farmers. Survey

after survey indicates that farmers think their current economic difficulties are, at least in part, caused by their lack of market power in a food system shaped by mergers and acquisitions. At the same time, most farmers equate "collective bargaining" and "supply control." Such thinking ignores market power on the input side.

What collective bargaining organization among farmers would most effectively reallocate those profits to farmers? How can farmers bargain effectively with multinational corporations in a global economy? Much needs to be done before we can effectively address such questions. Most of us agree that a higher income for farmers is a worthwhile goal and that government programs are having increasing difficulty in reaching that goal.

The changing structure of the food system challenges academics, as well as farmers, to rethink traditional approaches to age-old problems. Our efforts to meet this challenge will be met with great interest among those we serve.

Don't Mourn, Organize

Most economists, and many farmers, doubt whether farmers can work together for their collective economic interests. History is on the side of the doubters. Throughout the twentieth century, most efforts to organize farmers have eventually fallen victim to the farmer's yearning for independence. The 21st Century, however, is different. There are fewer farmers. The farmers we have are better educated and better connected with information technology. And, most importantly, today's farmers live in a world of economic giants. They have seen many neighbors driven out of business, and many others lose independence to contract relationships. They know that the future holds more of the same.

Will the new generation of farmers embrace collective action, or continue to try and make it on their own? Farmers, and only farmers, can answer this question. Choosing collective action will require a new way of thinking, a great deal of organizing effort to gain economic power, and economic analysis to learn how to use that power effectively. Success will mean renewed hope for farmers, a greater feeling of working toward a common purpose, and a larger share of the profits now reserved for more powerful guests at the food system table.

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