proceedings of the
FIFTH ANNUAL
AGRICULTURAL MARKETING
CONFERENCE

Bargaining in
Agriculture

Sponsored by
Department of Agricultural Economics
and Rural Sociology

THE OHIO STATE UNIVERSITY
Columbus, Ohio

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FORWARD

The Fifth Agricultural Marketing Conference, as well as those that preceded it, was designed to look more closely at the problems facing marketing firms. The purpose was to go beyond the day-to-day operating problems and to look at factors that affect decision making by each marketing firm, farmer, and consumer but which are not under the direct control of any of these. The themes of previous conferences illustrate the nature of this educational endeavor.

"Vertical Integration in Agriculture"
"Let's Look at Our Business Strategy"
"Market Power"
"Government and Marketing"

In this year's conference, the theme, "Bargaining in Agriculture," suggests the interest in and the concern of farmers and agricultural business firms as to how an effective balance of bargaining power can be attained and maintained in agriculture. Currently, this is a subject in which radically different opinions are held among farmers, agricultural businessmen, and economists. Until this problem is thought through and acceptable solutions are obtained it will be a source of friction in our economy. The goal of this conference, and of the thought provoking papers in this report, is to promote a better understanding of bargaining in its many aspects and to give perspective to the problem of marketing as a vital part of the economy.

Agricultural Marketing Conference Committee:

John W. Sharp
Thomas T. Stout
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Ohio Agricultural Extension Service

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Welcome

Roy M. Kottman
Dean, College of Agricultural and Home Economics,
The Ohio State University

Director, Ohio Agricultural Experiment Station

On behalf of the College of Agriculture and Home Economics and The Ohio State University, I am pleased to have been given this opportunity of bidding you welcome to the Fifth Annual Agricultural Marketing Conference to be held on our campus.

I sincerely hope that this conference will be helpful to each and every one of you. As has been true in the preceding conferences, this one is designed to look at the total complex of problems facing marketing firms. It is our intent to look at factors which affect decision-making on the part of farmers, marketing firms and consumers. In so doing, we realize, of course, that many of the factors which affect the decisions of individuals and of firms will not be directly under the control of any one of these groups.

If this conference follows the pattern of previous conferences, those of you in attendance are representatives of such groups as the grain and feed dealers, livestock auctions, meatpackers, dairy plant operators, food and vegetable packing houses and many other agricultural business interests. I hope that we have here today, as we have had in the past, many farmers who serve as members of boards of directors or as officers of cooperative enterprises as well as private and corporate business firms. Since "Bargaining in Agriculture" is the theme of this year's conference, I am hopeful that we have in the audience this year more farm operators as well as more members and officers of farmers' organizations than we may have had heretofore. I believe that you will find at the conference this year, as has been true in previous conferences, that the speakers are pretty generally
practicing economists, either on the University scene or from areas of the business world most closely related to problems involved in agricultural marketing.

We sincerely hope that the papers to be presented here today will be of very real interest to you and that they will be thought provoking. Our committee members who have planned this conference have made every effort to secure as program participants highly capable economists whose presentations can be expected to give us a better understanding of "bargaining in agriculture" in terms of present and future potentials and possibilities.

It is my hope that as our speakers discuss agriculture here today that they make clear the fact that agriculture as we know it today is a highly complex segment of our United States' economy. Unless we try to understand the interrelationships which are part and parcel of modern agriculture, we probably won't have a very meaningful discussion. On the other hand, if we do keep in mind that agriculture is much more than farming, but that farming is central to it, then I think we'll get somewhere.

Here in Ohio we have 140,000 farmers who presently gross over a billion dollars a year in sales of farm products, but as you folks know so well, our farmers would be virtually helpless without the supply and service industries which provide them with the inputs of agricultural production. I believe there is no argument about the fact that our farmers today without the off-farm agribusiness suppliers of farm production inputs would have a difficult time producing very much more than a family garden. They just wouldn't have a source of power to do more than they could do with a shovel and a hoe. The folks in our off-farm supply and service agencies are just as important to modern agriculture and just as much a part of it, as is the farmer himself. We must consider that all of us in agriculture are part of a team—a team
that I like to refer to as the "agribusiness team"--and certainly every phase of agriculture is a business.

Here in Ohio our farm production supply and service industry like the business of farming is a tremendously large and important industry. This segment of agriculture employs 250,000 of our Ohio citizens. It has an annual payroll of $1 billion and Ohio's supply and service industry sells over a half billion dollars worth of farm production supplies and services right here in Ohio plus several times that amount outside of Ohio.

A third important segment of modern agriculture is made up of the marketing and processing agencies that take agricultural products from the farm gate and transform them into products which are in demand for human consumption. Here in Ohio we have 3200 establishments--3200 business firms--processing agricultural products. These firms employ 144,000 people and they have a $680 million annual payroll. They add $1.3 billion of value each year to the value of food products which leave the farmers' gate.

Still a fourth segment of modern agriculture is the wholesaling of agricultural products--moving them through the channels of trade on toward the consumer. Here in Ohio this segment of agribusiness employs 41,000 people. The annual payroll amounts to $186 million and there are 3700 such firms engaged in the wholesaling of agricultural products. Their annual sales amount to $4.3 billion dollars.

The fifth segment of modern agriculture in Ohio has to do with retail sales of agricultural products which account for 173,000 employes, a $435 million annual payroll and 34,000 business establishments. Annual retail sales run in excess of $4 billion.

In the aggregate, over 750,000 of Ohio's 3,900,000 employed people are involved in the food industry business or, putting it another way, are
involved in Ohio's agriculture. All segments of this vast agribusiness complex to which I have referred are interdependent. Here in the College of Agriculture and Home Economics, in the Ohio Agricultural Experiment Station and in the Cooperative Extension Service we have the privilege of serving Ohio's multi-billion dollar agricultural industry. It is our job to provide new knowledge through research and to get that knowledge into use through our educational programs, both on campus in the classroom and through our Extension Service throughout the State. Between 5 and 10 percent of the total research effort of the Ohio Agricultural Experiment Station is devoted to the many problems incident to the marketing of Ohio's agricultural products. You will have an opportunity of hearing two of our Station scientists on this afternoon's program on dairy marketing. As you well know, we could have loaded the program with a greater number of our Ohio State staff members, but we believe it is very important to have representation from many sections of the country and that it is likewise desirable to have persons with international experience in and understanding of agricultural marketing problems. I am sure that you are all aware of the fact that marketing problems are not simple, neither are they easily understood or readily amenable to unilateral action by one or more segments of the agribusiness complex. Instead, agricultural marketing problems are interstate, interregional and very much international in their scope and complexity.

I think we have a most challenging and exciting topic for discussion here today. I shall not take more time from the fine program which has been planned. I hope that all of you find this conference to be of real help to you in your thinking with respect to your own areas of endeavor.

It gives me a great deal of pleasure to have been given this opportunity to appear on your program and to bid all of you welcome to your own land-grant institution where I can assure you that you are always welcome.
GOALS AND EXPECTATIONS
OF FARMER BARGAINING ORGANIZATIONS

Claude W. Gifford
Economics Editor, Farm Journal

One of the paradoxes of our economic life is that we come to meetings such as this and collectively dedicate ourselves to free, competitive enterprise—then we each go home and try to somehow shackle the competitive forces which come to bear on us as individuals.

Perhaps it is comparable to our going to church on Sunday to pay homage to a set of principles—and then we drive home, exceeding the speed limit all the way.

It seems that we are all sinners to various degrees—in our religious life and in our economic life.

So, unabashed, we are here now to discuss bargaining power. In essence, we will talk about how to blunt the sharp knife-edge of open, free competition as it applies to farmers. Since some of you are processors, we're here to talk about how we can nail your hides to the barn door.

We all have reasons why we sin—perhaps in the first place we are weak on faith in a set of principles. But one of the overriding justifications that we use for our individual economic and religious sins is to sing that old refrain which goes "everybody's doin' it; doin' it."

Labor unions are organized primarily for one purpose—to ease the harsh consequences of free, open competition in the labor market. Businesses are protected by patents and tariffs, and they use the protective power of size, to circumvent free, open competition. Services have their franchises and their licensing to keep others from competing. So, farmers, seeing what others are doing—and having to play the game increasingly by the
other man's rules--can't be blamed for wanting more bargaining power for
themselves; particularly when farmers' gross income from farming has in-
creased only $2.8 billion in the last 10 years, while farm production
expenditures have increased $5.1 billion.

Not only is a farmer's desire for greater bargaining power justi-
ﬁed by what others are doing, but also by the consequences to him of
what others are doing. Farm per capita personal income is running $1,373
($474, or 34% of this from non-farm sources), with $2,345 for non-farmers
(1961 figures).

Return on farm capital in 1962 was $13 billion net income from farming,
based on a $214 billion investment--roughly a 6% return on farm capital,
without counting a return at all for farmers' time and management.

Farmers see that weekly wages of manufacturing workers have gone up
85% since 1947-49 ($52.06 to $96.56 in 1962) while net income from farming
per farm unit has increased 32% (15.4 billion net for 5.796 million farm
units in 1947-49 to $13 billion net for 3.69 million farm units in 1962).

Farmers observe that the consumer cost of living has increased 30%
since 1947-49, but the index of consumer retail prices for food alone
has increased only 10%. Consequently, the 1947-49 dollar is today worth
77 cents, whereas if retail costs of other products and services had gone
up no more than the retail cost of food, then the 1947-49 dollar would be
worth 85 cents.

And further, when we analyze the retail cost of food, we see that since
1950 the marketing portion of the retail cost of food has gone up 60%,
while the portion represented by the farm cost of food has gone up only
21%. Now let's look at this in constant quantities of food: since
1947-49 the farmers' portion of the typical market basket of food that
the white collar family buys has decreased 12% ($466 to $410), while the
marketing portion of the same amount of food has increased 39% (from $940
to $1,067). Viewed in this light, if since 1947-49 the rest of the economy
had been as productive as agriculture and had held prices in line as has
agriculture, the dollar would now be worth $1.13.
It is true that the marketing portion of the retail cost of food has added more processing, refinements and services to the food—but farmers, too, have added considerably more quality and services at their end. (Average weekly gross earnings of workers in food and kindred products industries have increased from $50.70 in 1947-49 to $91.99 in 1962—an increase of 81%)

And when we look at our nation's economic production from the viewpoint of the respective contributions that the different parts of the economy make to the nation's wealth and welfare, farmers are producing 2.2 times as much per man hour as in 1947-49—while non-agricultural production per man hour has increased only 43%.

This over-all economic view impresses farmers that agriculture has contributed unduly to the stabilization, welfare and uncompensated support of the rest of the economy. Thus if a little economic sinning outside of agriculture has so greatly benefitted other elements in the free, competitive economy, then farmers can be excused for wanting to play by the same set of rules. This kind of a game looks far more interesting and rewarding to farmers than the one that they have been playing.

Thus I hope that we have sufficiently established the economic reason and justification for the increasing drive behind farmers' efforts to organize themselves for greater bargaining power.

There is a definite thrust throughout the nation's agricultural community to upgrade farmers' economic welfare through greater bargaining efforts in the market. It comes at the same time that farmers have become more dissatisfied and wary of other routes to economic betterment.

Farmers observe that government control programs, after 30 years of trying, have failed to bring parity of income to agriculture. And these government control programs have brought with them some undesirable side-effects that farmers don't like. For instance, the cotton and tobacco programs are good examples of how average allotments—the right to produce—grow smaller and smaller. Governmental processes are inclined to regard farmers in a social light rather than with an economic view—thus farmer establishments are "averaged down" through a political imposition of an ever-lower ceiling on individual farm opportunity.
Not only are farmers disenchanted with what has happened through government control programs, but they are becoming more and more wary of what lies ahead down the road of government control. Farmers are coming to view with suspicion direct legislative control of their economic fortunes when the 12 to 1 majority who write the rules politically are interested primarily in low food costs. Farmers are coming to feel that what they want is an enlightened, friendly legislative climate in which to organize themselves and operate through the market—and not direct legislative control over their prices, their income and their management maneuverability.

And with market outlets becoming concentrated into fewer hands, farmers see that they now have a brighter opportunity to negotiate for better, more dependable market terms. As you processors become fewer and fewer and larger and larger, you are where farmers can get at you—and the economic force that they can apply will be more effective.

So from the farmers' viewpoint the economic climate for greater farmer bargaining power has never been more favorable.

Our goal as farmers is to use bargaining power to win greater income rewards from our economic activity. We propose to do it by increasing our power to influence the market price, the quantities sold, and the marketing conditions.

When you can do this you have bargaining power. And the more influence you can bring to bear on market price, the quantities sold, and the marketing conditions, then the more bargaining power you have.

At this stage in our quest for more bargaining power, we are just feeling our way along. We have had some activity in fruit bargaining activities, particularly on the West Coast. It is being tried with livestock. A few states have passed legislation setting up the machinery for state marketing orders. The American Farm Bureau Federation's American Agricultural Marketing Association has helped more than 20 affiliated state Farm Bureau marketing groups get organized.

So far in our bargaining activity we are impressed that there is no clear cut path to success. There are no set rules; there are no volumes of experience to digest; and there are no experts who can tell us the answers.
But we have learned some things. And for any farm group that is interested in organizing to get more bargaining power, we offer this advice: start where others leave off. Study what they have done. Look at their mistakes. Find out what they have learned.

And those who are active in bargaining have learned quite a bit. We have learned that bargaining power comes in various shapes and sizes.

Competition in agriculture exists at various levels: (1) the competition of one farmer against other farmers in the market place; (a) the competition of one farm commodity against other commodities in the market—agriculture does not march forward in lock step; (3) the competition of all of agriculture in relation to non-agriculture in the economy; and (4) the competition between the farmer, the commodity, and the whole of agriculture against buyers in the market.

There will be these various kinds of competition as long as one farmer's products can substitute for those of another farmer; as long as one farm commodity can substitute for another; as long as non-agricultural commodities can substitute for agricultural commodities; and as long as buyers handle farm commodities.

Just as there are these various kinds of competition, so are there several kinds of bargaining power designed to meet this competition.

It follows, then, that under various conditions of competition, you can influence your price, the quantities sold, and marketing conditions in many ways.

We can achieve some bargaining power through quality—by earning greater acceptability for our products and by doing a better job of supplying the market with what it wants. We can get power through greater knowledge of the marketing process itself. There is power in getting to the right buyers at the right time. There is power in promoting your product. There is power in research. There is power in control over the rate at which the product reaches the market. There is power in diverting the product into various uses. There is power in marketing enough as a group to diminish the power that other marketers have over the market. There is
power in assembling large quantities of supply. There is power in providing some services for the processor. There is power in producer education. There is power in developing a reputation for honesty and fair play. There is power in establishing a legislative climate that brings processors to the bargaining conference, and dissuades them from discriminating against you because of your efforts to achieve group strength. And there is power in controlling the supply.

I intentionally put supply control at the end of this sizeable--and still incomplete--list because there is a widespread notion throughout agriculture that the only way to achieve group bargaining market power is to control supply. Likewise, there is a mistaken notion that unless you do control supply you don't have bargaining power. Both notions are wrong, as we have proven so well in our experience with bargaining activities.

---We have learned to bring intelligence, restraint, knowledge and good judgment to the bargaining conference.

We have learned, as Ralph B. Bunje, manager of the California Canning Peach Association, has put it so well, that bargaining power is a business tool and not an economic weapon.

---Cooperative bargaining must work with the laws of economics and within the mechanism of the market--not against them.

---There is no magic by which we can avoid the plain, cold economic facts of the market: A product must be wanted by consumers; it must be competitive in price; it must be dependable in quality; and it must change with the times.

---General Motors got to be what it is, not because it held some monopolistic headlock on the automobile industry, nor because it had some dictatorial control over where and how Americans would spend their money--but because it built cars that had the styling, comfort, performance and service that a great many people want.

---In cooperative bargaining, our greatest weapon is knowledge--concerning oncoming supply, supply in the pipelines, competition and demand.

---In cooperative bargaining, our greatest asset is dependability.
Today's wild charges, outrageous demands, unrealistic ultimatums, and broken promises breed tomorrow's distrust—and harden the other man at the conference table.

---A valuable adjunct to a well-run farm bargaining group is that the members really get to understand the market, its needs, the importance of quality, and the danger of over-pricing that encourages substitutes or loses customers. Members come to appreciate that a product isn't sold until the ultimate consumer buys it and that the middleman needs to make a profit or he won't be selling your product very long.

If the processor doesn't make money, farmers aren't on very solid ground. Lack of profit in the market channel inevitably leads to poor promotion, lack of research into new products and new methods, and poor salesmanship and lack-lustre merchandising.

---Farmer bargaining associations have learned that they can strengthen themselves by becoming "service minded." The aim is to provide enough service so that growers will want to belong and processors will appreciate the functions of the association. The association can service members with group insurance, improved seed stock, bookkeeping, tax help, group supplies, hauling, and similar services. It can offer services that are vital to processors: quality control; field activity; member education; guarantee of supply.

---Bargaining groups can strengthen the market for their product by promotion, partly from producer proceeds and partly from producer contributions. This may not increase total farm income of all of agriculture and it may substitute one farm product for another; but it is sound for those doing it and is in the best interests of those producers who have the initiative to do such promotion.

---We have learned that the best price may not necessarily be the highest price. The best price is one that will move the volume that will bring farmers the greatest income over a period of several years.

Dictating the price at which you sell isn't the sole answer to successful, bargaining power. Anyone who thinks so should let these names reverberate through his mind: Cord, Chandler, Essex, Hupmobile, Franklin, Harmon, Pierce-Arrow, Rickenbacker, Star and Stutz.
---We have learned that group bargaining can achieve market power for the group, yet preserve individual independence and freedom. The right to produce is still determined by the individual farmers' ambition and management--circumscribed only by his responsibility to meet conditions negotiated by the group for quality of the product or other characteristics.

---We have learned that if responsible groups don't develop bargaining power, then irresponsible groups will try--giving a bad name to the more responsible efforts.

We have learned that the labor union method doesn't work

A farmer cannot afford to withhold his products from the market as labor does in a strike. A farmer markets more than his labor--he markets a product backed by a sizeable capital investment. It is not at all unusual for a farmer to have an investment in his farm of more than $100,000--with the return on that capital sometimes limited to marketing his products over a short period of time.

When a farmer withholds his products from the market, and those products spoil while he is doing it, he has thrown away not just his labor, but a sizeable capital cost as well. In the meantime, his costs go on--and not just his living expenses, as with a laborer during a strike. When a farmer is cut off from income his living costs and his business costs both mount. Not many farmers can endure this for very long.

Further, farmers don't have the supplemental aids to carry them through a withholding action, such as labor often has to carry them through a strike. Farmers can't draw unemployment compensation, as labor sometimes does during a labor dispute. Farmers can't take odd jobs to earn spending money during a withholding, as some workers can do during a strike (farmers' farm work goes on the same as always during a withholding). Farm groups never have had the income necessary to build up "war chests" as labor groups have done in preparation for strikes.

When farmers withhold products from the market for a while, and those products come on the market as soon as the "action" is over--this is a very weak bargaining power. The supply merely increases--as when hogs gain weight through a withholding. If the market was weak before because
of over-supply, it is going to be even weaker when the additional supply comes on the market after the withholding action.

Labor unions strike with the likely assurance that if a wage increase is won it will be permanent. Farmers can't be assured that an increase in prices won by bargaining action is as permanent a thing.

When unrealistic labor demands force up prices of the finished product, making it lose out in the competitive market place, with the result that fewer workers are needed, labor has fair mobility to move to greener pastures. This transition is aided by seniority, unemployment compensation, job placement and job training. Farmers who overprice their product, which then loses out in the competitive market, have neither the mobility of resources, nor the transitional aids that are enjoyed by labor.

In short: in agriculture, force is not a substitute for reason.

We have learned that we must be careful that the government doesn't take the initiative out of our hands

Farmers do want the government to perform valuable services in connection with our bargaining activities--particularly with regard to inspection, grading, and enforcing decisions arrived at through a vote of the producers involved. But we must be on the alert that our efforts for group-achieved bargaining power is not side-tracked by the encroachment of legislative power directly into this field.

The danger was amply demonstrated in early 1961. A "self help" marketing order program was pushed by the Administration. There is little evidence that this was the result of either spontaneous or organized demand from the farmers of the nation.

Most commodity groups who foster marketing orders do so with the understanding that the commodity will initiate the action; that the commodity will organize itself; that the commodity will call on the government to act primarily as a referee to protect the public interest and to furnish only those governmental powers asked for--such as impartial inspection, collection services, and court procedure to carry out fines.
In the face of this we saw a major legislative effort that would have directed the Federal government to roam far beyond these boundaries. Under this proposed program, the Federal Secretary of Agriculture—whether Democratic or Republican—would have the authority to appoint commodity representatives (rather than for these to be elected by farmers themselves); the Secretary would have the authority to fire commodity representatives; the Secretary could ignore the advice of commodity boards; the Secretary could initiate action; the Secretary could control the alternatives in a referendum to assure a favorable vote for his program; and he could to a considerable extent even bypass Congress.

These aspects gave this proposal every semblance of a top-down program. The Federal government, instead of becoming the referee, would have become the active planner and instigator.

Shed of all the procedural hocus-pocus, the plan as proposed, while masquerading as a self-help marketing order program, was, in my view, actually another production control program delegating more powers than ever before to the Federal government and the Secretary of Agriculture.

We have learned that there is a limit to what we can achieve through group bargaining.

We have found that the easiest success in group bargaining comes when there are relatively few growers producing a crop limited to a small geographic area, and for which there are few substitutes. The job becomes increasingly difficult as you add more growers, or more area, or more substitutes, or all three.

We have learned that we can exercise seasonal supply control by limiting the grades that can be sold in any one marketing season; we also can destroy some of the crop, or exercise some control over the amount of acreage or quantity contracted for by processors; we can divert some of the supply into secondary uses (such as making juice or canned products out of part of the fresh-market supply); and we can help farmers' marketing plans by better supply forecasts and member education.

But we have also learned that if seasonal supply control—or other
bargaining activities--create an unusually good or stable market, then off-setting conditions arise to diminish our success.

* So many farmers may be encouraged to enter the market with so much supply that the seasonal supply control measures break down.

Some of the West Coast fruit commodities are getting into trouble in just this way.

Don't get the mistaken notion that farmers are going to grow less when you negotiate higher prices--even though you will find some economists and some groups that argue that this will happen. But rather than expect a drop-off in production, you'd better count on an increase any time that you successfully negotiate for higher prices or more stable market conditions.

The reasons for it are simple enough. Farmers are always trying to make more money within the boundaries of the risks that they must assume--and within the limits of their financial resources and their managerial ability. Very few farmers are satisfied with the amount of money they are now making--and they shouldn't be. So when the price goes up, farmers produce more--because they have more capital to invest in production, the risk is smaller, the reward is greater, and the desire is there.

It would be well if we could lay to rest, in the obscure grave that it deserves, the notion that farmers produce more when the price goes down. Here are three good reasons why it isn't true, as any working farmer knows:

1. Farmers do not have unlimited resources to invest in higher production. When the price goes down, farmers just don't have the cash to invest in the greater capital expenditures required (especially nowadays) to increase production. Farmers don't have the money to buy more feeder cattle; or put in an irrigation system; or put on more fertilizer; or buy better seed; or clear or level more land; or put up more buildings; or buy more weed killers or insecticides; or buy more machinery--or whatever other capital expenditures are required. And when prices go down, it makes it harder to borrow the money to do these things.
The guy down at the bank pulls the string, too.

2. When prices go down, farmers aren't as willing to take the risk associated with higher production costs. When the price falls, the farmer who does have money hesitates to put on as much fertilizer; or spend as much for chemicals; or farrow as many sows; or put as much feed into hogs or cattle; or buy that fancy seed or dig that irrigation well. Farmers just pull the belt a little tighter in their farming operations as well as in their personal lives when the price falls.

3. Farmers turn to the alternatives when the price goes down. We see this readily in the hog cycle and cattle cycle, for instance. We see it in potatoes, eggs, broilers and other farm commodities where there is a quick response to price changes. This brings on a shift from one kind of farm production to another.

Farmers have non-farm alternatives, too. Some start working part-time in town (when they do, the first thing that they cut down on is production associated with choring). Some start doing custom work. Some take up full-time work off the farm.

Then, how do we explain increased over-all production during a period of falling prices, such as during a recession? Part of it is an over-all tendency for increased production because of the continual flow of "new technology" into agriculture. Sometimes a series of good growing seasons will mask what is happening. Part of it is that the consolidation of farms puts production into the hands of better farm managers.

But over-all, farmers respond just as the rest of the economy does—which is to produce more when the price goes up and less when the price goes down, either for individual farm commodities or for all agricultural production.

* Another way that offsetting conditions can limit the success of group bargaining is that if you get your price too high, competing farm or industrial products (domestic and foreign) take over a larger and larger part of your market.
Two bargaining groups on the West Coast—the canning peach and canning pear associations—attest to this. When the price of peaches get out of line, processors use more pears in fruit salads; when pears get out of line, they use more peaches. So here are two well-organized farm bargaining groups who are competitive and who are living evidence of the need to use good judgment in price objectives. Yet they both will tell you that their bargaining activities have brought more stability and more desirable market conditions to their industries than ever existed before. And I think they will tell you that they believe that their efforts have brought more income to their producers than they otherwise would have had.

This kind of group bargaining brings to a commodity the kind of good market judgment and the flexibility of program that a government control program cannot achieve. It is easy to visualize that if the problems of the canning peach and canning pear growers were put in the hands of political processes of the Federal government, this could very easily cripple both. Typically, production controls would be imposed; allotments would become more numerous and the acreages smaller; the price would become rigid; less consideration would be given to grade differences; production would become less efficient; these commodities would lose markets to other competitors; and we might end up subsidizing peaches and pears just to get them accepted by the market.

This isn't an idle pipe dream. Look at cotton: The Administration's cotton program has priced cotton out of much of its domestic market; it has erected an umbrella over the production of competing synthetics; it has substantially stimulated foreign production; it has made it necessary to pay an 8%-cent subsidy on every pound of cotton exported, and this still hasn't held on to cotton's foreign markets.

We have learned that government control of supply is no guarantee of successful bargaining activity.

*Still another way that offsetting conditions can limit the success of group bargaining is that higher farm commodity prices tend to become capitalized into higher prices of farm land—and into the mechanization complex that builds on the price level that you achieve. This tends to neutralize the higher price level.
This has been demonstrated dramatically by the price of tobacco land; and by the mechanization on wheat farms. It isn't enough that you can name the price of your product—this doesn't assure success.

We have learned, then, that we can go only so far in escaping the economic forces of the market. There is a built-in limit on what we can achieve by farmer bargaining power—and the same limit applies to what can be done through direct legislative control. (A further restriction on direct legislative control is that there is a limit to the controls that farmers will accept, and there is a limit to the money that Congress will appropriate and which the public will support.)

We soon come, then, to operate in a climate of understanding. Man's lot, we come to realize, is to endure some degree of pain in life. This emerges as physical pain in the form of thirst, hunger, hurt; or the mental pain of anguish, sorrow, frustration or even the learning process itself. There is also the social pain of loneliness, lack of recognition, responsibility, and adjustment. There is even a moral pain of the stricken conscience and the endless pursuit of religious satisfaction. Then, finally, there is the economic pain of want and adjustment.

Man has found no sane way to avoid completely these various pains in life. And it is probably just as well; because it is from pain that man makes progress. A pursuit of the lesser pains paves the road to success.

If we approach group bargaining power with this sobering realization, then we do not over-estimate what we can accomplish, nor do we underestimate the size of the job before us.
The Food Processor Looks at Bargaining

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When Dr. Cravens asked me to participate in this program I agreed
to do so with a degree of feeling that we have a responsibility to
express ourselves on developments that affect our relationships with
those who produce the raw products we process. We are fully aware that
the processor of fruits and vegetables has been one of the first to be
approached by grower organizations for bargaining on terms of crop sale.
The very fact that contract purchasing has been characteristic of our
industry for many years provides a point of departure. The contract has
provided a close individual relationship between the grower and the processor
who takes his product. Perhaps this has also been the basis for a certain
amount of irritation and problems which might occur between any individuals.

Bargaining Associations are attempting to provide a voice for their
members in working out the problems that exist between the processor and the
grower, as well as long range or broader objectives which have been so well
defined by Mr. Gifford. We don't quarrel with that as a proposition as we
believe that the desire for improvement is important.

I was interested in the comments that the number of processors are much
reduced from what they once were. It is true that in our business there has
been a severe mortality in companies and there's been an even greater reduction
in the number of locations. We have terminated operations in numerous loca-
tions, closed down the plants and pulled out for the reason that production
in those areas could not compete with more favorable conditions in other territories. By that I mean the raw produce, its adaptability to the products we are making, the costs of operation, the geographical location in relation to our markets, all factors which made it impossible to compete. We have a washing out of those who could not make the grade in our competitive economy. That doesn't mean that the total production is any less. In fact the production keeps going up, as operations are enlarged to gain efficiency.

When you speculate on some of the things that have already been said, and I have notes in the same general area, one realizes we are dealing in this country in a consumer oriented economy. The consumers buy the product at the market place and call the shots. If they want to buy tomato juice in cans rather than buy the raw tomatoes to make their own juice, they're going to buy tomato juice in cans and pay somebody for processing it and getting it to them on the day they want it.

Growers, on the other hand, are production oriented. The grower wants to sell everything that he can possibly produce, and he would like to see a situation in which he could do this profitably. He is inclined to assume that he is producing a final consumer product, which is open to question. Is it that a basket full of tomatoes or a load of sweet corn or a load of wheat or a truck load of hogs is a final consumer product? There was a time when it was, because the consumer bought in those forms. Today he does not. Therefore the specific question comes up as to whether a farm product is a finished product or whether it is an ingredient from which a manufacturer produces a consumer product. This does much to our philosophy as to where the farm product fits into the picture. If it is an ingredient or a constituent of a finished product then it competes not only with other
products but it also competes with other constituents and ingredients.

When the price of oranges became so high as it did in Florida after the freeze you saw a rash of new juice drinks that were developed to meet the demand for drinks with an orange taste characteristic but at a lower price than orange juice. Consequently you have competing with orange juice today a whole list of drink products which are partially synthetic and partially natural products. There you have a high price bringing in a competing product and actually you are in a sense relegating the farm product to an ingredient status. Now you might say "let's have this thing honest, let's make the people drink straight tomato juice and straight orange juice and freeze our position." If we should force people to eat cherry pie after last year's big crop or make them eat canned peaches because California has too many, and don't let them eat ice cream what are the dairy people going to say about that? Or the soft drink manufacturers?

We have problems as processors. When contracting for acreage we try to predict statistically what our crops are going to be, and how much we can sell to the consumer, and establish contracts for acreage or tonnage of the ingredients that we need. These production increases are so fantastic that our statistics can't keep up, either as a company or industry-wise. In the last ten years we've seen the average yields of crops increase 50, 100, 150, 200 percent. We just can't keep up with it. Consequently we are producing continuing surpluses from the acreage. Before planting time we contracted at prices that would compete with alternate opportunities of the grower and as of today those products are going to market on a price that doesn't bring back the cash. We have exactly the same problem as growers.

We have to accept that probably there have been cases of improper actions on the part of buyers. A bargaining association can perhaps correct
inequities that exist in localized situations. I'm sure that bargaining associations, in improving their knowledge of what the market is and what the market wants, can improve the understanding of the producers. The organization has to be competitive and they have to keep their local outlets competitive. This may be hard to accept in many cases, when a growing area, due to climate, or soil, or inefficient practices, cannot compete with other producing sections. The growers in that area may have to make a bitter choice. They may have to accept less than they would like in order to overcome the inadequacies of their product, so that it can compete with other parts of the country. We've seen a tremendous migration of some specialized crops from one part of the country to another when the growers do not produce efficiently.

It could very well be that in a given area the processor lets his facilities get old and inefficient and as a result he can't compete on his share of the job of getting the farm product to the consumers. It may be that growers can do something about it. They might be able to set up or bring in more efficient methods. We find in some cases growers may deliver their product in a different form or on a different schedule that we can make it possible for them to benefit. Anything that can be done to reduce the costs of marketing from the farm to the consumer, or to increase the recoverable product values, is going to provide more income for everyone concerned. There aren't any more dollars to divide than were generated at the market place. You can only make more dollars by increasing the value of the product or reducing its cost so consumers will buy more. It becomes a question of successfully generating enough dollars to pay for the necessary contribution by growers, processors and distributors. If it were apparent that there is an inequitable distribution of these dollars, there would be something wrong according to American ideas of fair play. I question this as true.
We work awfully hard in our industry to make two or three percent. There's very little money to redistribute. There is money to be gained by more efficiency and successful competition in the market plans. We see tremendous efforts on the part of processors to reduce costs by more mechanization, by more efficient operation, by longer season scheduling of production so they can better utilize their plant facilities.

In our view, this is the way growers, processors and distributors must improve their respective operations to compete better for the consumer dollar and still make a small profit. To abandon these efforts would stop the progress which has made it possible for our country to feed its people better than any others in the world, and do it with the smallest percent of its workers of any country. If growers bargaining associations are guided by the competitive market and not by concepts that seek to insulate their members from change and progress, they will find greater understanding on the part of those with whom they wish to deal.
Mr. Chairman, Fellow Participants, and Ladies and Gentlemen:

I am very pleased to have this opportunity to participate on your program. I say this for two reasons. As you noted in the introduction which was given of me I spent many years in college work. During those university years I had numerous opportunities to work very closely with people such as are meeting here today and found it to be a very enriching and enjoyable experience. Because of this fine experience I always welcome an opportunity to return again to a college campus for a meeting of this kind. I am particularly pleased at this opportunity as it is my first visit to the Ohio State University campus.

My second reason for being pleased for the opportunity to participate stems from the fact that there is a tremendous amount of misunderstanding about the large retailers' attitude toward producer marketing organizations.

Before going into my assigned subject I should like to give you just a brief bit of background about the organization which I represent. The National Association of Food Chains is a trade association representing all of the large food chains in the nation except the Atlantic & Pacific Tea Company and also representing most of the medium and a substantial number of the smaller chains. Our member firms range in size from those operating two stores to those operating more than 2,000 stores. We have about 250 members who do about $12 to $14 billion of business per year and
operate around 14,000 stores. We do not represent, as I have indicated, all of the chains, as there are around 3,500 chain organizations with two or more stores.

The corporate chains in this country do approximately 45 percent of the food business. The voluntary and cooperative organizations which are affiliations of independent retailers do approximately the same amount. The remaining 10 percent of the grocery store business is done by the unorganized independents most of which are very small service type stores.

Contrary to public opinion the larger chain stores in recent years have grown less rapidly than the medium and smaller ones; and the voluntaries and the cooperatives have grown much faster than have the corporate chains. The big change in the structure of food retailing of course has been the switching of the unorganized independent into organized groups. In the last twenty years there has been a shift from around 65 percent of the business being done by unorganized independents to less than 10 percent falling in this category today. Because the independents are now pretty well organized I would not expect a further drastic change in the structure of food markets in the years ahead.

Some folks are concerned about the discount house. We could spend the whole hour talking about this development but let me say that we do not expect discount houses ever to take over more than about 4 to 5 percent of the food business. They now do around 1.5 to 2 percent of the total.

Now back to my specific topic— that of retailer attitude toward producer marketing organizations. One of the first letters which came across my desk after I joined the National Association of Food Chains in June of 1960 was one from a Master of a State Grange which berated food chains for their procurement practices and accused them of conducting a united program to
discourage producers from organizing for the purpose of marketing their products. The letter went on to say that if the food chains could keep the producers unorganized, they could take advantage of them pricewise and thus assure themselves of a continued supply of cheap, low-cost raw products.

About this time the American Farm Bureau Federation formed the American Agricultural Marketing Association, and I also was aware of other producer groups who were in various stages of forming new marketing associations. I felt it extremely important that I be able to take a position and to speak authoritatively about chain store attitude toward such programs. Consequently at our next Board Meeting, which was held in Washington in February 1961, we invited representatives of the American Farm Bureau Federation to meet with us and to explain the goals and purposes of this new producer marketing group. Following the presentation the 32-man Board of Directors, which includes the Presidents and Board Chairmen of most of the large chains, as well as a cross section of the medium and smaller chains discussed this matter intensively. I am most pleased to report that our Board unanimously instructed me that I could indicate that the National Association of Food Chains as an organization could strongly support producer actions of this nature. While the discussion focused around the Farm Bureau marketing program, the decision was not based upon the Farm Bureau's program per se, but rather upon producer programs in general.

Now, while the policy of our organization had never been so specifically spelled out there are, of course, many of our larger chain members who have supported producer groups for many, many years. I am aware specifically of Safeway's effort in the West states to aid fruit and vegetable organizations and dairy organizations to organize for the purpose of doing an effective job of marketing.
Now this is only a small part of the story and you would go away partly mislead if I did not go into more detail about our attitude toward marketing organizations. You will note to this point that I have carefully avoided using the term bargaining. I have done this purposely because of the widely different meanings and connotations which are placed upon this term. The reaction of the retailer toward bargaining of course hinges upon what kind of bargaining you are talking about. If you are thinking in terms of the labor union type bargaining organization, we are not interested. Commodity price bargaining is much more than sitting around the conference table. Such action is merely a simple approach solution to a very complex problem. It is our thinking that any producer organization which attempts to pattern its bargaining program after that of the labor unions is greatly disappointed. While we have some problems with the labor unions, this is not to say that our people are opposed to them. There is, however, a tremendous difference between labor and agricultural products. When labor attempts to achieve its goals through the strike process a backlog of time is not built up as is the situation when a producer organization attempts to secure higher prices through withholding supplies from the market. There is nothing so perishable as time. It cannot be stored. (Except in a technical sense by increasing our ability to perform through the acquisition of knowledge and understanding which later permits a person to produce more effectively and abundantly in the time which he has allotted.) Unless producers can destroy a portion of their production or divert it to secondary markets or secondary uses withholding actions cannot be effective. Also there must be a procedure for dividing the returns from the primary market and the lower-priced secondary market equitable among all producers.
Some of you may call my attention to the fact that there have been "successful" milk strikes. This may be true. However, I would remind you that the whole orientation of fluid milk markets has changed rather drastically in the post-war period and I would very seriously question whether this tool will be effective in the future. By this I mean that the production and marketing of fluid milk is no longer locally oriented because of perishability, transportation costs and health department regulations. Milk now can be and is transported long distances and local producers cannot act out of regard for products which can be moved in from distant areas if prices or cost get out of line locally.

Producer groups also have attempted other single approach solutions to their marketing problems such as advertising and promotion, new product development, packaging, et cetera. Each of these efforts has considerable merit. However, none of these single approach efforts is the answer to the very complex problem of market development programs which give producers market power. In other words I would say there is a very important difference between collective bargaining in agriculture and producer market or bargaining power.

I sometimes like to illustrate a market development program by comparing it to building a house. A contractor cannot come out with a first-class building unless he uses good materials. Secondly, as far as the technical construction processes are concerned the contractor must use a whole tool kit of tools in order to complete the job. Some of the tools are certainly more important at certain stages of construction than are others. Nevertheless the basic tools are all essential and the job cannot be done without using the whole tool kit.
So it is in achieving a strong market development program—which gives producers market power or bargaining power. We have to use the whole set of tools and as in the construction of a house these tools must be adapted to the type of program which we are attempting to build and the kinds of products with which we are working.

In attempting to build market power or bargaining power producers must come to understand that it is not the ability to directly manipulate price which gives lasting bargaining power but rather the ability to influence supply and/or demand which in turn influences the level of prices.

It is the bargaining power which grows out of full scale market development programs which the retailers can endorse and which they fully support.

Various producer leaders and a few Congressmen have asked me, "Why would retailers be interested in supporting such organizations?", or "Why would they not oppose such organizations?"

There are several reasons.

1. Retailers are not concerned greatly about any commodity group obtaining an unusual amount of bargaining power because they consider every individual farm product to have a substitute. Retailers handle six or seven thousand items and if any particular product is priced out of line it suffers sales in the market place. Consequently retailers make the assumption that producers must use wise judgment in the prices they attempt to realize under their marketing program or they will lose out to producers of competing products. There is a very, very narrow differential between a price which allows a fair return and one that stimulates overproduction.
Along these same lines retailers, of course, are aware of the fact that if producers get the price of their products very far out of line the supply response would be such as to eventually nullify much of the bargaining power which producers may have achieved.

In this connection a possible side advantage of stronger producer marketing or bargaining associations is the educational process which results when producers assume a greater responsibility for the marketing of their product. They come to realize more fully the importance of the supply and demand and their effect upon prices received. This is true not only of their own product but of the effect of competing products upon the price of their product. We need to know much more about supply and demand and the cross elasticity of demand for individual products before we can do an intelligent job of price bargaining. It is going to take some highly trained experts and knowledgeable and understanding producers.

2. Contrary to public opinion retailers (within reason) are not interested in the level of price but in the relative price which they pay for a product compared to what their competitors pay. Surely they drive a hard bargain to make sure they buy as cheaply as their competitors. You as producers and distributors of agricultural products do exactly the same thing. Every retailer thinks he is as efficient as the next guy, and as long as he can buy his products at about the same level as his competitors he is not concerned if he has to pay a slightly higher price. Actually
retailers operate on percentage margins. In the short run at least they make a few more pennies on a higher priced market than on a lower priced market.

3. With self-service and mass distribution it is essential to have standard, uniform high quality products. Price stability also is important. Individual producers and small cooperatives do not have the capacity or the ability to assure most chain store organizations of this kind of quality and quantity. Putting it another way, from an operations standpoint large, strong, well-managed producer organizations are needed to make the mass distribution system function effectively.

4. All of agriculture and particularly the leaders in agriculture are under pressure to increase the level of prices and to eliminate the wide gyrations in prices which have been so typical in the past. It is my feeling that agriculture is not willing and in a larger sense will not be as able in the future to cope with these wide gyrations in price. I say this is because of the tremendous change in the cost structure of agriculture which has taken place in recent years. Not too many years ago farmers produced on the farm a substantial portion of the input factors which went into the production of agricultural products. They produced their own fertilizer, seeds and feeds. They produced their own horsepower in the form of horses and the fuel for these horses in the form of hay and oats. They also produced many of the items which were used for consumption. This is no longer true. Today's commercial farmers purchase in the market place perhaps 70 percent of their input factors. Thus
when today's farmer is faced with a poor price situation he can no longer merely tighten his belt and cut down on consumption expenditures. He must meet his commitments to his suppliers or go out of business.

Not only has there been a change in the structure of costs, farmers also have become much more specialized and they cannot shift as readily from one crop to another as they did a few years ago.

Another factor with which we have to reckon is that as the standard of living increases the demand for food becomes more inelastic. Consequently a given change in supply today results in wider price fluctuation than in former years.

In summary, there are several reasons why it has become more and more important that supply with demand be balanced at price levels acceptable to producers.

It is my contention that if producers are not able to achieve a greater degree of bargaining power through their own organizations and thus raise price and reduce price fluctuations they will turn to government production controls in an effort to achieve this objective. Our food chain members do not feel that this would be in the interests of either producers, the food industry in general or the American consumers. We feel very firmly that if agriculture were to be controlled it would not be very long until the other segments of the food industry would also be subjected to control.

We have developed in this nation under the private market system the most efficient production and distribution system in the world and do not
want to see this system go down the drain because of government regulation.

There are those who say that agriculture cannot achieve the objectives of which I have spoken without all producers being in one organization. With this I cannot agree. In fact I think it would be harmful if they were all in one organization as many of the benefits of competition would be lost. Certainly other segments of industry have proven that the varying degrees of marketing power can be achieved without all the products being sold through one firm.

To those who still contend that the job cannot be done without varying amounts of government control and regulation, I would add that government programs designed to achieve the goals of which we have spoken will be better programs, more flexible programs, better adapted to the interests of agriculture and the food industry if they are developed and administered under the guidance of strong, powerful, market oriented, producer organizations.

These are a few ideas relative to retailer attitude toward producer effort to achieve greater bargaining power.

I appreciate the opportunity to present them to you and hope I have left at least one or two thoughts for your serious consideration. Thank you very much.
Fashions come and go in ladies hats. But fashions also occur in agriculture. Some people wonder whether collective bargaining in agriculture is just another fashion. Other observers believe that collective bargaining in agriculture is here to stay and is the real answer to the farm problem.

It is a fact that collective bargaining has been attracting increasing attention throughout the country. One can hardly read a farm paper or journal, listen to the preaching of some self-annointed experts, or scan the speeches and press releases of government officials without hearing about farmer bargaining and bargaining power. A few of those items have a point to make; but, unfortunately, it is often drowned in a lot of nonsense. The trumpets and drumbeat have been blasting out of tune so loud and long that one sharp listener recently said, "Bargaining is the most misunderstood and possibly overrated institution in midwestern agriculture today." Whether or not overrated, collective bargaining in agriculture is widely misunderstood. My assignment is to help you better evaluate its problems, progress, and prospects.

Whatever we call it--farmer bargaining, cooperative bargaining, or collective bargaining—we can say that it is not really something new. In its basic form—and I am not talking about usual cooperative marketing—collective

1/ Professor of Agricultural Economics, Agricultural Economist in the Experiment Station and on the Giannini Foundation.
bargaining in agriculture is more than 40 years old. Shortly after World War I, there was active in California a cooperative bargaining association for canning pears. That group continued in more or less active business until the depression years of the early 1930's, when the association disintegrated. In the early 1930's, there were several such associations in milk and later in eggs. In recent years, most bargaining cooperatives have developed in fruits and vegetables for processing. The oldest currently active cooperative bargaining association in California began operations some 38 years ago, was reorganized in 1936, and since then has operated continually. Another long-established group operates in Utah.

Thus, in fact, bargaining associations have a rather substantial history, although in the early years they were not widespread even in California. The situation is much different now. There are close to 50 farmer bargaining associations in the United States. The increased and spreading grower interest is reflected by the formation, during the past several years, of many new groups. Among the farmer collective bargaining groups currently established, some are actually only organized on paper, others operate sporadically, while a limited number operate continuously and effectively.

One is often asked the question, "Why is it that only in the last several years there has been such an increased interest among farmers in collective bargaining associations?" In answer, one must say there is certainly no single or simple reason. But it is clear that more and more farmers believe, rightly or wrongly, that it is necessary for them to participate in collective bargaining in order to dispose of their crops in what they judge to be a reasonably profitable manner. Some say, "We've tried almost everything else. Maybe this will work. If it doesn't, what have we got to lose?"
Another point is that the position of many farmers is being affected by the trend towards horizontal and vertical integration in our agricultural marketing distribution system. Small independent retailers are being replaced by corporate and voluntary chains; processors are selling more and more to buying offices of chains or similar groups and less to independent wholesalers. Changes have occurred in the market structure faced by processors. They are subject to types of competitive pressures not experienced in earlier years. Growers, in turn, do not wish to have the effects of the changing market structure shifted onto them. One way this can be avoided, they believe, is to organize and participate in collective farmer bargaining. The weakest joint in the supply pipeline is likely to give the most as the pressure builds up.

Some observers wonder whether the much increased interest in cooperative bargaining associations is merely a fad which will pass away in a few years. Others believe that bargaining cooperatives are a salvation and will grow even faster in the coming years than in the past. Both of these views are extreme. The general outlook for farmer bargaining associations during the next half dozen years or so is for persistent but not spectacular growth. In the meantime, some groups will be reasonably successful, others will struggle along, and casualties will occur. Some associations are not being established on a firm foundation and do not have bargaining know-how.

Most of the bargaining groups are cooperative associations. They are voluntary organizations, established under appropriate state statutes, and subject to the state and federal legislation governing agricultural cooperation. These types of cooperative bargaining associations usually have what is called an "open door" for membership, for the simple reason that the association is interested in increasing its membership and obtaining bargaining control over as large a portion of the industry crop as is possible.
The objectives of these farmer bargaining groups vary from one association to another, but most of them have as a major objective that of affecting the terms of trade in the sale of their product. "Terms of trade" is interpreted to mean something broader than price itself, although price is certainly the single most important factor. Thus, one might say that the major objective of a bargaining cooperative is—or should be—to obtain for its membership the highest returns consistent with current and prospective economic conditions and the long-run welfare of the farmer members. This, of course, is an ideal which is difficult to attain many times. It is certainly no simple matter to determine the price which fits in with the association's goals. The farmer members must reach a unified position, and there is the problem of reaching an agreement with the buyers. They—the buyers—also desire a raw product price which they judge to be consistent with their view of economic conditions and their long-run welfare. The problem is that buyers' ideas may not agree with those of the farmers.

A farmer bargaining association that economic-wise unduly exploits its buyer customers inevitably defeats its own long-run welfare. This is so because customers are necessary, and their survival depends on making returns adequate to keep them in business. Yet, growers join the association with the view that they are entitled to an economically justified price. Hence, there is the question of determining a price which is compatible with the needs and long-run welfare of both growers and canners. The problem is that what seems reasonable to the seller need not seem reasonable to the buyer and vice versa. But identifying reasonableness, in terms of operation, cannot be divorced from what is economically and marketing-wise justified. This is a maxim which merits appreciation both from the selling and the buying side. One thing that is clear is that, if a bargaining association is to be successful in the longer run, there must be a realistic pricing policy and procedure.
Likewise, buyers must recognize the farmer's problem.

Further necessary conditions for successful operation of a cooperative bargaining association include the following major ones. The association must represent and control the tonnage of an adequate volume. Here, no single magic tonnage or percentage figure applies. The bargaining association's tonnage must be sufficient that a substantial bloc of buyers require it to have volume to cover their operating and merchandising needs. This is required to put the association in a bargaining position. And, for this reason, farmer members usually are contractually required to turn over the control and price determination of their crop to the association management.

Various farmer bargaining groups operate differently, in terms of contractual arrangements and procedures. Some groups permit their grower members to deal and negotiate directly with processors, the only condition being that an association-approved contract exist between the individual grower and his processor. But such an arrangement is not characteristic of the situation in California, where a more sophisticated and formal procedure is generally followed by bargaining cooperatives. Not to complicate the picture, yet to give you an idea of the procedure generally followed there, we shall consider the practice followed by most of the California cooperative bargaining associations.

The heart of the association's operation is connected with two types of contracts. One contract is between the individual grower member and the association, and the other contract is between the association and its cannery or processor customers. An essential feature of the association contract with its farmer members is that they grant to the association the authority to bargain for price and other terms of trade and to sell the grower's crop for processing. An essential feature of the contract between the association and its cannery customers is that the association is not only recognized as the
While this procedure goes on, it must be remembered, the crop is maturing and harvest time is approaching. Hence, the association contract with the canneries provides that, in the event a price has not become effective by harvest time, the crop is to be picked and orchard or field deliveries made to canneries; and the canners shall pay and the association receive a "reasonable" price. This reasonable price is not specified in dollars and cents in the contract, but is in accordance with a reference to the California Agricultural Code. In effect, the reasonable price would be subject to determination by the court of laws. Such a legal procedure, however, suits neither the grower nor the canner and is considered as a last resort, which has not yet been used. In practice, if the price is not agreed upon through the contract-specified number of association offers, the association accepts the best price it can receive through informal negotiations with the canners.

Bargaining cooperatives sell directly to canners and other processors. The number of packers with which an association does business varies from a few to a large proportion of the cannery firms packing the crop, depending on the association and crop. Generally, not all canners of a particular product purchase supplies from a bargaining association. The cooperative has two types of cannery customers, those with which it has term contracts and those to whom it sells on a seasonal basis. The same price applies to term contract and seasonal cannery customers.

The attitude of processors toward bargaining associations varies, depending on the particular firm and the association. Some processors view farmer bargaining as a device which contributes stability to the raw product market and as a means of providing responsibility to the supply of farm product. Other processors believe that bargaining associations are prone to restrain the free operation of the market price system and unduly enhance the price of
the raw product. To lessen their dependence on bargaining groups for supply and to weaken the price-influencing position of bargaining associations, some processors encourage the growth of raw product supply outside the control of the farmer bargaining group. Such countervailing activities by various processors result in the association having to hustle to maintain and increase membership so as to hold or augment market position.

To support the activities and operations of a bargaining group, finances are required. They are obtained in a variety of ways. Some groups collect from their members dues or an administration fee. A number of the associations are financed along the following general lines. In payment for the tonnage received from a bargaining group member, the processor pays directly to the grower the association price less a specified percentage, with the latter amount being paid to the association. It eventually passes on to the members, on a revolving basis, any excess remaining after the association's approved requirements are met. Further, the association-processor contract may specify that the processors pay the association, in addition to the contract price, a certain amount per ton. This payment is a service charge paid by the processor to the farmer bargaining group for field activities it performs. The service charge is in lieu of expenses which would have been incurred by the processors but which are not necessary because the association performs field activities, thereby requiring less field work on the part of the processor.

Various farmer bargaining groups operate differently, but certain things are generally common. The board of directors hires a manager and provides him with office facilities and a small staff. They develop a marketing plan. The board serves as a communication link between the association and its farmer members. To do these things effectively--some groups do them better than others--the board of directors must be appropriately organized. They should be composed
of a representative cross section of the industry and include dedicated individuals. Experience suggests that separate committees should be set up for major functions such as contract development and pricing. Each of these committees should work hand in hand with the manager and make recommendations to the board as a whole. Meetings of the board and its committees, and between them and the manager, should be frequent enough so that the work gets done in time and after adequate thought and discussion.

The bargaining organization should give the manager a clear-cut set of specifications which apply to his job. There should be no fuzzy lines of authority and responsibility. The principle should be clear that the manager is responsible to the board, which in turn is responsible to the farmer members. Only with such open and unequivocal understanding can the organization have confidence in its manager and can he have the support of the board and membership. Too often, perhaps, have boards of directors sloughed off their own responsibilities onto the manager or have not let him do what his job requires; too often, also, managers have either failed to take on their rightful responsibility or have tried to take on what is not theirs.

But equally important as the relationships between the board of directors and the manager are the human and business relations between the individual members of the board. Unless they pull together, the organization is probably doomed. This does not mean that honest differences of opinion cannot exist. But once a matter is investigated, talked out, and a majority decision is reached, the board as a whole must stand behind that decision, support it, and carry it out. Collective farmer bargaining can be considered as a unique organizational invention, perhaps one of the most significant in the rapidly developing field of modern marketing. But such organizations must be democratically operated by what we call "reasonable men." I trust that you will
forgive my strong emphasis on these simple matters. But I must underline them because I am convinced that they are sometimes forgotten even if they are so obvious.

It should be evident, by now, that to operate a bargaining group effectively calls for much time on the part of the board of directors. Its members must be willing to put in considerable work and time for the benefit of the industry. They must believe in and be dedicated to their assignment. Many board and committee meetings are to be attended, many reports are to be studied, many drag-out discussions are to be had, and many important decisions are to be made. Unless a person is conscientious and willing to put in the necessary time and work, he should not be a director.

The board of directors is the head and heart of the bargaining organization. It also needs, however, arms, fingers, and legs as well as ears and eyes—and particularly nerves. That is where the manager and staff enter. But there are various types of managers which can be hired. One thing is clear; low-priced management can come high in cost—and often does. Operating a farmer bargaining organization is like running a business, and to get high-grade management talent, such organizations have to compete with private business. Management ability is something that commands a price and bargaining groups have to be willing to pay the going market price for topflight managers. That means it may be necessary to pay some managers more than what many of the directors or members earn from their farming operations. But this is a business matter and should be so considered. A bargaining organization that does not hire the best manager it can possibly afford is either stunting its progress or committing suicide. The manager is, in effect, the throttle on the engine of bargaining power.

In the discussion of farmer bargaining, one hears much about bargaining
power. It certainly is a useful notion, but it is also a vague one. What is really meant by bargaining power? In practice, bargaining power means the ability to change or to maintain a price or some other term of trade. Bargaining power is a convenient phrase to sum together all of the various economic and institutional forces which affect the price-making process. Underlying bargaining power are elements such as the objectives of those doing the bargaining, their skills and know-how in negotiation, and the organization and administration of various types of devices to attain objectives. Bargaining power is used, or should be used, to represent the manipulation of market factors to create price or terms of trade more favorable than those prevailing now or which would prevail otherwise. Without bargaining power, a group is not in a position to manipulate the influences affecting price or other terms of trade. The very organization of a bargaining association is for the purpose of creating and then utilizing bargaining power in affecting the price-making process. But the conditions for bargaining power may exist without being used effectively. Involved is the matter of strategy and skill in bargaining.

When we come to examine the performance of bargaining associations, we are faced with a difficult problem. How does one measure the performance of a bargaining organization? In other words, how does one measure and judge whether a bargaining group is successful? What is meant by success? One way of looking at this is to say that by "success," we mean survival. If an association continues in operation year after year, one might say that that in itself is evidence of success. But such a view can well be misleading. In fact, our studies suggest that survival and continuation of operations are not a meaningful measure of success. When the results of the operations are analyzed, there can be evidence that the association acts as if it were a captive of its own customers. As there can be a captive union, there also can be a captive bar-
gaining association. An association may continue to survive without having a measurable effect on price or terms of trade; the results are the same as if there were no association. In the measurement of comparative performance, there are involved quantities, prices, net income, and their behavior over time. No one single measure is sufficient to give complete evidence on the success and results of cooperative bargaining.

Price is, perhaps, the most important index of performance; but by looking at price alone, one gets only an incomplete picture. For the fact may well be that a prime objective of a bargaining association is the creation and taking advantage of what might be called fringe benefits. The measurement of these fringe benefits is extremely difficult. How can one measure, for example, the value of being insured that sufficient lug boxes are available at the right places and the right time? Or, how can one measure in dollars and cents the value of having equitable and uniform contracts? Yet, these types of fringe benefits certainly are important. Hence, in considering the success and the results of farmer collective bargaining, one must take a multidimensional approach, certainly paying attention to price which is the most important single element, but also recognizing the importance of other objectives.

The interactions between bargaining power and strategy are reflected in the outcome of bargaining in affecting the price-making process. Under certain types of market structure, the possibilities for a farmer bargaining association to operate effectively are very small, whereas in other types of market structure the possibilities are attractive. Thus, in considering whether there is an opportunity for farmer bargaining in a particular region for a particular crop, one of the elements to be considered is the type of market structure prevailing in that crop in the region.

It must be recognized that in a particular crop in a given area in a
single season "almost anything can happen"—and usually does. Thus, the generalizations we shall make from our studies reflect tendencies over a period of time. They need not apply to every crop in every region and year. Also, attention must be given to the market demand situation in the crop being considered. If it happens that the market demand is expanding faster than product supply, we have a situation much different from one where the market demand is stagnant or even declining. The relative rates of expansion in supply and demand certainly affect price and other terms of trade. The effects on price that stem or flow from farmer bargaining are superimposed upon and intermixed with effects of other economic influences operating in the market. Hence, a problem is to isolate out what are the effects of the bargaining itself and determine what are those effects separate from those of other influences operating in the market.

The measurement of collective bargaining on farmer price is essentially an economic-statistical problem of untangling the very many economic forces which interact to form a market price. These forces may be of local, national, or even international origin; they may be economic, legal, sociological, or psychological. The objective is to disentangle from all of these various influences the measurable economic effects of bargaining. That is an extremely difficult task. Hence, my advice is that you should look with suspicion on anybody who says he knows fully and accurately the results of farmer collective bargaining. My own view is not a dogmatic one. What I do say is that out of our experience and studies we believe we have developed some reasonable and suggestive hints and indications.

One of these is that the market structure and the nature of competition between buyers and sellers has an effect on what collective bargaining can do for its farmer members. Of particular importance is the type of competition
among processor-buyers for the raw product. Further, we can say that the economic results of bargaining are closely related to the degree of independence in the raw product buying practices of processors. The results differ if the buyer-processors, either consciously or unconsciously, act in some sort of collusive way. This is not meant to imply that open collusion is practiced, but it is clear that the effects of farmer bargaining depend upon whether or not there is independence in the procurement practices of buyers.

If there is independence in the procurement practices among first buyers of farm products, and to the extent that the buyers' behavior is more and more competitive, the potential gains to farmers from bargaining diminish. Hence, if there is perfect competition among buyers, and this is only an ideal limit which is never attained, there would not exist any possibility of farmers gaining an economic advantage through collective bargaining. But, when and where strong competition does not exist among raw product buyers, there is an opportunity for gain to farmers through collective bargaining. The lesser is the competition among processors for a given crop in a given region, the greater is the potential price enhancement available through farmer bargaining; and, conversely, the more vigorous is competition among buyers, the less potential is there for long-run price enhancement. But potential does not necessarily mean success. There is a difference between a potential for and the achievement of success. Whether the potential is achieved depends upon the skill and strategy in the bargaining.

A major reason why the greater the competition among buyers, the less is the potential for price enhancement through bargaining is the fact that through bargaining itself there is no real and effective control over raw product output. Farmer bargaining associations generally are not really in a position to practice product dumping or disposal. In those cases where a volume-control
marketing order is in operation and it is handled effectively, there is a greater potential for success on the part of the bargaining association. In a particular case where there is monopolistic competition among raw product buyers and there is also a volume control mechanism through a marketing order or some other means, then these can be substantial potentiality for price enhancement through collective bargaining. Whether the potential is achieved, however, depends on the strategy and skill in bargaining.

Skill and strategy in farmer bargaining, at this stage of our knowledge, are certainly more art than science. Bargaining is not a game or sport; it is serious business. It is not anything that one can learn necessarily by reading books or taking lessons. But, there may well be points, practices, and a certain know-how which can be dredged from the experience of those who have proven to be successful negotiators and bargainers; and those practices and experiences, perhaps, can be communicated to others. As a result of our studies, it becomes clear that in some instances bargaining associations do have the potential in terms of market structure and the opportunity for affecting in a favorable way their growers' returns; but those potentials are not in fact achieved because the bargainers for the association do not have adequate bargaining know-how and strategy.

Another point I wish to touch upon concerns the quantitative effect of farmer bargaining on price. One of the questions most often asked is, "How much effect can farmer bargaining have on price?" In studying this question by economic-statistical means, unfortunately, we do not come up with a very attractive simple answer. The results are too diverse, assuming we are successful in our analysis. But I can make the following generalization with a reasonable degree of confidence. For those associations which have been active during the past decade, it is clear that most of them do not have a
real lasting effect on price. It may be that in particular seasons more favorable prices are received by the associations than would have been received without bargaining. But that does not happen for every association each season; and, in a good many cases, for some associations it hardly ever happens. We can also say with reasonable confidence that it is very rare that a lasting price enhancement of as much as 10 percent emerges. A reasonable estimate would be that a successful bargaining association might increase its grower price, on the average, from about 2 to 10 percent, and these are figures which apply to successful bargaining associations. The unsuccessful ones have no price impact and there is evidence that in some cases the prices received by farmers might even have been a bit higher if the association had not been in operation. Involved are ill-advised timing, poor skill, weak strategy, and the lack of bargaining know-how.

In some circumstances, collective bargaining cannot be helpful to farms; in other circumstances, it can be helpful but is not exploited effectively; and under certain conditions there are gains to farmers from bargaining associations—if they have the skill and the know-how in cooperative bargaining, if the market structure is favorable, and if supply response is not too sensitive so that supply is expanded much more rapidly than demand. The results of successful bargaining associations are seldom as large as some exponents say. Yet collective farmer bargaining can in some, if not in all, situations be reasonably helpful to farmer members.

Having touched upon some prospects of farmer bargaining associations, I should now like to comment further. Without going into a detailed explanation, it is clear that some of the problems and limitations faced by bargaining associations are the very ones applying to agricultural cooperation in general. This involves the getting of membership interest and the maintaining of member-
ship, which for a long time has been a real problem.

Another problem is that bargaining associations must operate within existing legal and institutional boundaries. It should be emphasized that bargaining associations are not completely free from antitrust legislation. There are certain legal and institutional boundaries which must be respected and within which bargaining associations must operate. Further, there is the point—which is sometimes forgotten—that the bargaining association must accept and do the best it can with the basic supply and demand situation in its particular product and region. Only a few of the farmer bargaining associations, and these are special cases, are in a position to influence the basic supply situation as can be done through participation in a marketing order. But, even here, effect on supply is short run in nature. From the longer run view, however, the supply situation cannot be dominated by the working of the marketing order. Hence, the basic supply and demand situations and their economic constraints apply to farmer bargaining associations as they do to other forms of business. The association can only exploit, within legal boundaries, the existence of particular supply and demand situations. This must be done through the technique, skill, and art of negotiation—if the circumstances for successful bargaining exist.

Another limitation that must be recognized in farmer collective bargaining concerns the particular type of crop being considered. When it is one of single use, as only in canning, the bargaining is more manageable than in the case where the crop has multiple uses such as fresh, canned, dried, and frozen. Where the varieties, maturing dates, harvest periods, sizes, grades, and so forth become more numerous, the bargaining problem itself becomes more complicated. The more simple these types of things are, the less are the limitations; the more complicated, the greater are the limitations.
Another problem is the difficulty in the acquisition and maintenance of bargaining power. The power may be potential; but, to be effective, it must be acquired and used appropriately. Here, we have the notions of short-run and long-run bargaining power. Even if an association has short-run power, it need not be able to maintain such power over a period of time. This may be due to the fact that supply might be outracing demand so that whatever marketing or bargaining power did once exist is eroded away by the basic supply-demand situation.

In talking about problems and limitations, it is quite common to compare bargaining associations with unions. There are some similarities, but the dissimilarities and the differences are very important. One major difference is that unions not only have the power to strike but have legislative sanction under prescribed conditions. What are the corresponding tools available to the farmer bargaining association? Unfortunately or fortunately, depending upon how you look at it, the bargaining association really does not have as effective a strike tool as does a union. In other words, cooperative bargaining associations do not have coercive devices that they can in fact and practically employ. It is only in terms of theory that a bargaining association, even if it represents a substantial proportion of the crop, would take the step of withholding its supplies over a substantial period of time to the point where the crop would be destroyed and the growers would receive no return. If such were to happen, it is likely that grower membership would not have enough "stick-to-itiveness" and the association would be weakened or even not continue in existence. In fact, some bargaining groups have clauses in their sales contract which provide for delivery of the mature crop and its processing even if the price has not yet been established. Rather than having coercive devices, as the striking power of a union, a bargaining association must depend upon
negotiation and persuasive devices. But they are effective only if there is skill in bargaining and know-how in negotiation.

From the standpoint of economics, perhaps the most serious problem facing farmer bargaining associations is that they have no control over volume available for market. Here, I am excepting those several associations which, although they do not by themselves have volume control, do have a voice in such matters through participation in certain types of marketing order programs. But, in general, unless the association has a control over volume, it is faced with a limitation in its bargaining.

Another problem faced by bargaining associations is that they cannot always counteract the various strategies which processors may use in attempts to weaken the association. Although one might build a case that an effectively and judiciously operated farmer bargaining group could be to the advantage of processors in various areas, processor-buyers usually are not happy over the existence of farmer bargaining associations. Moreover, the processors may use various strategies to undermine the existence and the effectiveness of the association. The strategies available to the farmer bargaining organization to counteract the processors are, in general, rather weak. In this respect I am sure you should all pay attention to the recent California state law concerning discrimination by buyers toward bargaining cooperatives or their farmer members. This legislation has not been tested in the courts but has certain features that may be attractive to farmer bargaining groups in other states. It may well be worthwhile to consider how comparable legislation with similar objectives might be enacted in other states where bargaining associations are in operation. Perhaps, with legal advice, consideration may be given to whether this type of legislation might be advisable for enactment at the national level.
In considering the economic possibilities of the farmer bargaining associations, one must clarify their real objectives. One may well say as a simplification, of course, that these objectives are the improvement of price and other terms of trade. The other terms of trade include many things such as a reduction of buyer discrimination among growers. This can be approached through the adoption of uniform contracts. Another objective may be increased stability in price over time, where stability is not to be confused with the level of price; or objectives may include improved grading and delivery conditions. An objective may be the furnishing of information to growers for improved practices so there will be cost reduction in the growing of the crop and increased efficiency in grower-processor markets. These are fringe benefits not to be neglected as worthwhile objectives supplementing that of price enhancement. Our studies suggest that these types of fringe benefit objectives are an important area for the economic potentials and possibilities of cooperative bargaining associations. In fact, there is evidence that some associations have not been very successful in the enhancement of price itself but have made significant contributions to grower welfare through the fringe benefit approach. The increase of uniformity in contractual arrangement with buyers, through improved and uniform contracts, is in the area where substantial progress has been achieved and further progress can be made by other associations. The dollars-and-cents value of this type of a possibility certainly cannot be measured but can be judged as being extremely worthwhile to growers.

Another area in which cooperative bargaining associations can increase their usefulness and exploit economic possibilities is through an improvement in their role as an agency for the study and analysis of economic facts that should be known by the membership, board of directors, and management of the bargaining association. Each crop in each area has particular types of data
and information it should have and the cooperative bargaining association is a logical vehicle for the gathering, sifting, and disseminating of relevant information. Furthermore, the association officers and management can serve as an effective mouthpiece or spokesman for the growers of the crop in general, as well as for the membership. This role is important not only in terms of public relations but even more so in terms of legislative impact.

Yet, there is another area of economic possibilities which provides room for work by farmer bargaining associations. Where there is a potential for price enhancement and through skillful bargaining the potential is exploited, at the same time the association can act as a catalyst in encouraging procurement, processing, and marketing efficiencies to lower the costs incurred by processors. Such cost reductions on the part of processors may, in part, pass on to the consumer and have an effect on consumption of the final product, which is certainly of interest to growers. Marketing effects can also be obtained through bargaining associations working with processor groups toward market development and expansion. You certainly are familiar with examples of such activities. Successful farmer bargaining can induce processors to be "on their toes," not only in procurement but also in processing and marketing. This alertness and progressiveness can lead to improved efficiencies, with the gains available for distribution among growers, processors, distributors, and consumers.

An important possibility of effective farmer bargaining is that it can restructure competitive relationships among processors. Here is involved the question of market shares and tonnage shares. Processors generally are jealous of their market position, and this is an attitude which often can be exploited by adroit farmer bargaining associations. But this can happen only where a chronic surplus situation does not prevail. If the crop is not too large, so
that all processors are uncertain about getting as much supply as they want, the competition for the crop among processors in order to maintain their market position is something which can react to the benefit of the bargaining association.

Continuing with economic possibilities of cooperative bargaining, I think more attention should be given to the problem of bargaining by the same association for two or more products compared with a single one. It is true that there are some associations which, on paper, deal with more than one product. But, in terms of the actual negotiation itself, the bargaining usually goes on product by product. A case may be built that, if bargaining is done in terms of groups of products, there may well be benefits for both processors and farmers. This is particularly so where the products involved are complementary in processing and competitive in consumption. Here is an area which needs further study but one which bargaining associations should be discussing.

Another prospect concerns the type of price offer made by the bargaining group to its processor customers. The usual offer is a single price which, if not accepted, is replaced by another single price, the type and method of replacement depending upon the particular association. There has been some experience with bargaining in terms of a price schedule where the price is related to the size of the crop to be sold. This approach has much merit and promise and may well deserve consideration by more bargaining associations. There are certain economic implications, however, that should be recognized. The approach makes sense only if the price-volume schedule can be established so as to reflect sound economic relationships. This requires economic-marketing knowledge of the raw product demand facing growers of the product.

There certainly are favorable economic prospects for bargaining associations—but only if certain conditions prevail or can be brought about. It is
not correct that there is no opportunity for collective bargaining to benefit growers. But it is also not correct that collective bargaining must result in gains to growers. In some cases, such associations have a valid role to play and a job to do; while, in other cases, farmer group bargaining by itself will lead only to frustration and disappointment. The problem must be considered case by case, which means crop by crop in each particular region. I, myself, have little patience with the notion that collective farmer bargaining is a cure-all or panacea for farmers. Such preaching—of which we are having too much—is misleading. Nor is it sensible to repeat the oft-stated argument that bargaining groups cannot really be effective in the long run since their short-run success leads to their long-run failure; that is, their short-run success in pricing leads to expanded production which in turn drives prices down again. To the extent that such reasoning is valid, it applies to all types of business—not only farmer bargaining. It is true that in the long run we are all dead, but that does not imply that in the meantime we should not try to do the best we can for ourselves within the economic, legal, and institutional boundaries within which we have to operate.

These boundaries are not rigidly fixed over time. Although they may prevail in a given season or in the short run, over a period of time or in the longer run, some of the boundaries may be altered. Efforts can be made to influence both the supply and demand situations, and there are indications of some success in certain cases in that direction. That such changes may be extremely difficult to accomplish does not mean that they should not be considered or attempted if the prospects for success are reasonable, even if they are not certain. In fact, to work along such lines, it may be necessary to alter the legal and institutional boundaries. This also is not easy, but it has been done before and can be done again. In brief, among the possibilities of farmer
collective bargaining should be included changing over time the boundary con-
ditions under which the bargaining takes place.

In the farm press and other places in the last couple of years, there have
been various comments about farmer bargaining associations and the role they
may play from the viewpoint of national farm policy. In the talks and speeches
by those in important positions, the following phrases appear frequently:
bargaining power, bargaining strength, market power, market strength, market
muscle. Some people have suggested that the real answer for agriculture in
this country is tremendous expansion in farmer bargaining through which, it is
argued, farmers can improve their price and income situation. Our own studies
do to date indicate that such comments are far wide of the mark and might well be
misleading.

As indicated earlier, it is only in certain circumstances and under special
types of market situations that farmer bargaining does have the potential to
improve the price and income position for farmers. These situations do not
prevail in all farm crops. There is nothing in the collective bargaining
mechanism by itself, and particularly in those cases where legislatively per-
missive volume control is not available, which suggests that farmer bargaining
is the answer to the general farm problem. For the real farm problem, the
basic supply-demand situation is the underlying dominating force. The basic
supply-demand situation is not something that can be handled or made to dis-
appear through the institution of bargaining associations. Where, because of
technology and other forces, the race between supply and demand continues but
supply increases at a greater pace than demand and chronic surpluses are gen-
erated, the answer to the farm problem is not farmer bargaining—at least the
type with which we are familiar and presently envisage. For that reason, one
may well wonder as to the outcome of certain developments that are now going on.

You are all familiar with the encouragement of farmer bargaining associations through certain general farm organizations. This is a constructive and conservative, although perhaps somewhat belated, movement. It is certainly a welcome and worthwhile one which has the potential for good work in certain places. Yet the question may be raised whether sufficient discrimination is being applied as to whether bargaining associations are the answers for particular types of problems. As I have noted earlier, the existence of an unsatisfactorily low price to farmers, by itself, is not sufficient reason for believing that farmer collective bargaining associations are the answer. In a good many such cases, a bargaining association cannot do anything worthwhile, and can do much that is not worthwhile in the sense that it can disappoint those who put too much faith in it.

There is another movement developing in the area of farmer bargaining. This is through the National Farmers Organization, with which some of you are familiar, and which is active in the Middle West in some of its major crops. The approach of the National Farmers Organization is to draw upon and use what might be called coercive as well as persuasive devices. It is less conservative and more militant than other groups active in farmer bargaining. In fact, the NFO talks in terms of "all-out holding action." If not a strike, at least a temporary stoppage is meant to hold products off the market in order to force an upward price adjustment. I am not saying that such an approach cannot be undertaken. What I am saying is that, in my judgment, such an approach is not really an effective lasting solution to the type of problem faced by, for example, corn and hogs. At best, it can be only a very temporary alleviation that might benefit a certain group of farmers in the short run, while hurting
distributors and particularly consumers, and, in the longer run, redound to
the distress of many farmers themselves.

Yet, we should not be surprised that at some time in the not too distant
future, under the name of farmer bargaining, these types of coercive devices
which are equivalent to the strike will be encouraged and might even be used
more widely. There might well even be some temporary successes. But my judg-
ment is that—given our present legislation, institutions, and political and
economic structure—these cannot be more than very temporary successes. Hold-
ing hogs off the market, done sufficiently strongly and over a wide enough area,
certainly can affect their price. But what happens when the question is
raised, "Are those hogs going to be slaughtered by the farmers?" Or, what
happens when the hogs are later released on the market? These are the types
of questions which have to be carefully considered.

In comparing collective bargaining by farmers and by workers in industry,
it is important to remember there is much difference between a crop which is
already produced and a worker's labor. The crop, unless extremely perishable,
hangs over the market; the withheld hogs can even gain weight. But labor can-
not be held or stored; a week of labor not worked is a week of labor lost for-
ever, and no labor inventory piles up. This is important in comparing the
economic effects of labor and farmer strikes.

I am not evaluating the organization and operations of the National Farm
Organization; that is a separate question. The point I want to make is that
if the NFO type of operation were to spread and go forward with coercive and
militant strike programs, there would be repercussions on the more usual types
of bargaining associations. I say this because in the minds of legislatures
and of the public there is not a sufficiently sharp, clearly defined, and
articulate distinction between the usual types of bargaining associations and
the "all-out holding action" and other operations envisaged under the NFO opera-
tion. Yet, there are important and essential differences.

However, even if one questions the NFO approach, that is not reason for
using it as a whipping post. Destructive criticism is not enough. Those who
criticize are obligated to come forward with constructive ideas and suggestions.
The NFO group is at least trying to do something other than just sitting back
and taking potshots at the other fellow's attempts. Those who disagree with
the NFO should try to do a better job. Maybe the NFO group will have to learn
through experience as did the Sapiro plan adherents in the 1920's. But, in the
meantime, other groups should go forward doing the job more soundly and effec-
tively as they see it.

This matter of collective bargaining, and its form, is not only a problem
in agriculture but also in industry. A recent article by James Reston in the
New York Times (Western Edition, March 11, 1963) reports that "the newspaper
strike in New York is coming to an end but the lookout on the labor-management
front in the country as a whole remains grim." The Secretary of Labor is re-
ported as observing "that the preservation of all collective bargaining in the
United States depended on two necessary developments: a substantial decrease
in unemployment and acceptance of what he called new instruments of construc-
tive or creative bargaining that would avoid crippling strikes. . . . his view
is that labor-management disputes, like international disputes, are now too
serious to be settled by the use of power alone."

Change a few words in the Secretary of Labor's comments—as farm surplus
instead of unemployment—and what he says applies in large part to agriculture.
If the labor-management crises are to continue and grow, the current whisper-
ings about the need for new national legislation will become louder and develop into programs for consideration by the executive and legislative branches of the government. Such programs for new legislation could include farmer group bargaining, and, if the wind were to blow in that direction, the segments of American agriculture concerned with collective farmer bargaining should be prepared to participate in the formulation of the legislation. This is something which has received hardly any attention by farm groups, but legislation is too important to be left to the legislators alone. Farmers and their customers must lend a hand in shaping the legislation if there is to be national legislation affecting farmer collective bargaining.

As to "new instruments of constructive or creative bargaining," I should like to mention an attorney for a farm bargaining association who seriously took to heart some questions I once raised about price determination in bargaining. He predicted that price bargaining would eventually be compulsory with government acting as an arbitrator, and he suggested the possibility of both sides feeding figures into a giant electronic computer with the eventual price being decided by the machine. That, to some, may be attractive; to many, it appears fantastic; and, to others, it is impractical. Now, we do not know enough to be able to feed adequate and reliable information into the machine so that it would churn out answers satisfactory to all participants in the bargaining. We can say, however, that if that day were to come, and with it compulsory government arbitration, farmers would have new problems much different in nature and certainly at least as troublesome as today's problems in collective bargaining.

In closing, may I have your understanding for only very briefly sketching some notions about the economic possibilities and limitations of farmer bargaining associations. The statements I have made have been generalizations
which need not hold in all cases; each of you must examine your own case. I have tried to bring to your attention that collective bargaining in agriculture does have potentials but also limitations. The limitations are serious, but some, although not all, can be overcome. For some crops in some areas, the possibilities exist even if they are not nearly as large as various commentators exaggerate in public pronouncements. Whether there are possibilities or not, depends upon the existence of certain economic and institutional conditions which I have touched upon in terms of market structure and supply-demand relationships. Where the possibilities exist, for them to be achieved the bargainers must have the skill and know-how to bargain. In conclusion, it can be said that the potential gains from farmer bargaining are certainly less widespread and smaller in amount than some enthusiasts publicize. But it can also be said that where there are potential gains, they are worthwhile striving for by farmers.
THE FUTURE OF BARGAINING IN THE FRUIT AND VEGETABLE INDUSTRY

Moderator: Edwin J. Royer
Panel: A. C. Moll
Kent Christensen
George Downes
Sidney Hoos

A. C. Moll, Assistant Production Manager, Stokely-Van Camp

There are three topics which are somewhat related to each other which I should like to discuss. One of them is "Will Processors Integrate and Produce More of Their Supplies?", (2) "Will Free Entry Into Production and Exit From Production by Producers or Prospective Producers be Maintained?" and (3) "Will the 'Unorganized' Grower Have a Place in the Market?" I think that generally speaking processors do not particularly want to be in the farming business. There are a few who do and we know of such companies who do specifically raise a lot of their own products. But I don't believe the processors want to be in the farming business whether in livestock, fruit, grain, or anything else to the extent that they would produce all their supplies. They might find it necessary for reasons of scheduling a flow of produce into their packing operation to have a bunch of feeder cattle out in Minnesota someplace that they could pull in on Monday morning to run the plant because no livestock markets were open on Sunday. There would be similar scheduling problems that we all have to live with.

The consumer is still king in this situation. What she's willing to pay for the finished products determines whether it sells. The investment of the processor and his facilities are very, very substantial and also his investment in his distributive position. Therefore, he's going to do some things that he might not
otherwise do if it becomes necessary in order to stay in business. We can see a situation in which, because of either governmental or non-governmental participation, raw produce prices might get so high that it becomes profitable for a processor to go into the farming business.

Generally speaking, and I think the industry would support me, processors would probably break even or lose money farming on a basis that would allow a qualified farmer to make a profit. So, it takes an increase in pricing and a shortage in availability to force a processor into the growing business. We have an example of this kind of thing right across Lake Erie. Some of you may be familiar with the Canadian situation where under a provincial marketing board grower prices are set up at a level which is very, very high. There's quite a substantial trend on the part of processors to get into the growing of produce because that's the only way they can get the supplies they need at a cost that they can go to the market place with the finished product and break even or make a small profit.

I'd say the answer to whether processors will integrate and produce more of their supplies essentially lies in the efficiency of the realism which pertains to the establishment of a relationship between grower and processor on price, quality, schedule of deliveries and all the other things that permit both of them to stay in business as separate and complementary operations needing each other. From this you have part of the answer already as to whether free entry into production and exit therefrom, by producers will follow or whether or not an unorganized grower will have a place in the market. Basically the question of whether or not producers can go into the business of raising a crop or livestock of any kind is an essential part of our free enterprise system. If you no longer have freedom of entry then you no longer have any freedom of decision and you have a monopoly situation which would then become a matter of national policy in regard to business in this country.
You have the quota system on crops like cotton and tobacco and you know how that works. You have to have a quota in order to raise the crop in any amount and the quotas that they do get for those that have them keep declining to the point where we have legislatively enforced mediocrity in the whole industry. Probably there is no industry in the country that shows less progress technologically than tobacco growing does because of the nature of the agriculture in which it's set. Cotton is in about the same situation.

I think that we should maintain a position that with or without bargaining the finished product must go to the consumer on a competitive basis. If that does not occur then somebody, by some method will attempt to get it there till everybody goes broke trying.

Kent Christensen, Economist and Agricultural Advisor, National Association of Food Chains

First, this morning I intended to say that for every product there's at least a certain amount of substitution which takes place and that if you get the price of a specific product too high you do get some shifting. Some products are more substitutable than others. You notice if you're in the retail business that the supply of agricultural products goes up and down due to weather, etc., and you don't get the same amount produced every year and consequently consumers do shift. And I say again that if a group gets its product out of line due to the bargaining process that there is a reaction by consumers, and some people said now you'd line one product up against another in your negotiations with producers. I think the consumer lines these up and they are the ones that shift.

Now, another comment that was made is that retailers are opposed to withholding actions and fixing a price. You as consumers fix the price. Certainly retailers put a price marking on the products which they sell but they do not do this without
regard to what their competitors are doing - what competitive products are selling for. In other words, I would say the same thing would apply to retailers as it does to groups who want to withhold and set a price. The guy that can do this intelligently has to take into consideration the many complex factors which have to be considered in setting this price.

Along these same lines, and I know I was pretty loose in what I said this morning, relative to withholding, Dr. Hoos pointed this out in part in his talk that it depends on when and where you do this withholding. As with the cling peach group, if the withholding is done in the "green-drop" stage, this is a much more effective place to do the withholding than after the crop is produced. Then it's about impossible to withhold it unless you have some way if diverting a portion of this crop or either destroying it or diverting it to other markets.

One thing that's so important in the diversion process is that there must be some kind of organization which will permit the distribution of your returns from your primary market on an equitable basis to all producers and the sharing of the burdens of your surplus market or your secondary market among all producers. That's why it's very difficult for groups in any particular locality to get a higher price without holding the umbrella over producers who may not be engaged in producing this product.

One of the things that was pointed out this morning, two or three times, the advantages of bargaining is that of price stability. And there's a lot of misunderstanding on whether they were talking about price stability on a weekly basis. Now one of the factors that retailers have to take into consideration in the featuring programs in particular is what's going to happen to this price. It takes them about three weeks to plan a promotion and they get one of these all set up and ready to go and the price goes up or down and makes it very difficult to carry on with the original
plans in this feature. So to that extent within a weekly period, for example, we are very much interested in price stability.

I don't feel that bargaining is going to be successful for all groups. It can be successful under certain circumstances or certain crop conditions or certain industries. It's very difficult to get any categorical answers to how successful or whether bargaining is going to be successful. I have the strong feeling that bargaining is not going to develop on a bargaining first basis, but it is going to be a combination of operating and bargaining.

Much of my experience has been in the dairy industry. The original efforts made to bargain were done on a basis similar to labor unions. They quickly found they needed to do some other things in addition to just negotiating with the distributors. They went into processing facilities. Eventually these cooperatives felt that in order to enhance their bargaining position further they needed to be prepared to go clear to the consumer. And we still have many cooperatives in this country who are taking the milk from the producer clear through to the consumer and feel rightly or wrongly that they have much better bargaining position than they would have if they were only negotiating for price alone. So it's my considered view that we're going to see a combination. Farmers are going to become much stronger in their market development programs. This will be in part an operating program, advertising, promotion, and these other things in addition to the negotiation.

Now one point on integration by chains. I think this is misunderstood to some extent. The Federal Trade Commission in its examination into integration by food retailers found that there was less integration in 1958 than there was 10 years earlier. They had a complicated way in which they figured this out. They said ten percent of the food sold in 1948 was produced in the retailers own facilities and by 1958 this was down to 8 percent.
During the war retailers integrated into packing plants. All but three of the chains are now out of the meat-packing business which proves that integration is not a one-way street. One of them is still integrated because it has not been able to get packers to do the defatting the beef on the killing floor. They save two cents a pound in shipping this product to the market and also have some other advantages. Only about two percent of the meat sold at retail is slaughtered and processed in the chain store's own processing plant.

I don't have any figures to what extent retailers are integrated into fruit and vegetable processing. It is my impression from talking with various groups that it is not very great. However, John Davis made a statement at Harvard a few years ago that we would continue to have integration until we could find ways in cooperation in getting the same type economies and advantages which we get when we integrate. I believe this is true.

We have some groups that come to us and plead with us to go into contract production. Why don't you chains that are processors know exactly what you want so that we can plan our production schedules and in this way achieve the economies of scale which would be to the advantage of both the chains and producers. I frankly think that we're going to see changes in procurement programs. I think we're going to see retailers tied more with the same processors and retailers so they can schedule processing and in this way reduce costs.

George Downes, Fruit Grower

I will comment first on "What will be the role of government in bargaining or in pricing?" I think for practical bargaining and pricing from a growers viewpoint there should be none. And then the next item here, "Is new legislation needed?" I would like to put a plug in for House Bill 661 which basically is legislation allowing
growers to sell or bargain and to prevent interference or restraint, and coercion or boycott of producers. I think this is something that we should support. I will not go into a lot of detail on it. I would recommend that all of you become familiar with this and support it. In my personal opinion I would say support it, but maybe you would want to oppose it, but from my viewpoint this is something that is necessary in legislation and this is the type of legislation and the only type of legislation basically that I think we are interested in. Not control, but permissive legislation.

On the comment about processors integrating, I think Mr. Moll is right in feeling that basically processors do not want to get into production. In spite of that, they are getting into production. From the grower viewpoint, perhaps, they might feel that the reason they are getting into production is that it puts them in a better bargaining position. I would refer more specifically to the York Imperial variety of apples in the Appalachian area. We are running into an interesting situation there where the majority of the growers are leaving the York Imperial variety which the processors find very desirable and going into the dual-purpose apples which can go either into processing or into fresh market.

And there again it is a supply-and-demand situation. I think here the processors have probably caused the trend for growers to go away from Yorks because the York producers have not found it fit or practical on a financial operational basis to maintain and renew their planting of York Imperial - even the Red York being a particularly acceptable variety on the fresh market. Yet I am told that major processors must have York Imperial. So the processors are integrating. Perhaps they don't want to but they are doing it and they have high acreage of young trees.

Another interesting question here was one relative to "Will farmer bargaining follow the pattern of labor union in structure, operating policy and practices?" I think that was touched upon several times today. I think Dr. Hoos, I will maybe
refer back to his comments, pointed out the very basic differences between farmer bargaining and labor bargaining. The fact that we are dealing with a product rather than time. I will just put up this challenge: As growers I think we tend to ignore the consumer. To growers, the consumer appears far away from us. However, it has been pointed out that the consumer is the one who furnishes the gross dollar of which we want a part. This is something that we must recognize.

I think that bargaining with regard to apples is progressing and that we are making substantial gain. I think management of the bargaining operations are realistic and sincere, and even more important, I think they are especially flexible in their thinking and adaptable and we should be making real progress. I think apple growers have a more natural situation with regard to supply or the control of supply than some growers. I think when we are speaking about peeler apples such things as the size for example we might say we're offered nothing for peelers except 2 3/4 inches and up or we might say no drops this year. These are the real advantages we have in control of supplies.

One of the basic problems, as I have seen it, in bargaining and marketing of fresh apples has been grower reaction and grower attitude. I think this is where the most work needs to be done. I think this entire conference, as has been pointed out several times, is an educational conference. I think the comments that have been made here have provoked us into a lot of thinking. I would merely want to add one thing - I've had a hard time finding something that hasn't been touched on today - one thing that I feel is very important. And I will give credit for this thought to Dr. Max Brunk of Cornell University. John Hackenbracht and I were over at Pittsburg in a meeting. This was with regard to fresh marketing of apples and wheat. We agreed among ourselves as grower representatives that what we needed to do was go back and educate our growers. And after we were resolved and about ready to decide what kind of literature we'd put out, what color of paper, and how big the print should
be and Dr. Brunk said "excuse me gentlemen while I take up your valuable time. I must remind you that education is a thinking process. You can't just tell this story or print it on the paper and educate someone. You must develop a thinking process." That's what is being done here today. When we left that meeting, I was quite disappointed because we didn't accomplish as much as I'd hoped we would in the day or two we were there.

As we looked about to find an educational tool, in my own mind--at least I have come up with and have some support on this—that one of the best educational tools we can obtain and use on a grower level is uniform cost accounting. Now this might seem to be a long way from what you thought it was going to be. This is nothing new--this is not original with me. But I am convinced that in fruit growing and certainly in vegetable growing that we need as producers to develop a more uniform cost accounting program and procedure. How it is done doesn't make much difference as long as we are in a position to prepare ourselves and to develop ideas in our own minds. How well we are utilizing our facilities and our capital investment? what is our cost of doing business? do I stay in business? or do I change the item I am growing?

Sidney Hoos, University of California

I am glad this is a session on fruit and vegetable bargaining because it just happens that most of my experience has been in fruits and vegetables. And it also happens, and I don't know if this is just a matter of change or whether there is really something to it, that on the coast at least bargaining coops, as we call them, the bargaining groups that have been able to make a reasonable go of it have been in fruits and vegetables and not in other commodities.

Now, let's sort of follow the map and begin up in the northwest. Actually,
in terms of operation, now, on the Pacific coast in what we call co-op bar-
gaining is what I sometimes call collective bargaining or group bargaining. 
In the Northwest there is the Washington Freestone Peach Association. This 
is a coop for processing freestone peaches. They bargain with canners for 
processing freestone peaches—they do not bargain on fresh-shipping freestone 
peaches. This association was in operation for several years and just within 
recent weeks announced that it would not bargain for the coming crop. And 
some people interpret that as a sign of the association changing its direction 
of operation, going out of the bargaining business. Also in the Northwest 
there is a Washington Asparagus Growers Association which has been doing a 
pretty good job. Again, on processing asparagus, not fresh asparagus. In the 
Northwest there is also the Washington-Oregon Bartlett Pear bargaining 
group, that’s in the neighborhood of 10 to 12 years old, which has a difficult job 
because they have to compete with my own state and that’s not easy. But they’re 
doing a job. Again, only for processing Bartletts. They do not bargain on 
fresh shipping Bartletts. I’m trying to teach a lesson here—that’s why I’m 
repeating the processing part.

As we go down the coast, we go into California and we have the California 
Canning Peach Association which is a very strong and aggressive group under 
very dynamic leadership which has received a lot of praise and a lot of criti-
cism. The California Canning Peach Association is really a cling peach asso-
ciation. They do bargaining for processing of cling peaches. This Association 
is probably the oldest and probably certainly one of the strongest and is in a 
very unique position, which we can talk about later. We also have the Cali-
ifornia Freestone Peach Association which is a separate association and some 
growers grow both clings and frees and grow them for two separate organizations. 
They again bargain only for processing freestone peaches. They do not bargain
for fresh peaches. We have the California Pear Association which bargains for California Bartlett pears and a few Hardings. Again processing only. It was organized recently—last year was the first year of operation. It was a good year to start except they had a short crop. The Apricot Growers Association, again only for processing apricots—and here we must remember in apricots it is a three-way street—there are a few shipped fresh, a lot dried, a little bit frozen and some canned. They bargain only for the processing. As you go down the coast, there's a small association that continues in business in figs.

We have a California Tomato Growers Association which is not an old association, but ran into some difficulty several years ago in its bargaining experience. Although the association still survives and does a public relations job and furnishes information on agricultural labor, etc., it discontinued bargaining several years ago. We used to have a California Asparagus Growers Association that bargained on asparagus for processing only. This association has disintegrated in terms of actual impact.

I have just given you examples of failures even in the great golden State of California, the State where the Chamber of Commerce likes to exhibit success stories.

There are also problems. But as a matter of fact there are probably more firmly established and more active operational processing bargaining coops in fruits and vegetables on the west coast than in other parts of the country. Whether this will continue to be the case we don't know. But that is a fact and I'd like to lead into the next interesting historical picture. In California there is now quite an activity in cooperative processing, and cooperative canning with the processing facilities, canning facilities all owned by the grower members. The oldest one, which we call Tri-Valley, is the outgrowth
of what was originally the fruit bargaining cooperative. The fruit bargaining cooperative went under during the depression of the 30's and out of the ashes emerged a processing cooperative which was established and has flourished and done very nicely. About two years later out of some of the remaining ashes came another processing cooperative. The competition among these two grower-owned processing cooperatives is at least as strong for grower patronage and for store business as it is between the grower coops and the private firms.

In recent months, and I've done some work with them, and there are signs of the two fruit and vegetable processing coops in California integrating and merging into one cooperative firm. Whether it will happen or not, we don't know because farmers as well as other people are human and have emotions and feelings. Now, you have two coops, you have two presidents, two treasurers and four vice-presidents and 32 directors. If you have one coop you can have only one president and one treasurer and two vice-presidents and 16 directors. There are interpersonal relations that stand in the way but that's a sign of integration among cooperatives. I should have mentioned that a couple of years ago a processing apple cooperative bargaining association was started in California which is slowly making progress. These are the examples of the types of associations we have.

One of the points I tried to leave with you this morning is bargaining, cooperative or group bargaining, may have potentials under certain market structure and supply-demand conditions, but whether the potential becomes a fact is another question--the big gap. And one of the points whether the potential becomes a fact and by a fact I mean whether they can operate effectively. I agree with what George Downes talked about when he said they came to the conclusions "we've got to teach and educate our farmers, our grower members." And that is certainly correct. You not only have to do it, you
have to keep at it because farmers don't keep educated. New generations come, other generations go, there's a turnover, new information becomes available so it's a continual process. You just don't educate them and then go on to something else. In fact, I've been working with some of these groups in California for over 20 years and we're just beginning to make headway. So it's a continuous process.

But I wish Downes had not stopped with educating the grower members, and I think his uniform cost accounting exercise—and that's what I would call it—is a convenient device. I would suggest he not take it too seriously, other than as an exercise, and that he not stop there. I think he should face up to the question that not only must we influence the thinking of our grower members but what must we—and "we" is a directive—learn, what will we have to do to ourselves in order to be good representatives to our grower members in order to do our job. And here I get to the question of bargaining knowhow. I am not making any implication about the shrewdness and the ethical procedures in bargaining that exists among farmer groups in Ohio. I don't know the situation. I feel uncomfortable when I speak about something I know nothing about. But I suspect that the directors of the associations in Ohio would have quite a lot to learn about effective bargaining. The knowhow of bargaining. It's an art—it's not a science, it's a combination of art and skill. But that art and skill is not enough. The day has passed, gentlemen, when you go into a conference room and the guy who pounds the table the hardest wins the argument. That day is gone.

If you want to do a job to protect your own equitable rights, you've got to come in armed with information and the information has to be selected and you must know what it means and how to use it. One without that selective information and what it means and how to use it isn't going to win very many
arguments because you're arguing with pretty smart guys. I'll use an example. I'm not saying he loses the argument. Lots of processors, not all processors, have made it a point to learn certain things. In this I help them. I don't work only with growers. I work with processors too and there's nothing I tell a processor I wouldn't tell a grower and there's nothing I wouldn't tell a grower I wouldn't tell a processor. I have to work in a gold fishbowl operation and as soon as one side gets the slightest suspicion that I'm favoring the other side my value disappears to either side. I understand them and they understand me and I recognize that they are out to make a living. I have to be careful and I have to work with both sides which can be done.

This morning, I mentioned the point that there is in terms of the market place and in terms of economics there is a relationship between price and volume, and income and price of competitive crops and etc., whether you like it or not. And it wasn't long ago, only 20 years ago, when some pretty darn good farmers in California, in terms of raising the crops, good husbandry people were convinced that first, market price was rigged and second that it was rigged against them, and third, that there was no relationship between price and volume and income, etc. Of course, they were dead wrong. These factors are related whether you like it or not. I don't blame you if you don't like it.

In our economic-political-social system which we all give lip service to, there is a relationship between price, volume, income and prices among both competitive and complimentary goods. And they've begun to learn this in California but it has been hard teaching. It's been almost half the life of several people but they're beginning to learn. Now, it's easy to say there is a relationship between price and volume and you don't have to go to college to know that. Any darn fool knows it, that is, after you see it you know it. Just one
thing to say, there is a relationship between price and volume in competitive fruits, etc.

Another thing is to have a pretty good, if not an accurate idea of what that relationship is. If there are a hundred thousand tons more tomatoes, what does that mean in terms of price? That's a very difficult question and it takes a lot of work on the part of somebody. Farm groups that have to know—should know that information. And processor groups should know that information. Stokely and Heinz and Del Monte and any company you can name, is subject to the market influence. The prices they receive are not independent of market volume and competitive prices and income. They do not set prices, they respond to market pressures and they do what they can for themselves and we don't blame them. But they are not a free agent. They are tossed on the sea of the market. And volume and prices related in terms of their business and it comes right through this large supply pipeline and is related to your business. Before you can go in there and talk convincingly you've got to have some usable suggestions. What does it mean if we're going to have "X" thousand tons more than last year or "X" thousand tons less than last year? Or what does it mean that if we're going to have the same as this year that some competitive region is going to have more or less?

You are not isolated and we in California will not let you be isolated. We're going to compete with you and we'll drive you out of business if we can. And you wouldn't hesitate to do the same thing to us, all in the spirit of competition, of course. The point I want to make is only under certain conditions are there potentials for getting someplace in bargaining, secondly, those potentials must be exploited effectively to get someplace. And in order to exploit those potentials, you've got to know your stuff, you've got to have people bargaining for you that have information that convinces your buyers
that it is for his own necessity if not for his own wish, to go along with a certain price or part way towards it. And if you don't have that information you are at a great disadvantage because pounding the table, fellows, might have been alright for the 20's and maybe the 30's but it's not okay for the 60's and it's definitely out for the 70's.

What you're doing today in Ohio in the emergence of a bargaining movement is not going to have a lot of impact for 1963 or 1964, you might as well face up to it. It is not an immediate panacea. Don't go into it unless you take the long-run pull. What you do must build through the rest of the 60's and for the 70's and you're not going to build successfully unless you build on a firm foundation and part of that firm foundation is bargaining knowhow and economic relationships. I am sorry that I got a little preachy at the end, but sometimes I take my own thoughts so seriously that I get a little enthusiastic.

Thank you.

Questions and Answers

Q. There is the matter of a "holding" or a "withholding" action. Word has been used today of a withholding action on livestock and all parts of agriculture as far as that's concerned. I think, myself, I will speak for the NFO because I am a member of it. We do not have a "withholding" action. This is incorrect. We have a "holding" action for a price and market conditions. We never hold anything off the market not for sale. It is for sale at our price and market conditions. This is correct or incorrect?

A. I don't differentiate greatly between the two but I understand what you are saying, yes.

Q. In other words, the statement of "withholding" is incorrect?
A. I think there is hardly any difference, "withholding" for a certain price or "holding" for a certain price.
We are "holding" for a price not "withholding" because when you withhold something from the market it is not for sale. In our case, this is not true.
A. If you want to use this terminology, I am satisfied with it.
Q. California is one of the largest exporters of fresh fruits and vegetables. I have heard it is very difficult to import fruits and vegetables into California because various devices, inspection for diseases, etc. Do you care to comment?
A. Dr. Hoos - I don't care to, but I will. Well, it is probably a little difficult, not much different than certain other states, but it is done every day in the week, in fact when I left home we were enjoying some nice apples from the east. It is a fact that during the 30's in California legislation was enacted, called quarantine legislation, which had the effect of keeping out certain fruits and vegetables from other states in fresh form. The excuse that these items were bringing into the states unsatisfactory bugs and that legislation, I think, is still in effect and in the earlier years it was quite rigorously enforced and probably quite effective.

We do eat Florida grapefruit in California and I could give you other examples. But the point is, at one time in our history it is true that we did use such crude and rather stupid types of measures. People in California have grown up and matured to the point where they realize that if they want to sell California stuff on the east coast and in the south they have got to be willing to let stuff from the east coast and south come into California. It is really that simple. But certain types of the
legislation is still in effect and is necessary in certain types of cases. It was necessary when the Japanese moth started to move in and there the legislation put in effect and should have been because it had a valid, sound reason. Any state, if it is faced with a situation where its capital investment can be protected through stopping the invasion of certain types of insects, in other words if the argument is entomologically sound, has that right. I don't think we should have those types of gimmicks from the sole economic viewpoint of protecting markets. I think it is quite alright, in fact, it is quite necessary to do it under certain conditions from an entomological viewpoint.

Q. I haven't heard any of you comment directly on the affect by the American Farm Bureau and the American Agricultural Marketing Association. I happen to be with the Farm Bureau and I would be interested in any comments any of you might want to make. I think you suggested they were soundly oriented and perhaps related. What do you see here? Do you care to comment on the future in this area for the American Farm Bureau?

A. (Dr. Hoos) - I know about the movement and I felt pleased that the organizers made it a point ot visit with me at the very beginning and I worked with them and I will continue to work with them. It is a conservative movement. I am not saying that's bad--maybe it's good at this stage. I said it was a belated movement and I cannot say what the word "belated" means, but I would say that it was kind of slow in coming. I think you people just began to wake up anywhere between ten and 30 years later than you should have in my personal judgment. That's all I meant by belated. I think it's serious. I think you are trying to do a job; I think you are sort of fumbling. Just how should we do it, just where should we go. I think you need a little more careful thought about where are the fertile
areas for your organization in this type of an operation. I think the thing was handled very nicely at the policy level, recognizing the belatedness but aside from that point I think it was handled very well. I don't think the thing was thought through enough and still is not thought through.

I'm not quite sure in what way you are a real help to the local groups. You don't go and care a lot more about it than they do. Now let's speak up and be frank about it. What do you know about it? except good intentions and that's quite alright. But you can't really go to a local group in a county area where they're processing produce "X" and other than pat them on the back and show them a few standard bylaws and tell them "good-luck boys, we're with you." In a hard headed business sense—and I'm talking to you the way I talk to the rest of my friends—take inventory. What have you really got to offer them? Other than moral support and good intentions. Not really much. And that's where I think a lot of work has to be done.

George Downes - I would merely ask Dr. Hoos what your comments would be on the NFO approach to processing vegetables and fruits and bargaining for those items.

Dr. Hoos - Well, I'm out of my home diamond and as I said this morning I don't presume to be an NFO expert. I'm very appreciative of the fact that we have one here and I will call for an assist if I run off base. And I would have to base my comments upon my limited experience on the west coast which may be altogether different than in the middle west. As I understand the NFO approach, and I may misunderstand it because a lot of my information comes from farm papers and the press. I don't think it's for processing fruits and vegetables in the long-run sense. I don't think
it's the way to do the job. I don't think it's going to have lasting--by lasting I don't mean forever--effects. I'm willing to settle for a decade and I don't think it's going to last this long in an overall general sense. I don't think it's really a healthful approach, as I understand it, for the growers of processing fruits and vegetables. Now I've gone no farther than answer your question and I'm doing that intentionally.

Q. (NFO Member) - Do you want me to comment?
A. (Dr. Hoos) - Please do because I need a lot of help.
A. (NFO Member) - I think you're absolutely correct in this field of not understanding NFO for the very simple reason that we are dealing with an entirely different segment of the economy for the agricultural industry. And that is within the mid-west where we are mainly working. We are not working in small fields such as apples, tomatoes, or small segments at the present time. This will come later after we get the three basic economies of the agriculture under organization, then we will go into smaller fields. We are concentrating on the three basic economies of agriculture: grain, livestock, and dairy. And these are all we're working on at the present time.

Dr. Hoos - May I comment? Look, I wish you'd help me on something and please don't misunderstand me. You may refuse to answer the question as it's irrelevant and if you were to so refuse, I would understand. That's not the issue but there are rumors floating around California that the NFO is really being pushed, organized essentially and financed by certain labor unions. I'm not saying that's good or bad or true or false but those are rumors floating around and I would just like to be set straight on them.

NFO Member - This is not correct to my knowledge. Can you bring me proof
of this?

Dr. Hoos - No. I didn't say I could bring you proof. I just told you something I heard and I'm trying to learn something.

NFO Member - To my knowledge as an NFO member and I happen to be one of the officers in our local county, there has been no money put into the organization except from the members. Yet this is not knowing. If you can prove this I would certainly like to know it myself. Or if anyone can prove this I would like to know it.

Dr. Hoos - Now according to your knowledge, I'm not saying this is good or bad, it's not a matter of judgment just a matter of information, is NFO sort of getting operational knowhow if you would call that phrase?

NFO Member - Absolutely. We are learning every day.

Dr. Hoos - I mean from specific labor unions?

NFO Member - No. Not from other labor unions, no. We are learning from our own experience.

Dr. Hoos - Thank you. You can never learn anything unless you ask.

Q. I have a question for Dr. Hoos. I'm somewhat interested in what happened to the California asparagus growers association.

A. That is the association, I think I referred to as one that still exists on paper. It's not an active bargaining organization. What happened to it? Well, it's happened before. I don't see why you have special interest in it. It's happened, it's not unique, they just stopped bargaining.

Q. At one time they were quite strong weren't they?

A. At one time they were quite active.

Q. Well, what I'm trying to get at is what in the management standpoint didn't they do.
A. I think they came to realize, it's a long story. In the first place, as you know, processing asparagus originally, historically, was a combination of fresh shipping and canning and my friend here knows a lot more about it than I do and not only was it two-way use but it was a time dimension, right? between fresh shippers and canners. Later on through technological change we got this thing we call freezing so there was fresh shipping, canning, and freezing. And those are really three distinct businesses although sometimes the same company is in two of them or more. Now along with these changes came certain variety changes. While the variety changes were coming, changes in growing knowhow were occurring. In combination with this it happened that in those earlier years there was also an operation in California under California legislative marketing California Marketing Order. Under the California Marketing Order shipments for processing were controlled. And later on the legislation was broadened so that there was two separate marketing orders, one for processing asparagus in California and one for fresh shipping--two separate orders. Originally this was a joint order on processing, growers and canners. As time went on the canners pulled out and it continued as a grower order. Growers came to realize probably correct that after the marketing order for processing asparagus disappeared the growers association was not really having any price impact. Now the reasons they were not having any price impact were because they were the victims of technology and as well as economics. One can say although it's difficult to prove and I'm going to say right now what you've probably tried to seduce me into saying but I would have said it willingly anyway that it may well be, although it's difficult to prove, that one of the reasons, not the only reason, and this is where you canners make a mistake is you whip this fellow too much, that the California Marketing
Order in processing asparagus broke down because the order was misused.

The control mechanism was probably turned on a little too tight and it could be that the grower price was made a little too attractive. Not only did it encourage heavy output in California which was alright, but now as you know, these things get around and if the price becomes attractive in California for processing asparagus companies, competitors, start looking to other areas. And not only did they start looking, but they started encouraging production in other areas. Now this production in other areas could not have been done effectively in the early years because there was not the knowhow in those other areas and not the varieties. But all the smart people, unfortunately, are not located in California. Farmers in other states can learn to do things too, and they learned how to grow processing asparagus in Michigan, certain parts of the middle west, the tri-state area of New Jersey, and those people came in. And as a matter of fact, in the early years when this thing was rolling nicely California on the canning side, and this was before freezing came in, California accounted for 90 percent of the processing asparagus in the United States and I'm not going to start bothering you about details between white and green and all stuff. For on the overall basis we accounted for 90 percent and the way the cookie rolled we were cut down so we're now what, 50-55 percent, just about 50-55 because the California growers probably abused a little bit or maybe more than a little bit, the economic power that was given them under the legislation of the state.

They made the thing sweet enough so that the sweetness in combination with technology made it impossible for other states to come in and once you get your competitors in, it's not easy to get them out. So these people in California came to realize that they were no longer in the strong monopolistic
position they once thought they were. And this influenced their thinking and it's a lesson. I'm not so sure everybody has learned a lesson but it's a lesson so let me hasten to add a footnote. In my own judgment this probably would have occurred anyway but probably not so fast. California could not have hoped to maintain on a permanent basis a virtual monopoly on asparagus for processing. Even if there had not been a marketing order, technology and other changing conditions would have sooner or later in my judgment brought competitive processing asparagus into other areas. But I'm not justifying the action of the asparagus deal in California. I'm trying to explain it. And when any canner says California lost its position because it misused the marketing order and stops there that canner is not giving the whole story. He's misleading people. That's only part of the story. I'll admit it's an important part and we should learn from it but there are other influences, too. So the way the thing developed between technology, between marketing conditions and marketing orders, freezing coming in, all that stuff rolled together was that you had this thing spread into other areas and the growers association during the California period, and during recent years, just didn't have the bargaining potential. Economic conditions of supply and demand developed where they were no longer in a strong bargaining position.

Q. I haven't heard anybody say anything about the non-organized producer, what his position might be.

A. Moll - I think I sort of shuffled around it when I was making the remarks that I did. I think essentially that I was trying to imply that when we loose the freedom of entry by the individual into the production of a crop then we have lost freedom, period, and our free enterprise economic system. Therefore, when we raise questions about the ability of the independent
producer or the unorganized producer to grow a crop then we also raise
questions as to whether we are accepting ultimately the complete isolation
of our agricultural economy into a cell which will be a political captive
of our country as a whole. This is almost beyond what I would like to
even concede could happen to us short of communism or something in the
future.

Now specifically, I have been in sections of the country where a lot
of contract growing is going on. I was in a meeting out in Oregon three
or four years ago and one of the people out there made the statement that
you just better not buy cows and go into the dairy business unless you've
got a contract with some dairy. Now this involves contract production in
order to establish the producer-marketer relationship but it still doesn't
necessarily involve a farm organization. This is contract production. So
my own views on the matter would be that I would resist very strongly any
implication that we could accept a situation in the country as a whole, not
just me as a person or we as an industry, but our whole country could hardly
accept a situation in which nobody could get into a deal unless they were
a member of the guild—which takes us back to the dark ages.

Comments by panel members:

Christensen:

Just briefly about this question over here. Under certain circumstances,
for example, where an industry has tended to integrate say like the broiler
industry there's this question of what these independents do and I was thinking
about this the other day and made an analogy between what had happened in re-
tailing. Back in the 30's the chains were going strong, there was considerable
concern as to that fact that they were going to take over the whole market.
Along after the war the independents started organizing to achieve the same advantages the chains had in their larger structured organizations for procurement and warehousing. Through this change in retail structure, these independents now have, I think, and some of our own people as chain retailers feel that they have an advantage over the chains in that they have the buying organizations, the warehousing function, but also the initiative of the individual entrepreneur at the store level which gives them the greater flexibilities than the chains. And some of our chain store people now are thinking in terms of things that they are going to have to do to compete with these organized independents. Now taking this back to certain phases of the broiler industry, it's conceivable to me that these independents who in many instances are large growers should organize to do some of the same things that the independent retailers have done to make themselves competitive with the chain stores.

Q. Downes - In view of some of the statements made relative to the action of American Agricultural Marketing Association I will present the question to Mr. Moll and Dr. Hoos. What other functions besides pricing do you feel that American Agricultural Marketing Association is qualified and should accomplish?

A. (Moll) - I think in my remarks this morning and on previous occasions when I have been called upon to express myself, I will give you the contributions that can be made by grower organizations. I have pointed out the important opportunity that exists in working out the handling and the scheduling of the specific product requirements, the quality of raw produce and its character, the scheduling and delivery of such produce to the processing plants on a basis that would result in maximum recoveries and efficiency in quality. All these activities, which are sometimes rather difficult
to get across to the growers as individuals, might be more easily possible through an organization. I had in mind that in the past we have seen practices in relationships between processors and growers where for one reason or another the relatively inefficient propositions such as receiving stations that really don't need to be there, and methods of dealing that can better be done in a different way. Individually, you just can't very well go out and turn the whole thing upside-down even though everybody agrees it's better, because there has to be a concerted uniform program in order to get the job done. So, within that area of making the contribution to the finished product cost and the efficiency and in the steps in the marketing process that will make the product that much more competitive in the marketplace, a real contribution can be made by organizations.

Dr. Hoos - I think it is a wide open area where bargaining coops, bargaining groups can really contribute and I kicked up a few this morning in the whole area of contractual relationships. There's a wide area in there. In the area as you said this morning grower education and director education. About economic education we had a beautiful example on the coast a couple of years ago, in fact it is still going on. We had a very serious pear decline disease problem and our canning companies have fine research and field departments and through cooperation between the grower bargaining groups in the northwest and in California and the private canning firms, a beautiful job of working together, they were able to make progress. And that was a very serious matter. Without the existence of well organized bargaining coops it would have been more difficult for the processors themselves to work on this. Another area is the serving as a mouthpiece at the state capital or maybe at the national capital and watching out for legislation. The whole area of fringe benefits, the whole area of things
other than price. As I said this morning, bargaining coops have done a wonderful job in connection with the Florida product seeing that it's a two-way street, insisting if they were to meet certain delivery schedules the processors would have to meet certain schedules for delivering the lug boxes that were usable. A little gimmick like a lug box, you know, can put up an awful lot of trouble. Bargaining coops can do all sorts of things like that and our conclusion is that it's in this area, although it's very difficult to measure the degree of return, that bargaining coops working with the processors can do much for the benefit of both.
SOME ECONOMICS OF BARGAINING BETWEEN PRODUCERS AND HANDLERS OF DAIRY PRODUCTS

Elmer F. Baumer
Ohio State University

In a way it seems almost too elementary to talk about bargaining to a group representing the various segments of the dairy industry. Almost all the old textbooks on marketing indicate that bargaining or collective type bargaining has been used in the dairy industry even before the passage of the Capper-Volstead Act in 1914. Over this period of years one can find examples of the use of almost every method of collective bargaining found in our economy. I feel certain that a careful analysis of these experiences will turn up many examples of successful negotiations and many other examples of efforts that were unsuccessful.

I wish to point out at the outset that this is not a discussion of what should be the price of milk to producers or what should be the price of milk to consumers. Over the years various methods have been used to discover these prices. This discussion, however, is concerned mainly with a consideration of some of the important issues confronting those responsible for making decisions in a bargaining environment. The actual level of prices for either segment of the industry will depend largely on how well they have analyzed the issues presented in this paper and the many other factors also bearing on this subject.

In a discussion of bargaining, it would seem important to take a critical look at the participants of such an action—namely, the producers and their cooperatives on the one hand, and the milk processors on the other. There are other approaches that can be taken to a topic such as this, but many of these are already set out in published form. These reports treat the subject from a more general point of view, whereas this discussion deals primarily with the dairy industry. Of particular significance in these reports are seven factors listed by Groves and Schneider of the University of Wisconsin that increase bargaining power and seven that decrease it. I will just mention these and point out that the discussion that follows weighs upon many of these factors.
Factors that can increase bargaining power:

1. Limited area of production.
2. Effective control over production.
3. Effective control over supply marketed through quantity and quality restrictions.
4. Expanding market demand for the commodity.
5. Few substitute products.
6. Commodity can be stored for a long time.
7. Demand takes care of production.

Factors that can decrease bargaining power:

1. Widespread production areas and potential competing areas.
2. Little or no production control.
3. Little or no control over supply marketed.
4. Declining market demand for the commodity.
5. Many substitute products.
6. Commodity can’t be stored for long.
7. Excess production and a surplus.

In recent years there have been many efforts to alter the methods for collective bargaining. By-in-large these efforts have grown out of a rather static price behavior in the dairy industry while prices in many other segments of the economy were going up. The rapid trend toward fewer and larger producers has also contributed to the unrest. Table 1 indicates the trends in number of fluid milk and manufacturing producers in Ohio from 1948 to date. It might be argued from these data that production adjustments are being made in the dairy industry and that they are being made at a rather rapid rate. It is not difficult to calculate that if all dairymen in Ohio owned a herd of 50 milking cows producing 12,000 pounds per cow, Ohio would need only 9,030 producers to produce the same amount of milk as was actually produced in this state in 1961.
TABLE I

Average Number of Milk Producers
Reporting Fluid and Manufacturing
Milk Sales, Ohio, Annually 1948-1962

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Fluid Milk Producers</th>
<th>Number of Manufacturing Milk Producers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1948</td>
<td>29688</td>
<td>51250</td>
</tr>
<tr>
<td>1949</td>
<td>29375</td>
<td>50938</td>
</tr>
<tr>
<td>1950</td>
<td>27500</td>
<td>48438</td>
</tr>
<tr>
<td>1951</td>
<td>26562</td>
<td>45312</td>
</tr>
<tr>
<td>1952</td>
<td>27188</td>
<td>44688</td>
</tr>
<tr>
<td>1953</td>
<td>27580</td>
<td>44375</td>
</tr>
<tr>
<td>1954</td>
<td>27188</td>
<td>41562</td>
</tr>
<tr>
<td>1955</td>
<td>26875</td>
<td>39688</td>
</tr>
<tr>
<td>1956</td>
<td>30087</td>
<td>35312</td>
</tr>
<tr>
<td>1957</td>
<td>26126</td>
<td>30625</td>
</tr>
<tr>
<td>1958</td>
<td>26250</td>
<td>28125</td>
</tr>
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<td>1959</td>
<td>22919</td>
<td>25698</td>
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<tr>
<td>1960</td>
<td>21943</td>
<td>24612</td>
</tr>
<tr>
<td>1961</td>
<td>20565</td>
<td>23290</td>
</tr>
<tr>
<td>1962</td>
<td>18895</td>
<td>22184</td>
</tr>
</tbody>
</table>

Source: "Ohio Monthly Dairy Report, Ohio Crop Reporting Service, Department of Agriculture."
These data are not intended to be all inclusive with respect to factors important to this discussion, but they do give some indication of the reasons behind increased bargaining activity in the dairy industry. In a way it shows that it is not difficult to develop economic data to prove your point regardless of what position you might take.

At this same conference last year Dr. Padberg presented a paper, developed from data pertaining to the Columbus market, bearing on the nature of milk producers and their changes over time. While this industry has often been referred to as a stable industry at least from the standpoint of producers, these data pointed out that, in fact, this segment of the industry is quite dynamic. In some size categories as high as 86 per cent of the producers now in business will be out by 1975.\(^1\)

Since this was a study of only one market it was felt highly desirable to run a correlative study in some other area. During the past year it became possible to do such a study in Fulton County, Ohio.\(^2\) This county is located in the Toledo area and has easy access to both fluid and manufacturing milk markets. Analysis of producer numbers was made in a manner similar to that used by Dr. Padberg, and in addition a detailed analysis was made of all producers who left the dairy business during the five year period 1957 to 1962.

Results of this analysis were quite similar to those found in Columbus. There were 627 producers in the county in 1957 and by 1962 there were 331 still in business. There were an additional 81 producers who commenced milk production during this five-year period. While the decrease in producer numbers was 48 per cent the total net decrease was 34 per cent. There were many other important features of producer change uncovered in this study, but they cannot all be reported here. A manuscript covering this study is being prepared for publication during this year.

\(^1\) Dynamics of Ohio's Dairy Industry, Department of Agricultural Economics - Ohio Agricultural Experiment Station
\(^2\) Melvin Krill - "An Analysis of the Dynamics of the Milk Producing Industry and the Factors Influencing Milk Producers to Discontinue Dairying" - Department of Agricultural Economics - Ohio Agricultural Experiment Station. (unpublished thesis)
Of significance to this discussion is the analysis indicating the likely number of producers in this county for future years. While there were 412 producers in the county in 1962 this analysis indicates there are likely to be 302 in 1967; 247 in 1972 and 221 in 1977. These predicted changes are based on the condition that growth adjustments are subject to the same environmental influences in the future as those during the observed period of 1957 to 1962.

Findings relating to the phase of this study dealing with producers who discontinued production led to the following points:

1. In the long run the cost price squeeze was a major reason causing producers to leave the business. In the short run this factor was not as important since producers tended to continue production until major improvements were necessary. This factor seemed to be more important to fluid producers than to manufacturing grade producers.

2. Non-economic factors such as illness, age, or death influence nearly one-third of the producers to discontinue production.

3. The feeling that they could do better financially in another livestock enterprise was not one of the major reasons for producers discontinuing production.

4. Health problems in the dairy herd are rarely a reason for discontinuing production.

5. Once a farmer has left the dairy business, it is unlikely that he will re-enter it.

6. Producer drop-out has little to do with the total supply of milk since nearly two-thirds of the cows are sold to other dairymen.

While these studies indicate a continuing change in producer numbers, the price bargaining for producers is done mainly by dairy marketing cooperatives. By-in-large these cooperatives are associated with the major fluid markets and have represented producers selling to those markets. Paralleling the drastic changes already observed among producers has been a steadily declining number of dairy marketing cooperatives.
For example, the Ohio Milk Producers Federation Membership consisted of 21 cooperatives in 1944. By 1950 it was 18; by 1960 it was 13; in 1962 it was 10.

As a result of the rapidly changing structure of the processing industry, many of the cooperatives serving producers in secondary markets discontinued operations. Milk for these markets was being furnished from plants located in the large metropolitan cities. Then too, it was felt by many that since there was considerable consolidation and merger among the processing segment that similar actions were necessary in the producer segment. The cost factor is also one that should be mentioned. In order to furnish the marketing services demanded by markets today it is necessary to have a substantial volume in order to keep down the per unit costs of operating the cooperative. The primary function of these cooperatives is bargaining for price in whatever manner they might choose to do it. At any rate most organizations feel the need to possess means by which they can exercise some control over the supply of milk in a market and thereby bargain for an increase in returns to producers. In the absence of any such controls, the cooperative actions are generally futile discussion exercises.

Several methods are employed by cooperatives to obtain the means by which supply to a market might be affected. Almost all organizations have contracts that make the cooperative the bargaining agent for the producer. This contract binds the farmer to deliver his milk to the place and by the means designated by the cooperative. In addition, many cooperatives also have contracts with haulers whereby they can affect the supply of milk in a market simply by exercising certain options under these contracts. In some cases cooperatives own the transportation facilities. In still other cases cooperatives have made very sizeable investments in facilities to process their own milk, either for manufacturing purposes or in some cases for fluid purposes. Some or all of these means have been used by cooperatives over the years to attempt to improve returns to producers.

Two other factors loom large in evaluating cooperative programs in the future. The first is the problem associated with the dynamic changes in the market place. It
is no longer an easy task to identify a market on a geographic basis. Centralized plants located in one metropolitan area service outlets in other metropolitan areas. In many instances the role of the cooperative in the exporting market as compared to the cooperative in the importing market is not clear. While this problem is prevalent in most Ohio markets at the present time, it is very likely that it will intensify in the future. Increased milk movement of this sort is certain to occur and may necessitate some basic changes in the structure of the bargaining cooperatives.

Closely associated with this point is the fact that cooperatives have not always agreed on the best procedure for increasing returns to producers. For example, cooperatives in some markets have purchased processing equipment and are either processing surplus milk or processing bottled products or both. Under such circumstances it is possible that these groups might choose different programs to achieve their purposes of improving producer income.

The second and certainly a perplexing problem is concerned with the use of withholding as a bargaining tool. This is largely a legal problem, and it is difficult to shed much light on a solution if indeed there is one short of legislative action. It is not difficult, however, to raise some questions concerning withholding when reading through some court decisions on this matter. The question is not whether cooperatives have the right to sell or not to sell the products of their own members but involves the rights of non-members. Bargaining for prices by withholding milk controlled by the coop may be entirely legal while a milk strike that would prevent the milk of non-members from entering the market may be entirely different. While the Capper-Volstead Act permits farmers to act through a cooperative it does not excuse the actions of a cooperative from anti-trust regulations. The recent case against the Maryland and Virginia Milk Producers was an example of this point.

There are also other court cases that are closely associated with withholding practices. Several of these were cases involving the fisheries industry where supplies were withheld from handlers to force a higher price. This they could not do nor could they prevent a handler from obtaining fish elsewhere.
Fishermen are organized under a cooperative fisheries law practically identical to the Capper-Volstead Act.

It would certainly be important to clarify the legal phases of this practice. Perhaps a good court case is necessary to settle the issue. At the present time there is some thinking that cooperatives may withhold products produced by their own members but they may not indulge in such practices as a strike where the rights of non-members would be affected.

In a discussion of bargaining in the dairy industry one cannot overlook the very important role played by the Federal Order program. This is basically a legislative measure that assures compliance by all buyers in a market and in this manner carries out marketing programs that the cooperative alone could not carry out. It has the effect of equalizing the bargaining power between producer and handlers and for all practical purposes submits them to the Department of Agriculture for arbitration. The popularity of this system is evidenced by the rapid growth of the program throughout the country.

Processors, like producers, have also undergone drastic changes in the past decade. Processor numbers have decreased at a rather rapid rate somewhat paralleling the changes in producer numbers.

In evaluating current trends, it is obvious that many of the economic pressures affecting milk producers also affect milk processors. Furthermore, there has been a significant change in modes of distribution during the past ten years that have materially changed the structure, conduct, and performance of this segment of the industry. Dr. Padberg's paper will discuss the effects of these changes in more detail.

Throughout the state the increase in plant specialization has led to a decrease in the number of milk plants and an increase in their average size. Over the past ten years there has been a decrease of 41.1 per cent in total plant numbers. Table 2 indicates that these decreases occurred among plants handling less than 800,000 pounds of milk per month. There was an increase of approximately 17 per cent in the
number of plants handling over 800,000 pounds of milk per month. Many of the smaller plants are independent family owned operations catering mainly to home delivery. To some considerable extent the continued existence of these firms is dependent upon the profitability of this system of distribution.

While these data are aggregate data for the state, they are also close approximations of trends in individual markets. The extremes in the state are represented by Cincinnati and Northeast Ohio. The Cincinnati market is composed of a larger number of small plants while in the Cleveland area, the exodus rate of small plants has been greater.

Changes in existing milk plants were generally toward larger size operations. Of the 145 plants in the largest size category, 89 were in this group during the entire 10-year period, 42 moved from the lower sizes into this category and 14 were new firms. This latter group was mainly the result of mergers and consolidations.

While these data represent changes that have occurred in the past, their importance lies in helping predict the future.

If past growth patterns were to continue for an indefinite period of time, we would expect a reduction in plant number of approximately 75 per cent before we reached the equilibrium level. By 1972 we would expect a 30 per cent reduction in plant numbers with a significant shift toward the larger size of plants.

While firm numbers would be important in bargaining activities in the future, market shares would be equally as useful. Data pertaining to market share are extremely difficult to obtain and are released in terms of "market shares of the largest four handlers." Such a method avoids disclosure problems. It has been pointed out in the previous discussion that the dairy industry is becoming concentrated in the largest size category. Our research at this point was to determine whether or not the largest four firms controlled a larger share of total sales in the market.

Our analysis shows the concentration ratios (total volume of the largest four firms as a per cent of total volume on routes) decreased in three Ohio markets and
### TABLE 2

Number of Milk Plants and Percentage Change by Monthly Volume Handled, Ohio 1952-1962

<table>
<thead>
<tr>
<th>Year</th>
<th>Plant Size</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Less than 30,000 lbs. per mo.</td>
<td>30,000 to 120,000 lbs. per mo.</td>
<td>120,000 to 450,000 lbs. per mo.</td>
<td>450,000 to 800,000 lbs. per mo.</td>
<td>over 800,000 lbs. per mo.</td>
<td></td>
</tr>
<tr>
<td>1952</td>
<td>71</td>
<td>158</td>
<td>171</td>
<td>70</td>
<td>124</td>
<td>594</td>
</tr>
<tr>
<td>1962</td>
<td>22</td>
<td>38</td>
<td>109</td>
<td>36</td>
<td>145</td>
<td>350</td>
</tr>
<tr>
<td>% change</td>
<td>-69.0%</td>
<td>-75.9%</td>
<td>-36.3%</td>
<td>-48.6%</td>
<td>+16.9%</td>
<td>-41.4%</td>
</tr>
</tbody>
</table>

increased in three other markets. Where concentration ratios showed an increase, the increase was a smaller percentage than the percentage decrease which occurred in the other three markets. During the last five years, 1957 to 1962, the concentration ratios decreased for all markets with the exception of the Dayton market. These concentration ratios varied from 44 to 80 per cent in the six Ohio markets studied.

Several factors help explain these trends:

1. The relatively rapid growth of the medium size firms as compared to the very large firm.
2. The fact that in a number of markets, supermarket chains have entered the milk processing field.
3. The rapid increase in the intermarket movement of milk.
4. Increased activity by the Federal Trade Commission.

It is obvious to all who deal with the processors' segment of the industry that substantial changes have occurred within this segment of the industry. It also seems rather evident that future firm numbers are dependent, to a considerable degree, upon the mode of distribution preferred by consumers.

A discussion such as this should also recognize the difficulties encountered in determining a definition of the term "market." This issue first became an important consideration in dairy marketing with the passage of the Marketing Agreement Act of 1937. This Act provided for the establishment of Federal Orders for the smallest feasible market. The determination of such a market during recent years has presented some of the most knotty problems associated with federal order marketing. Recent regional hearings were concerned almost exclusively with the pricing problems associated with market definitions.

Many factors have contributed to the growth among dairy firms and it is impossible to differentiate one as being more important than the other. Some of the more important factors are:

1. New and lower cost transportation facilities.
2. Our improved highway system.
3. Less stringent local health regulations.

4. The ever increasing sale of milk through chain stores.

5. New innovations in processing and packaging resulting in significant savings to larger firms.

With respect to this latter point there is ample evidence available in several areas of this state to demonstrate this point. The economies of scale are large enough to more than compensate for additional transportation costs and in some cases large enough to overcome higher raw product costs leading to consolidation of operation wherever possible. In some instances this has also led to increased specialization such as has occurred in the ice cream industry.

Summary and Conclusions --

The following is a summary and some conclusions from the data presented in this paper.

1. Milk producers as a segment of the total dairy industry can be said to be dynamic from the standpoint of number and size. For groups representing producers, this might mean:

   a. A continuing program designed to acquaint producers with marketing problems and programs needs to be made available.

   b. Since it is generally recognized that successful bargaining means restrictions or control of something desired by someone else, cognizance needs to be taken of the rapid turnover of producers and the problems this fact would bring about for successful supply control.

   c. Increased size and improved transportation has resulted in significant overlapping of milksheds. This fact will certainly have the effect of altering market programs in one city so that they more nearly coincide with programs in neighboring areas.

   d. The high turnover rate could also be utilized by organization as a means of supply control.

2. The shifting of producers and milk among Ohio markets and markets in neighboring states will continue to plague cooperatives that have here-to-fore
confined their activities to local markets. The effectiveness of bargaining activities both inside or outside the federal order program could be altered unless the organizations involved recognized their positions and presented a uniform program.

3. The Federal Order Program is an example of permissive federal legislation designed to aid cooperatives in their efforts to increase returns to producers. From a bargaining point of view it does assure compliance by all handlers, and therefore, assists in balancing bargaining power between producers and processors.

4. Some legal questions exist concerning the withholding of products from the market. Some clarification of these points should be sought through the courts to prevent excessive losses in terms of money and effort by various groups wishing to use this bargaining tool.

5. The material changes that have occurred in the structure of the milk processing industry will also affect the bargaining process.

a. There is every indication that firms will become fewer and larger, thus making each firm more important. Firm policies are also likely to cut across many markets.

b. There are indications that conventional handlers of the future will be more like supplier to stores than sellers of milk to consumers. Hence, these processors will have less control of the retail price further affecting the possible outcome of bargaining negotiations.

In the final analysis, an evaluation of bargaining involves many complex factors, some requiring more research. For example, nothing has been said about the consumer and their alternatives nor about the importance of good public relations. It is, however, apparent that the issues are neither all white nor all black. Bargaining power is very closely associated to the ability to exercise influence. In this connection, it is obvious that the participants in such negotiations must have equal or nearly equal power.
We have talked about bargaining at quite great lengths today, and several different definitions or meanings of bargaining have been used or implied. For this reason, it may be useful to specify what we have in mind when we refer to bargaining between processors and retailers for fluid milk. In this market, prices are determined by negotiation. There is no general or public market price, rather, buyers and sellers arrive at price through a series of compromises. Bargaining, here, refers to this process of compromise and interactions of buyers and sellers in their efforts to improve the terms of trade of products they handle.

Bargaining between processors and retailers in this "wholesale market" may be quite different from behavior in the market between producers and processors. The wholesale dairy market is characterized by few dominant sellers (processors) and few dominant buyers (retail store firms). In this type of organization, bargaining is conducted under a cloak of secrecy with rebates and kickbacks being a rather typical pattern of bargaining behavior. Bargaining at the wholesale level can span a much greater range of price behavior than bargaining at the producer level because of the lack of government influence in price stabilization at the wholesale level.

What determines the effectiveness of bargaining at the wholesale level? Bargaining in general is typically based on the ability of either side of the market to restrict alternatives to market participants opposing them. We can think of many examples of collective bargaining in labor
where the restriction is a strike or the threat of a strike. While the idea of bargaining on the basis of a threat of a market restriction provides an analogy between labor and this market, it should be noted that bargaining here is very different than collective bargaining in labor. In labor, it is legal and possible to coordinate all of the individual needs and interests of laborers into one policy-making organization which confronts the opponent with solidarity. In the wholesale market for fluid milk, as in the markets for most other commodities, any attempt for competitors to coordinate their interests and meet their opponent with unified policy would very quickly be ruled illegal. For this reason, bargaining in this market is based on the policies appropriate for individual marketing firms.

What features of these individual marketing firms should most likely affect their ability to bargain successfully for improved terms of trade in products they sell? We don't know very much about this question, but theory would suggest that size of selling or buying firm would likely be important in determining the terms of trade which would result from bargaining. The degree of consumer acceptance of products from a particular marketing firm might also affect the terms of trade. Consumer acceptance, however, may likely be a function of promotion and since there is some evidence that promotion on a national basis is more effective per dollar spent than promotion on a local or regional basis, this consumer acceptance phenomenon (or product differentiation) may also be related to firm size. Theory would suggest, then, that in this non-collective bargaining environment, size of firm might be the most important single characteristic
related to effective bargaining. It should be noted that the same rationale would apply to both sellers in this wholesale market or fluid milk processors and also to buyers in this market or retail food store businesses. As such, we would expect the nature of competition and the outcome of bargaining in this market to be rather highly related to the organization of this market in terms of number and size of buyers and sellers.

When we look at this wholesale market environment over the past decade, we note numerous and general changes in the organization of the fluid milk industry as well as the organization of the supermarket industry. In the decade between 1950 and 1960, for example, the largest four food store firms increased their market share from 28% to 42% on the average in seven Ohio cities. During this same decade, fluid milk processors showed a general tendency toward increased concentration—that is, the larger few firms controlling a greater share of the total market during the 50 to 55 period, while growth since 55 in this industry has caused market concentration to increase in some cities and decrease in others. These trends toward fewer and larger firms and larger market shares are not at all uncommon and grow from some rather basic causes. Large firms have demonstrated an ability to reduce costs of many food processing operations due to greater specialization and physical efficiency. How has this general pattern of growth affected the way in which firms bargain? Is this greater efficiency obtainable in larger firms being passed on to consumers?

Research is currently underway to provide answers to these questions. Data pertaining to number, size and market share of fluid milk handlers;
number and size and market shares of supermarket firms; processing and delivery costs for fluid milk; the extent of inter-market shipments of fluid milk and a great quantity and variety of price information has been assembled to facilitate this investigation. These data have been gathered for the time period 1950 to 1962 relevant to five Ohio cities: Cleveland, Columbus, Cincinnati, Toledo and Dayton-Springfield. A great many types of market organization are observed both on the handler side of the market as well as the supermarket side. Great variation was noted in the width of margin for various market situations. In other words, the spread between farm price and retail price, when deflated to take out the effect of changes in the general price level, was considerably more at some times and markets than at others.

It is difficult to look at all of these types of information for different markets and different times and mentally evaluate the effects of each of these market features upon the margins or the amount of resources required to distribute milk. For this reason, all of this information was fed into an electronic computer in order to determine the effect of these variables upon marketing efficiency and bargaining position. This computer can tell us how changes in some of the environmental features of the market, such as increases in the size and concentration of fluid milk sellers, has affected the gross margins for milk marketing and give us some indication of the reliability of this relationship.

Using this computer in our analysis, we tested dozens of hypotheses concerning market performance and competitive behavior. We used all of the high powered statistical gymnastics which were appropriate for this
type of analysis and, of course, obtained a great quantity of results. Some of the answers obtained in this analysis have a great deal more reliability than others. Only in cases where consistent relationships were obtained from several types of analysis are the results believed to be extremely reliable and only these results are being reported.

Various time periods were considered. It was noted that during the early 1950's the impact of these market structure features was not strong and consistent. Since 1957, however, some market characteristics displayed systematic influences upon the outcome of processor-retailer bargaining.

The most useful results obtained from this analysis indicate that seller concentration, buyer concentration, processing costs and outer market distribution were related to the width of market margins. As seller concentration, that is, the share of the total market controlled by the largest four processors, increased, market behavior was characterized by narrower distribution margins. Where buyer concentration, that is, the share of the total market controlled by the largest four retail food store firms, increased, this change was related to higher distribution margins. As processing costs increased, margins increased. As sales outside the marketing area increased, this change was associated with increased distribution margins. The model used allowed also for different absolute cost levels at different Ohio cities. The proportion of total variation in distribution margins explained in this model was about 90%.

These results shed some rather curious light on bargaining in this industry. As discussed earlier, economic theory would suggest that, typ-
ically, increased concentration of buyers or sellers, all other things being equal, would be related to more successful bargaining, and, therefore, wider margins. In these results, however, as seller concentration increased this environmental change was related with narrower distribution margins. This implies that while increased concentration has probably increased the efficiency with which physical functions are performed, it has not apparently created a strong bargaining position. On the other side of the market, however, our results indicate that as buyer concentration increases, this environmental change is related to higher distribution margins. What explains this apparent paradox? As was pointed out earlier, effective bargaining typically must be based on some type of market restriction. In times of surplus production, as we have experienced in the past few years, there is little opportunity for fluid milk sellers to affect successful restrictions. Restrictive policies on the part of fluid milk handlers would quickly lead the retail buyer to shift to an alternate source of supply. In times of surplus production, an alternate source of supply will be typically available because most handlers have more Class I milk than they have outlets for. The effect of this condition on the bargaining position of buyers and sellers at the wholesale level is likely much greater at present than it would have been a few years ago. Currently, the large, well-organized food retailing firms have an asset position sufficient to enter the processing business in many industries on their own should they have difficulty in bargaining satisfactory terms of trade with current processors.

The general reduction in number and increase in size of market participants on both sides of the market creates a tremendous dependence of each
seller upon each buyer. When retail accounts are very large, and a significant part of the processor's business, a loss of one account would seriously effect operating costs. Therefore, he is in a weak bargaining position because he cannot afford to lose an account. Alternative supply of milk may be obtained to replace him typically, where as an alternative account might be very difficult to come by. For these reasons, it does not seem unusual that the increased efficiency of large operations resulting from consolidations of fluid milk handlers may effect the distribution margins greater than any increased bargaining power obtained. As such, where concentration increases distribution margins would diminish. This coincides with results obtained in our analysis.

Now, let's look at the changes in the bargaining position of fluid milk buyers in this wholesale market; namely, retail food store firms. Our research indicates that--first, concentration has increased substantially (by about 50% in this industry between 1950 and 1960); second, that increases in concentration in this industry in the past five years has been related to increased distribution margins for fluid milk. Before we jump to conclusions that this supermarket industry is exploiting consumers, it might be well to conduct a little further analysis into behavior in this industry. I have data concerning operating results of food chains for the period in which our analysis was conducted which indicate a rather consistent decline in returns or profits to these firms. These data also indicate that promotion and selling costs, particularly through stamp programs, have generally increased operating costs for these firms. These types of information can be interpreted in several ways. My interpretation is as follows: The large supermarket firm has had a favorable bargaining position for several years
in the fluid milk business as well as many other industries and has made good returns. In our free enterprise economy, however, high returns bring new competitors. Increased numbers of large food store organizations have presented more stores than we probably need and have increased the costs of selling of each of these firms. The end result is that this change in marketing environment has the effect of widening the distribution margin but not increasing the profits of individual firms in the long run.

The observed relationship between outer market sales and increased distribution margin in a particular city is suggestive of price discrimination. Evidence of this type, however, is not sufficiently direct or precise to be very useful.

In summarizing the results of our analysis of market structure and market behavior and what inferences may be drawn concerning bargaining at the wholesale level for fluid milk, it may be concluded that the consolidation of physical plant facilities, readily observed in the fluid milk processing industry, has not had significant effect on the bargaining position of fluid milk sellers at wholesale. On the other hand, there is evidence that technical cost savings achieved by consolidation of processing facilities are passed on to the consumers. The consolidation of food retailing operations has likely strengthened the bargaining position of food store firms and while these consolidations may have reduced costs of handling at retail, there is no evidence that these cost savings are passed on to the consumers. In fact, evidence indicates that increased concentration of retail firms is associated with increased distribution margins for fluid milk.
In looking to the future, I would expect a continued strong bargaining position on the part of retail food store concerns. This expectation is primarily based on the anticipation of continued surplus production of Class I milk. The organization of both buyers and sellers is sufficiently concentrated to enable aggressive bargaining on both sides and while continued consolidation is expected in both buying and selling industries, anticipated changes will not likely out-weigh the effects of surplus production and consequent alternative opportunities for supply on the part of food stores.
THE DYNAMICS OF THE GRAIN ECONOMY

By Harold Anderson, Senior Partner of The Andersons, Maumee, Ohio

We are living in a great era. This free enterprise system of ours is a wonderful thing. Most of us would agree that free competition is something which makes us grow economically. Yet, I have found in my lifetime of business that most folks like competition, - but for the other fellow. They endeavor to avoid as much competition as possible in their own field.

My subject is The Dynamics of the Grain Economy. The dictionary defines dynamics as the forces, physical or moral, at work in any field. Most of us would agree that there have been many forces at work in the grain economy during the past 40 years. If we go back to the pre-world war one period, rather generally, country elevators were taking a margin of 10 cents a bushel.

One day, some thirty-five years ago, seven elevator managers had a complaint to register against our operation at The National Milling Co. They claimed we were buying from a scooper. I asked, "What is a scooper?" One of them answered, "Why, he is the farmer who is scooping grain from a truck into a boxcar and shipping it to you, not only his own grain, but grain that he buys from other farmers." When I found out they were referring to a certain Jerome Leonard, I found that we had purchased large quantities of grain from Jerome Leonard. Our business with him had been quite satisfactory. I said to the men, "What's wrong with buying from a scooper?" They said, "He doesn't have an elevator or other facilities and he can't properly service the farmers."
I told them, "As I understand it, he is making a nice profit, his business with us is satisfactory. I cannot see what is wrong with buying from a scooper. Today, through competition in most areas surrounding Toledo, there is little room for a scooper to operate a successful business.

This conference is concerned with bargaining in agriculture. With free competition, there is little need for bargaining. It is when we do not have free competition that bargaining is necessary. There is no business that lends itself more to the forces of free competition than the grain industry. The accomplishments of this free competition in grain have been great. It works beautifully when a person takes a detached position, but when you are involved in the daily complexities, it can be disturbing.

For a number of years, the country elevator competition wasn't too keen. The normal margin of operation was 10 cents per bushel on grain. Occasionally, scoopers would come into the picture. By and large, however, for many years the country elevator business was fairly static.

Then came trucks and better highways. Prior to this time, farmers marketed their grain at their local elevators. Each elevator had somewhat of a semi-monopoly. He did everything he could to protect his semi-monopolistic position. But, when better transportation was available, farmers started to cross area lines. This resulted in active price competition and a lower margin to the elevators with consequent better prices to the farmers.

The rail rates also play an important part in the grain marketing system. For many years, the railroads maintained virtually a
static price structure, but when grain started to move by truck or water in greater and greater volume, this caused a considerable upheaval in the price structure of the rail rates on grain. Prior to the development of trucks and better highways, the transit system of grain rates held the grain to the railroads. This was accomplished by having high inbound rates which were absorbed on the outbound movement, but which, if the grain was not forwarded, would make it too costly to put the grain into ships. With the coming of trucks and better highways, grain started to move to water outlets via truck.

The railroads, attempting to meet the competition of truck and water movement, made many rate changes in order to hold the business to the rail. Grain had been moving down from the head of the lakes to Buffalo to be transferred into barges for shipment overseas at New York. The railroads lowered the ex-lake rates from Buffalo to New York City to meet this competition. The end result was that finally at Toledo, grain could be moved ex-lake to eastern seaboard at half the rate that the same kind of grain could move if it came in by truck.

As a matter of fact, grain could be moved via inbound truck to Toledo, outbound water to Chicago and because the grain came into the Chicago market by water, it could move from Chicago via Toledo to eastern seaboard by rail for export at some seven cents a bushel less than from Toledo to eastern seaboard for export. At times, grain could be hauled from Toledo to Chicago for less than seven cents a bushel. Actually, grain has moved from Toledo to Chicago in years past largely because of this unusual rail rate structure.
For many years, the railroads were quite successful in keeping the grain to their rails in this territory. For many years, little or no grain moved out of Toledo by water. Yet, the lakes were there and the St. Lawrence River was there and this system was moving millions of bushels of grain from the head of the lakes to Montreal, Three Rivers and Quebec for shipment abroad. On occasion in the past, Toledo has transferred Canadian grain in bond to move to the eastern seaboard by rail for export during the winter months, but the majority of the volume moved from Port Arthur-Port William at the head of the lakes to lower lakes elevators and then was transferred to canalers for shipment via Montreal, Three Rivers or Quebec.

About fifteen years ago, grain in fair volume started to move to the Toledo area by truck. Because it came in by truck, it could move out by water at no penalty. This inbound truck grain could go by water through the same Canadian ports of Montreal, Three Rivers and Quebec. In fact, some fourteen years ago, a few million bushels moved in that fashion in one year. The Canadian government soon stopped this operation because this grain was competing with their grain business out of Ontario. As long as the grain was consumed in Canada, the Canadian government did not interfere and so up until the time of the deepening of the St. Lawrence River, most of the grain that was loaded into ships in Toledo moved to Canadian ports for Canadian consumption.

Then the deepening of the St. Lawrence Seaway came into the picture. Railroads had been successful in keeping our country from
doing much in this regard. The Canadians, however, took the leadership and planned to deepen the St. Lawrence with or without our cooperation. The result, as you know, was a joint development of the St. Lawrence wherein the two governments shared alike in the costs. Now, this quickly changed the whole picture for grain shipments via the St. Lawrence. Large lake freighters could gather up the grain at the head of the Great Lakes and move it directly to Montreal, Three Rivers and Quebec, thus doing away with the transferring at lower lakes ports. Ocean ships could come directly to the lake ports. Thus, Toledo and other lake ports had an open sea-way for the merchandising of grain the world over.

Through our free competitive system that works so wonderfully in grain, all of the advantages of this better outlet to the sea have accrued to the farmer. Now, the farmers in this area receive perhaps ten cents a bushel more for their grain in relationship to the Chicago market than existed prior to the deepening of the sea-way. Toledo geographically has the best location on the Great Lakes to load ships for export. Toledo is located at the end of a straight line to Europe. In order to gather up grain in Chicago, it is necessary to take three more days of transportation over and three more days back. Most of the Chicago elevators are located on Lake Calumet. The Calumet River leading to Lake Calumet is a tortuous one, with only about a nineteen foot draft. The round trip tug cost is approximately $2,000.00. It soon became obvious to grain people interested in export that Toledo was the location to take full advantage of a development of the St. Lawrence River. One would
expect any elevator situated in Toledo, taking advantage of this situation, would prosper. Now, what has actually happened?

The Port Authority conducted a study at a cost of approximately $11,000.00 some few years ago to estimate the effects of the seaway on grain movements in the Toledo area and to recommend the developments needed to service the expected volume of such grain movements. This report estimated that in fifteen years, 40,000,000 bushels of grain would move outbound by water from Toledo. The second year that the port was open, 42,000,000 bushels moved and last year, 56,000,000 bushels. This new seaway development offered challenges to the operation of all elevators in the Toledo vicinity. There was much talk about the concerns that would build elevators. The Port Authority was to build and lease elevators. After the smoke had cleared, the Port of Toledo had grain facilities equal to the best in the country. Cargill, Inc., one of the largest concerns in the world, leased the old Norris Grain Elevator (called the East Side Iron Elevator), had it completely renovated and equipped to load ocean freighters at a high rate of speed. Five co-operatives in Ohio, Michigan and Indiana organized the Mid States Terminal and constructed a new facility at the Port of Toledo to load ocean ships. The Andersons built a new facility at the Port of Toledo and added 10,000,000 bushels of storage space to their 4,000,000 in Maumee, Ohio as back-up grain for their river elevator. This increased greatly the competitive situation in the Toledo market. Additional truck unloading facilities were added and are being added at this time. The Toledo market can, in one day, conservatively handle one million bushels inbound by truck and can load out by water in excess of this amount.
About fifteen years ago, when grain started to move to the Toledo Area by truck, the margin taken by country elevators began to narrow. Country elevators in the area, because of competition, reduced their margins. The improvement in the efficiency of country elevators surrounding Toledo became obvious. I recall a good friend of mine, who operated a country elevator, wondering what to do when the railroad withdrew from his location. Should he build another elevator on another railroad in the face of the high prices that were being paid for grain in the area or should he try to operate with the facilities he had with no railroad outlet? He decided to build a new elevator on a railroad. He now is glad that he did so. He says he stops the grain before it reaches Toledo. He is working on a much narrower margin but doing quite well because of better facilities and greater volume. With surplus terminal facilities, the margins are narrowing to virtually a no profit position. With country elevators in the area functioning on lesser margins than thirty years ago, it becomes obvious that free competition has transferred a large share of the benefits of the seaway and the better facilities to service the seaway into the pockets of farmers.

At the same time that handling facilities have improved to the point where the services rendered are at a minimum cost, storage facilities, because of the government's program, have developed to a point where charges for storage are no greater, if as great as thirty years ago. The government has withdrawn most of its grain in terminal markets from this area, resulting in excess storage capacity for the time being. From a profit standpoint, it doesn't
look too good. From the farmer's standpoint, of course, it looks very good as the charges for services by elevators are at a very low point.

Because of the highly competitive situation in grain at the present time, one naturally starts thinking about what can be done to improve the profit picture. How could one arrange to operate in a better fashion, more efficiently and also create a greater volume of trade? An obvious approach is to obtain a backhaul for trucks that bring in grain. Most trucks that bring in grain to the Toledo market return empty. A mixing of fertilizers would not only provide backhaul, but would also have the effect to improve the production of grain in the area. This would be particularly true if the cost of fertilizers could be reduced.

With the finding of large beds of potash in Saskatchewan, Canada, the possibility of bringing in the basic materials for fertilizer mixing by water is something to be investigated. Should Toledo become, in a sense, the origin of the raw materials of fertilizer rather than the end of the line as is the case now, the mixing of fertilizer in Toledo would grow and grow in volume. Our own experience has been that our fertilizer mixing business has grown by leaps and bounds. We have just recently completed a plant that can mix 2,500 tons of fertilizer each day. Forty per cent of the trucks that take out fertilizer now bring in grain.

There is another field of endeavor that is most interesting that can help out this competitive situation in grain. Like all country elevators, we receive ear corn. When we first started our operations, we had large piles of cobs to dispose of. Three times
we smothered Maumee with smoke when some 15,000 tons of cobs caught on fire by spontaneous combustion. The people of Maumee naturally complained. We had to do something.

About this time, a mushroom grower in Pennsylvania wanted us to supply his concern with corncobs. He had forty acres under ground in an old mine. In growing mushrooms under such circumstances, you need horse manure. Horse manure creates heat. Horse manure is in short supply, so he was making artificial manure by using corn cobs, mixing them with legume hay and water. The resulting mixture proved better and more uniform than regular horse manure.

We have used the corncobs for fuel in our furnace to produce the heat for drying grain. They are worth about $7.00 per ton as fuel and saved us about $500.00 a day in fuel costs. We actually get a greater drying capacity by using corncobs as fuel than by using gas.

After a considerable investigation of other uses for these surplus corncobs, we decided to establish a processing plant for making commercial corncob products. Production grew and the plant was soon doubled and is now being doubled again. These processed corncobs are used as a light abrasive. We have shipped the product via the St. Lawrence River to England and even in one case to Thailand. We understand they were used in Thailand to clean jet motors. Shipments abroad have been small quantities. Largely, these cob products are used in this country to polish materials of all kinds.

Corncobs are now being used as a carrier for chemicals. A
large market is being developed throughout the United States for these products. This is quite encouraging since corncobs have historically been a by-product of little value to the farmer and really an expense to the country elevator that had to dispose of the corncobs.

As a by-product of the corncob processing, you have a soft material that has not yet found a good market for industrial purposes, but in our tri-state area, the universities agree this corncob material has considerable value in feeds for four-stomached animals. If it had to be produced directly, it would be the most costly part of the cob to produce. As a by-product of the industrial cob processing, of course, it presently commands a relatively low price. The manufacture of mixed feeds with corncobs as a base could be the answer. Using corncobs in feeds could change the whole economic picture in this area insofar as grain handling is concerned. There are millions of dollars of value in the corncobs that are now being wasted in the Ohio-Michigan-Indiana territory.

Now, in conclusion, let me say that the farmer has received the benefits more rapidly than I anticipated that have come from the many economic changes in the handling of grain in this area. Actually, the prices now at Toledo for grain are a premium over the Chicago prices, whereas just the reverse was true prior to the deepening of the St. Lawrence. The normal differential in price for freight on ocean ships favors Toledo by three cents a bushel. Whereas Toledo served in large part the Canadians' requirements for soybeans year before last, this is no longer possible now because Toledo soybeans are too high in price. Chicago satisfies the Canadian requirements with the lower lake freight differential.
Because of this premium that Toledo receives for its grain over Chicago, it will take many, many years to satisfy the demand for grain f.o.b. boat, Toledo. Rail rates to Toledo for shipment outbound by water will finally be made to compare with the rates now made by railroads to eastern seaboard. With improved roads, trucks will reduce rates to Toledo, increasing the area that Toledo will serve. The seaway and its influence is a great economic gain for this area, particularly in the grain industry. It is going to benefit the industry in other fields. The system of free competition will enable us to grow crops at the lowest cost, harvest them at the lowest cost, get them to market at the lowest cost and sell them to the consumer at the lowest cost. If that is done, you don't need to worry about bargaining.
Essential Characteristics of Collective Bargaining

First, collective bargaining is strictly a relationship between organizations. Contrary to a mistaken belief in many quarters, collective bargaining is not a relationship between management and workers. Management-employee relations encompass direct dealings between company officials and workers as individuals, whereas collective bargaining is confined to dealings between company spokesmen and the representatives of the union which is the bargaining agency of the employees.

Second, collective bargaining is a power relationship between the two organizations. Bona fide collective bargaining does not exist unless the union has the ultimate right to resort to force, in the form of a strike, and unless the representatives of management also have the ultimate right to refuse workers employment if they are unwilling to acquiesce to the demands of the union. Stated more bluntly, collective bargaining does not exist unless each party is free to negotiate with a club which is within handy reach in case of necessity.

Third, collective bargaining is essentially a treaty-making and treaty-enforcing process between companies and unions. The end objective is that of setting forth for a period of time agreements on such things as wages, hours and other conditions of employment. During the period when the contract is in force, the principal activity of the parties is the administration and interpretation of its provisions. In well-established collective relations this treaty administering function is customarily performed in a very orderly manner.

Finally, collective bargaining is in practice a process of accommodation between companies and unions. Although open conflict and guerrilla warfare
may be characteristic of some relationships at particular points of time, the vast majority of collective relationships provide an avenue for orderly and peaceful resolution of differences through compromise, agreement, and cooperation. Thus, despite the fact that collective bargaining has its roots in a conflict of interests between capital and labor and cannot exist without the right of both parties ultimately to back up their respective interests with force, it is really an instrument for furthering industrial peace. It is a way of organizing divergent interests in such a way as to resolve rather than to extend open conflict.

**Driving Forces In Collective Bargaining**

The union as an organization attempts to effect a proprietorship over the discontents, aspirations, and special interests of workers in the factory, mine or office. Though American unions are sometimes interested in community relations and are becoming increasingly active in national and world affairs, their core function is still collective bargaining with employers. This is their main business and consumes their major energies.

The objectives of union leadership in the process of collective bargaining fall perhaps into five broad categories:

The first set of objectives is concerned with the preservation and the strengthening of the union as an organization. In this area labor leaders press for such things as the recognition of the union's functionaries in the plant, the checkoff of dues, and the union shop. The objectives are 100 percent membership in the union and full-fledged recognition of the organization in the shop. These are the essential goals of all unions.

The second group of objectives centers upon getting "more" for the membership. Here we have the familiar demands for higher wages, shorter hours, holidays, vacations, sickness allowances, pensions and a host of other material benefits which workers want. When economic conditions make the attainment of
additional concessions impossible, then the job of the union is to preserve
the benefits which have already been won. A union which cannot deliver in
this area will not survive for very long.

Third, the union is constantly striving to acquire a greater measure of
control over jobs. It must act as a watchdog on management. In order to
build the prestige of the organization and to protect the members' interests,
union leaders naturally feel that they have to protest company actions, police
them, or actually participate with management in making important decisions which
will affect individual jobs and employment opportunities as a whole. Inevitably,
therefore, unions encroach upon the domain of managerial authority.

Fourth, union leaders are usually concerned with broad social and economic
goals. They look upon collective bargaining as an instrument for placing human
welfare before profits and human rights before property rights. Yet, as a
practical matter, the modern unionist openly or tacitly admits that these goals
must be advanced within the context of the private-enterprise system. In the
final analysis, therefore, the objective of most American unions is to make the
existing enterprise system more responsive to human needs.

Finally, the actions and policies of union leaders are also explained in
part by personal goals and ambitions. They naturally strive for personal
status and power, and they are eager to build reputations as "good fighters for
labor" and as "competent bargainers." These goals may be advanced in a variety
of ways, ranging all the way from attacking the employer to playing the role
of "labor statesman."

The common denominator of all these union objectives is to put pressure
on the employer. In so far as the core activity of organized labor is collec-
tive bargaining, the central purpose of a union is, therefore, to generate
pressure on management to achieve the objectives described above.

It follows, then, that management's objectives in collective bargaining
are primarily concerned with developing a strategy for making adjustments to
union-generated pressure. The core function of a business enterprise, however, is not collective bargaining. Most of management's energies are directed to other activities such as procurement of materials, production planning, financing, and sales promotion. Management is under pressure to keep its stockholders happy and to satisfy its customers. The union merely brings into play a third pressure, the pressure to satisfy the workers and the institution which bargains for them. In collective relations, therefore, the employer is usually on the defensive. The company has an interest in preserving the status quo, whereas the union is usually eager to press for changes. Within this context management's objectives in collective bargaining probably fall into these general categories:

First, management is interested in the preservation and strengthening of the business enterprise. It is concerned with both its economic and its organizational welfare. It needs to keep costs down to make profits; it needs to set aside reserves to finance new equipment and plant; and it needs to build teamwork and to develop morale in the working force. The union may threaten the enterprise in several ways. It may press demands which would impair the financial health of the firm, or it may frustrate management's efforts to build a loyal organization. In response to such pressure the company may try to hold the union at arm's length, or it may attempt to use the union as a means of helping build a better organization and to enlist its support in increasing output and improving efficiency.

Second, management is nearly always concerned with retaining control over the business and preserving its freedom to exercise its central, managerial functions. Obviously, management's concern with its prerogatives, is likely to clash with the union's quest for control over jobs. Here again the company may choose different means to achieve the same ends. It may
attempt to minimize union interference with its prerogatives, or it may look upon the union as an instrument for implementing its policies and actions.

Third, management strives for businesslike relations with responsible unionism. It wants union leaders to guarantee performance under the contract. It seeks assurance against work stoppages during the life of the agreement. In short, it strives for stability and predictability in its collective-bargaining relationships.

Fourth, management is usually deeply concerned with the preservation of the enterprise system of which it is a part. Consequently, in the minds of many company executives, collective bargaining relationships must be consistent with the broad goals of preservation of individual initiative, freedom to venture, and the theory of the competitive market, which are conceived to be cornerstones of economic progress. In broad terms, management is eager to promote the kind of relation with unions which will protect and bolster free enterprise.

Finally, as in the case of union leaders, company officials have personal goals and ambitions which they may seek to advance in their capacity as business leaders. In management-union relations, as well as in other phases of business management, they seek to build reputations as men who can be "firm but fair" or executives who can "combine sympathy for human needs with practical business judgment."

Arguments Used in Wage Bargaining

"Ability to pay" has long been considered a facet of collective bargaining. Wage negotiations have always been dependent upon whether or not the employer was able to meet an increase in wages. For many years "ability to pay" was only a background condition, based not on inferences from facts available to both sides, but only on the employers unproven statement. However, today, union leaders, especially the younger group, are economically more sophisticated.
They realize in a practical way that wages are limited in amount by a firm's financial competency. And they realize also that occasionally the employer, in the heat of argument, may overstate his inability to pay a wage increase.

To satisfy themselves of an employer's "ability to pay" and to get collective bargaining down to a factual basis, the unions have established research agencies. These have been manned with capable specialists. In the larger unions, certified public accountants and cost accountants make up part of the research staff. In the smaller unions, arrangements are generally made for the services of recognized accounting firms on a retainer basis. In one fashion or another, the union equips itself to find out the actual financial situation of its bargaining adversary. When management's claim of "inability to pay" is brought to the bargaining table, the unions demand access to the company's books in order to determine for themselves whether or not such inability exists. The National Labor Relations Board has assisted the unions at this point. The board has held employers to be guilty of "refusing to bargain" when on the one hand they claim inability to pay while on the other they refuse the union access to the books or refuse an independent audit. As a consequence, employers now seldom claim inability to pay unless they are sure the facts substantiate the position taken.

Union examination of company books has not been without its constructive effects. Upon occasion, the Union's analysis has shown clearly that the lack of profit sufficient to make an increase in pay has been the result of factors other than wages. Sometimes, as in the clothing industry, the unions have joined hands with management, in cooperative fashion, to reduce operating and other costs and thus in effect to create an ability to pay. Here the union has stepped up productivity to enable the employer to meet the increase.
Comparable Wages

The argument of comparable or prevailing wages is based upon the premise that compensation in plant X should be equalized with wages paid in the industry, the industry-area, or the area. Perhaps it is typified by the slogan "equal pay for equal work." It is an argument almost sure to arise in any wage controversy. It is quite natural for the parties to judge the fairness of a wage by comparing it with others in a comparable realm. Equal wage rates for identical work has now become a fundamental principle of bargaining.

Comparable wages can mean different things. Perhaps the most obvious application is the agreement that plant X should pay wages equivalent to those in the same industry in the same area. But there may not be other plants in the same industry in the same area. If not, the argument may develop around either the industry or the area. Thus, comparable wages may come to mean wages paid in the industry regardless of where it is found: or wages paid in the area regardless of the type of industry in the area. Depending therefore upon the exigencies of the moment, the argument of comparable wages or "interplant inequities" may mean any of several things.

The argument based on inter-plant inequities ignores the diversity of the internal problems in whatever "comparable realm" is chosen. Plant X, whatever its individual situation, is compared with other plants, regardless of their internal situations, and occasionally without regard to their location. The "rate" is all important and it must be comparable with other "rates." Modern unionism stands positively upon its adopted principle that it will not subsidize inefficient management by accepting less than comparable rates. "We won't keep anybody in business by accepting an inferior wage scale."

Except in industry-wide bargaining, the union's normal bargaining technique in utilizing the comparable wage argument is to isolate a leading firm,
obtain a wage increase there, and use it in support of wage increases in other firms in the industry or industry-area. Employers have sought to stymie such efforts through trade associations and industry community pressures. The employer's degree of success in such control efforts is almost perfectly correlated with the general situation of the labor market. The efforts are most successful against a background of a surplus of labor supply, and least successful where there is a severe manpower shortage. Likewise, control measures are more successful in depressional than in prosperous times. To say the same thing in another way, the comparable wage argument is successful for labor whenever economic conditions make it possible to use such an argument as a pressure weapon.

**Intra-Plant Inequities**

Intra-plant inequities exist within a plant in contrast to inter-plant inequities which exist between plants. An intra-plant inequity may exist on an individual employee basis wherever certain employees within the same occupation are paid different rates for no apparent reason. Such a situation normally reverts to the grievance procedure for settlement. In a more important sense, an intra-plant inequity exists whenever an occupational wage rate (or rates) has been "pushed" or has grown out of its proper relationship to other rates within the plant. This may have been the result of administrative favoritism, unintentional dilution or enhancement of job content, technological advancement, over or under-priced piece rates, changes in the productive setup, or changes in the product itself.

The end results of bargaining on intra-plant inequities are at least threefold. Bargaining may lead to agreement for a job evaluation, which is normally designed to provide proper job relationships, thus eliminating at one time all intra-plant inequities. Or the agreement may simply provide for a committee or other procedural technique to eliminate the inequity: The committee may be given a lump sum of money to be distributed in such a way
as to eliminate inequities or given carte blanche to adjust all inequitable rates. In still other cases, the collective bargaining group itself may consider each inequitable rate and resolve the issue "across the table" in what is usually a rather involved session.

Cost of Living

The practice of adjusting the wages of workers on the basis of changes in living costs is neither new nor unusual. The U. S. Anthracite Coal Strike Commission of 1902 used cost-of-living data to some extent in making its wage settlement and as early as 1910 the wage contracts of some groups of railway workers were revised to make allowances for price movements.

Prior to the First World War, however, cost-of-living figures were not sufficiently comprehensive to be used effectively. During the war, more satisfactory data became available and were frequently the controlling factor in wage determination. In the postwar years, particularly between 1919 and 1922, a number of union agreements provided that wages would be adjusted according to changes in the cost-of-living figures of the Bureau of Labor Statistics. It is only in rather recent years, however, that the cost-of-living argument has become a widely accepted bargaining technique. In preparation for almost every bargaining session today, the parties review cost-of-living data as a prelude to the almost inevitable use of these arguments in their bargaining.

Cost-of-living arguments touch collective bargaining in several ways. The parties are likely to use cost-of-living data along with other arguments in contract bargaining. The actual determination of the wage increase or decrease on the one hand, or the resistance to a wage increase or decrease on the other, may rest primarily or partly upon the cost of living. But although the cost-of-living argument may result in a changed wage scale, there may be no reference to such in the contract.

In contrast to this procedure is actual reference to the cost of living
in the contract. This may take either one of two forms. Cost of living may be stipulated as a reason for reopening the contract for renegotiation of wages: or there may be written into the contract a methodology for automatic wage revision bases upon changes in the cost of living.

At the bargaining table and during the day-to-day administration of the contract, company and union officials are continually dealing with issues arising out of the pursuit of the broad objectives already discussed. Some relationships appear to be fraught with conflict, whereas others appear to be quite harmonious. The determinants of the conflict-cooperation pattern in various relationships lie beyond the scope of this discussion. They stem primarily from the varying means employed by the parties to achieve their ends rather than from differences in the basic objectives themselves. Nevertheless, whether the process is arduous or relatively painless, collective bargaining in most cases provides an orderly means of accommodation of the objectives of the parties. Company and union leaders, in their capacity as statesmen, diplomats, or just plain horse traders, usually manage to find some way of compromising in areas of basic disagreement and of cooperating where they have common interests. Collective bargaining relationships often break down: sometimes the Government is forced to intervene to bring pressure for a settlement, and all long and costly strikes are not completely eliminated. Yet industrial conflict is really not a major problem in the United States today. Indeed one might say that "peaceful" strikes are becoming more and more accepted as a normal and legitimate part of the process of modern collective relations. The remarkable thing is really not that we have strikes but that we have so few of them in a country where unions are so firmly entrenched.
The question for discussion this afternoon is: Considering present problems and probable future trends in the next decade. What changes should be made in marketing livestock from the farmer's feedlot to the packer's cooler as observed by: (1) The retail meat merchandiser, (2) The meat slaughterer, (3) The farmer feeder, (4) The marketing firm.

Moderator - Ladies and gentlemen, we are going to start our discussion this afternoon by calling first on the retailers. We have with us Mr. Baehr who started in the retail meat business as a retail meat clerk in 1931 while still in high school. He is a native of Kansas and served two years with the marine corps during World War II. At the present time he is meat supervisor of the 38 Big Bear stores which have headquarters here in Columbus. I am very happy to introduce Dyal Baehr to you who will open the discussion from the point of view of the retail meat merchandiser.

Thank you Professor Henning. I have been asked as a retail meat man to make a few comments pertaining to livestock marketing. Professor Henning asked for some comments in some specific areas, so I will read the questions and make some comments on them. Now as he told you I was a last minute replacement and I didn't have too much time to spend on this so I got some co-workers of mine together and we had a short brainstorm session. Now if any of you don't know what a brainstorm session is, it is getting an X number of people together, posing a question and just getting comments on the question. What do you believe should be done with respect to improving the grading of

* The statements were obtained by tape recording.
livestock and meat to produce the grades and quality of the product required by the consumer? Number 1, stop giving prizes for producing the kind of cattle that we don't want to buy. Number 2, promote carcass judging--give prizes for the best quality carcass with the best cutout. Number 3, penalize the waste cattle producer. Number 4, pay the feeder for his cattle on a carcass grade. Now this is being done, in fact I think one of the members on the panel from a packing company does some of this, but I don't think this is too widely done. Another thing which occurred to me last night while watching television when I saw a program where they were interviewing Winthrop Rockefeller on his farm in Little Rock, Arkansas. He talked a little bit about raising cattle—he made the comment that all of his cattle were carried from when they were produced to the end on IBM cards. They found out what the end result of cattle was that they were raising. Now I certainly wouldn't expect all of you to run out and buy an IBM machine to do this, but I just wonder how many of you who are cattle feeders and producers actually have seen the end result of what you produce. Now by that I don't mean by going in a packer's cooler particularly and looking at it but perhaps following a carcass or two through at a retail level and see how it cuts out. Another question is, how can a pricing system be developed over a period of time so that price will be related to cutout value and quality? One, improve dual grading techniques. Two, it is our thinking that quality is not as much of a problem as the cutout. Three, packers sell beef by wholesale cuts rather than by quarters. Four, packers remove all excess fat even to trimming cover fat to a standard as they do on pork loins. By knowing the loss on identified cattle they would be in a better position to penalize the waste cattle feeder. This fat is more valuable to the packer than the retailer and freight would not be paid on this waste.
How can the livestock industry best move forward in the next decade to bring about the changes that will be needed keeping in mind the present and future trends that are developing? More research, but most of all improve communication so that all parts of the industry knows what is being done. Two, more education is needed. Each arm of the industry should know more about the others. From this we've talked it over and decided that we might say tear down the fences and build bridges. We all know the meat we consume is touched by six hands. First is the breeder, the feeder, the commission man, the packer, and retailer, and the consumers. In most cases there are fences between any or all of these people. Everyone is a pessimist thinking that he has the worst job of the lot. Everyone else makes all the profit and does the least amount of work, but I am sure you all know that it is the retailer that does the most work and makes the least profit.

Instead of looking over a fence at the others and being ignorant of their problems we should build more bridges, just as we are doing here today to find out that the grass really isn't greener on the other side. I will build a bridge right now. Any or all of you will be welcomed to sit in on a cutting test that we make to determine on a carcass of beef how much our waste is. This could even well be your own cattle. Thank you very much for your kind attention.

Moderator - Thank you, Mr. Baehr. Our next member of the panel that I want to introduce to you is from the Liberal Markets in Dayton. They operate in the Dayton area and the surrounding towns. They have 27 supermarkets and have their own cattle feedlots. Liberal Markets are operating their own feedyards, and I believe they feed about 3,000 head annually and market the meat through their meat markets. Our next gentleman is in charge
of the meat operations for the Liberal Markets, and he is also directing these other operations that we have mentioned. They also have their own provision company which handles a number of meat and other items for the organization. I want you to note that this is what we would call the integrated type of organization. Mr. Schear, who is going to talk to us now, is director of meat operations for the Liberal Markets of Dayton.

Mr. Schear - Dr. Henning and all you fine people, I have been on panels and discussions with Dyal Baehr from Big Bear before, and I guess it is getting to the place where I am going to have to change the name of our company so I can get ahead of Big Bear because it seems like great minds or weak minds travel along the same kind of track because many of the items he mentioned I have down here and I don't think they merit any additional discussion. Our operation, as some of you may not know, is in this feeding operation plus the stores as Professor Henning called an integrated program. What we are attempting actually to get done is more carcass evaluation. Three thousand head of cattle sounds like it is a large number of cattle but in the overall picture, we use the cattle primarily to try to buy the same type of cattle that we are feeding. We are in the purebred angus business. We are proud of that, and we only feed angus cattle, not that there isn't other great breeds and other great types of cattle, but it so happens that we limit ourselves to the black cattle. Now as far as the grading of these cattle, the evaluation of these cattle, I am not going to try to get into a discussion of my feeling on government grading. I will say this in passing on the grading that it is the same as the many different ways that are available to you people as producers to get the cattle marketed. There is no, what I would say, perfect system but they are all trying and I must go on record either officially or unofficially to congratulate the U.S. Department of Agriculture in their marketing service for
the effort that they have put forth in the dual grading. It is not perfect. I think anybody would be foolish to say in less than a year that anything in this complicated business could be, but at least I believe they are making a lot of people think. Unfortunately, it is a misunderstood situation and like I say I am not defending it but I do think that they are trying. Now, as far as the type of cattle that we are feeding, we are trying to get yearling cattle up to around a thousand pounds that are well within the choice grade, and we do pay a premium for those kind of cattle and if there are any questions about how we buy these cattle, I think we can discuss that in the open panel. That is all I have to say right now.

Moderator - Thank you very much, Mr. Schear. Now we want to pass on to the slaughterers. We have two gentlemen here that represent the slaughtering industry. The gentleman I am going to introduce first comes to us from the Sandusky area, the J. H. Routh Packing Company. He is a fellow that was born and reared in southeastern Ohio and has graduated from our Ohio State University so he is one of our products. We always have to give a plug for those fellows. He has had some experience in government grading and has been associated with the packing industry with the J. H. Routh Packing Company of Sandusky nine years. So I am very happy to introduce to you James Hahn who is better known as Nick Hahn.

Mr. Hahn - Thank you Dr. Henning. I will start out by saying we are not pork retailers and they kind of got me out numbered but I know there is a beef slaughterer beside me and all these retailers talk about is beef. I don't know whether they sell pork in their stores or not, but we will have to remind them that there is such a specie as pork.

The biggest problem I can see in the present market system is that we are not recognizing quality and paying for it. Too much livestock is being
sold on weight and weight alone. I think the lots should be sorted up more evenly for weight, grade, and cutability and sold that way. The carcasses of high grade and good cutability under the present system are subsidizing the ones of inferior grade and low quality. In many instances, the volume producer is getting more money for his livestock in volume alone and not on quality.

I am not saying that proper sorting and grading will bring any more total dollars to the producer but it will put the correct amount of dollars on the correct amount of livestock being sold. I believe it is the responsibility of all packer buyers, commission firms, order buyers, "to take the bull by the horns," so to speak, and not worry so much about average cost, but the important factor is the actual cost of the end-product at the consumer level. I am referring to the percent of the major wholesale cuts do these carcasses produce and what is the cutability of these cuts? The day that everyone starts buying and selling livestock at actual merit, we will have a closer relationship of livestock prices to retail prices and there will be more encouragement for producers to produce the high yielding and high cutting kind. The producer of low yielding and cutting livestock will be forced to either improve his livestock or get out of business as he will no longer be subsidized by producers of high quality, high cutting livestock.

I feel at the packer level we have to carry this method one step further. Not only are we going to have to buy this product on its merit. I think we should merchandise it on its merit. Our plant believes that we are buying the best hogs that we can purchase and we are going one step further, we are selling this product as two grades. We are selling what we call fancy pork and regular pork. We at present on pork loins are getting eight cents on fancy loins over regular loins and on butts we are getting 10 cents premium
on fancy butts over regulars and the same ham. So I think it is the responsibility of the packer to buy this product and merchandize it as such.

It doesn't do too much good to go out and buy a few quality animals, high cutting ones and then throw them in the barrel with the rest of them and let them get mixed up. The modern retailing method, I think, will help speed the buying today toward more merit buying since most meat is retailed on self-serviced counters. We no longer have the friendly meat cutter cut at the counter trying to sell and hide some of the undesirable products and push it onto the consumer. Counter space is at a premium in most stores due to lack of available space and retailers are getting more and more demanding on the type of product they put on these counters. They want a product that moves. They are more concerned about net dollars than gross. They must keep the products moving fast through the available space, and they are demanding a type of product that will move.

A couple of other things I think should be thrown in for consideration, I am not saying which way they should go, I think the possibility of earlier movement of livestock is desirable so that it is easier to make the next days kill or even possibly the same days kill, and I also wonder if we are not getting too many buying points for an efficient operation to have enough volume to do a proper job of sorting and selection. Thank you.

Thank you Mr. Hahn. Next we will switch to southwestern Ohio for our next speaker who has a long family background of meat slaughtering. The family has been in the meat slaughtering business, I understand, for some 75 years and Mr. Juengling, who is a graduate of Xavier University, is in charge of the cattle buying operations of the Juengling organization in Cincinnati and is associated in this business with his father and older brother. Mr. Juengling.
Mr. Juengling - Thank you Professor Henning. Again in repetition as I see from my point of view the problems of our industry, we are marketing cattle that are too fat and too heavy. You would ask, why are they too heavy? Why isn't it better to have a 1200 pound steer than a 100 pound steer? What is a good description of the market to which we are selling our products? Is it the young married people of the country, say from 18 years of age up to 35 and are these people the people to whom we have to direct most of our supplies? When these people set a meal out in front of their family, they don't want to set one steak for seven people to eat, they want to set one steak in front of each person. You know yourself if you sat down at a friend's house for dinner, and they put one steak on the table, it could be a 25 pound steak, but you would rather have an individual serving. This is one thing but in some parts of the country there are certain union specifications that limit the weight of cattle.

I think another problem in our industry is that there are too many people trying to tell the farmer what to do. There are new products, new methods, new controls, new systems all available to the farmer. I think that if the farmer would take each one of these objectively and investigate them himself he would come out a lot better. Don't accept the majority rule as the rule. In other words if a man comes in and says such and such a tractor is no good--don't just accept it, investigate yourself because a lot of times the majority rule is not the majority but a real strong minority rule. You are going to possibly miss the boat on an important marketing function. I think that the cattle feeder is going to have to become a product merchandiser rather than just a corn feeder. You are going to have to become more than cattle feeders or hog feeders.

Along with this cattle marketing and merchandising a product, comes our old friend dual grading, or I should say our new friend. Because with dual
grading when you yield grade your cattle, you can prove that you are producing cattle with quality that will take a choice two or choice three grade, you finally have a product that you can produce and identify. You can associate it with your operation. When you send cattle on the market and they classify them as choice cattle, you're losing all your product identification. Here is one step where you yourself as a cattle producer can bite off a little of this promotion. I think a trend is also developing, as Mr. Baehr said, to closer cooperation between the different segments of our industry. This is something we have really got to stress. I think that you ought to sell your cattle to operators which will give you an accurate grading and dressing report. If you cannot get this information, and we know many packers just in the state of Ohio who are not interested in giving this information, you can sell them to another packer; but I think you can find some packers that will let you follow your cattle through, all the way through to the actual retail counter. Thank you.

Moderator - Thank you Mr. Juengling. Now we want to pass on from the slaughter end of livestock marketing to the farmer-feeder. We have two gentlemen here to represent the feeders, and I want to tell you about this first livestock farmer. Mr. Stone received his Bachelor's Degree here from Ohio State in 1928 and his Master's in 1932. Then for a number of years he was associated with the Kroger meat packing and procurement operations of the packing plant before Kroger sold out to Swift following World War II. Then he was placed in charge of meat procurement and operations by Kroger for a period of years, I believe it was from 1946 to 1950, following the selling of the plant to Swift. After that he was associated with packers as consultant and meat merchandising and decided here a few years ago (I think it has been about four years) to retire to the family farm south of Delaware and
now he is a producer of livestock. Last year he marketed about 75 cattle and about 800 hogs. So he has had a rather unusual experience and I think we will be interested in hearing what Mr. Stone has to say along with his experiences in meat retailing, meat processing, and now meat production.

Lester Stone.

Lester Stone - Thank you George. Ladies and Gentlemen, friends of the industry; I have been asked to present some thoughts in regard to how the livestock industry might best move forward in the next decade to bring about changes that will be needed, keeping in mind the present and future trends that are developing. Special thought must be given to improving the grading of livestock and meat to produce the grade and quality of the product required by the consumers. Also special thought should be given to develop a pricing system over a period of time so that price will be related to cutout value and quality. This is to be done in five minutes. I only wish I could give you correct answers so quickly.

First let me point out that in marketing of any kind of product there are three major factors. The point of creation which is in our case the livestock farmer. Secondly, the point of distribution which is the packer and the processor. And third the last point of sale, which is the retailer. Remembering that all three must satisfy the consumer who is the boss when it comes to meat quality and prices?

The money the consumer spends for meat determines the value of the meat and livestock on the markets. Let me repeat that, the money the consumer spends for meat determines the value of meat and livestock on the markets. This is the Law of Supply and Demand. Price levels move up and down as demand increases or decreases. Only the consumer has it in his power to control the demand.
With meat there is no escaping the Law of Supply and Demand as you might with some non-perishable products. The price of meat is not based on the cost of livestock - instead it is the selling price of the meat to the consumer that sets the price of livestock. Let us ask ourselves this question, how much are cattle and hogs worth? Fortunately there are daily market quotations on our livestock, but values do change day to day as we all well know who are in the business for better or for worse. Week to week cattle and hogs are continually revalued by the quality of the latest product from our feedlot. As our live and dressed product improves the retail meat cut should reflect an increase in value. Naturally the quality of our finished product to the consumer is conditioned by the quality of our raw material--the livestock.

It seems to me that in order for the feeder, the packer, and the retailer to better merchandise and receive a fair share of the consumer's dollar that we should sit down together and pool the facts and figures known by each group and work on a program to better serve our meat industry during these changing times, being based on present day market conditions and buyer needs.

The time is here for livestock marketing agencies, both terminal and country points to work more closely with the livestock and meat industry in the promotion and merchandising of the most desired qualities in meat. I define a livestock marketing agency as one that should serve the industry in a liaison capacity between livestock farmer and packer for the benefit of the whole meat industry.

What can a livestock marketing agency do for our industry? I feel that livestock marketing agencies in the future will be promoting for both the producer and the packer the kind of quality meats most desired by the retailer and the consumer. Here are some of the ways: (1) More adequate service for the livestock farmer; (2) closer study and working relationship with the
packer; (3) promote the right attitude among agency personnel in regard to the livestock and meat picture.

Under number one let's analyze this. Help and advise in the selection of the right kind of breeding stock—that's what a marketing agency can do to help the livestock farmer. The use of certification data that comes from our extension people and research all over the country which the agency should know better than anyone. The result of the carcass shows which goes on all over the midwest in the Corn Belt, and feed conversion factors which our universities and extension people have available for us. Experience of others—our friends who are in the same business as we are that we do not always have an occasion to meet but our liaison between our marketing agencies can help give us that information.

Secondly, there is the merit buying and selling program. We talk a good story but do actions prove satisfactory. I think Nick Hahn touched on that, and I agree with him 100 percent. Thirdly, more orderly marketing is needed. We have done a fairly good job, in my opinion, in this field, but we need more emphasis on the proper marketing weights. Fourth, a closer sorting program is needed at the market place for weight and quality. Fifth, more accurate yield and cutability information to the livestock farmer as has been touched on by some of our previous panel members is needed, especially when they make a change in a breeding program. If we are going to produce meat type hogs, and we go out and spend our money for good breeding stock, I think we should have available to us the cutability in yield and the market ability of that product, as Nick Hahn also pointed out, back to our feedlots so that we can better do the job. It costs money to operate. Let's not be foolish, let's stop and use the tools and the things we now have. I place a great deal of this responsibility with our marketing agencies in helping between the packer and the feeder.
Closer working relationships are needed with the packers to help solve merchandising and quality problems. Many packers have given leadership for improving quality in many of our meat products. Let's give them credit because many of them have done an excellent job. However, many packers and producers still need help from the rest of us in the industry to do a better job for us. We should see that they get understanding and knowledge with continued support for a better job.

I know many marketing agencies that take regular appraisals of their personal habits and attitudes in a better public relations program for promotion of better quality of meat. I would like to see an organization composed of livestock farmers, livestock marketing agencies, packers and retailers, this group would set up a pattern to be talked out and worked out and put into operation for the benefit of the industry rather than just individuals.

It means marketing through agencies that will be strict in grading according to known standards and we have those standards. The packer in turn will do a job of select grading of cuts for the retailer who must further cut, grade, and price properly graded meats to the consumers. This has been done, in my opinion, about half way. It has been done better in beef than it has in pork. I go into supermarkets all over the country, and I look for the premium pork but I fail to see it. I see the ads for 35 cents or 25 cents on an end cut of pork loin, but they are all put in the case together—with no premium pork graded for consumer satisfaction. The consumer does not get that story; therefore, we as the meat industry, have not followed through so let's blame nobody but ourselves.

The extension and research people from each state could help affect this program. We can in turn reflect those prices from the consumer to the livestock farmer if we so desire. This type of approach might get results
of an integrated system without integrating through contracts. I am sure this would be an improvement in our present marketing system. With this type of arrangement, a grading and value system must be developed and maintained from consumer back to the livestock farmer. This grading must be done according to known standards by the marketing agencies. The transmission of information is one of the most important functions of marketing and it works in two ways. The livestock farmer must be informed of the wants and needs of consumers. And consumers must be informed on what livestock farmers have to offer. Unless this transmission of information is performed effectively the whole economy suffers—our whole meat economy. Livestock farmers may waste manpower and resources by failing to produce the products which afford maximum satisfaction to those who will ultimately use them. Consumers may suffer through their failure to realize that new products better fitted to satisfy their needs have been put on the market, or through their failure to understand fully the advantages of the new product. This two-way transmission of information is primarily the responsibility of salesmen in our economy. Their function is understood as sales planning and sales promotion when the economy is growing and changing. Economic information must be up-dated continuously or we will hold back progress. Thank you.

Moderator—Thank you very much Mr. Stone. Next we will hear from the other livestock-feeder on the panel. He comes from Northwestern Ohio, up in Williams County. Our next speaker received his undergraduate training at Defiance College. Mr. Newcomer is a sort of an unusual individual in a lot of ways. He does considerable research right on his own farm. He is engaged in some with sheep and lambs, and he is also doing some unusual work with hogs and cross-breeding. I won't go into that any more than to say that he believes in upgrading his product. He markets about 400 head of hogs a year—he will
be marketing more this year. He also has been feeding cattle. Last year he
fed and marketed 200 head of cattle and he is in the thoroughbred Shropshire
business. He is doing this in partnership with his son. It is a father-son
arrangement. He has been carrying on production testing for better than 20
years and last year marketed about 50 purebred lambs, sheep, ewes, and probably
the balance of about 40 head that went through normal marketing channels.
So he has a little unusual background from the standpoint of some of our
operators. At the present time he is President of the Ohio Wool Growers
Association; many of you know him probably in that regard and he is also
Vice-President of the National Wool Marketing Corporation. He also is one
of our past presidents of the State Extension Advisory Committee. He has
been interested in educational work for a long period of time. I am very
happy to present to you Elwin Newcomer from Bryan, Ohio.

Elwin Newcomer - Thank you George. Time doesn't permit me to tell you
a little bit of the long background that we have known George and worked with
him. Only to say when I get an introduction like that I guess it is funny--
maybe I can get a copy of that tape and take it along home and when I get
in the dog house at home I can play it back, would that be alright?

Time is not available for a complete discussion. I have a horror of
trying to read a manuscript, but if we are going to get anything presented
in five minutes we will have to submit to not more then a statement. The
first question facing the farmer feeder in his livestock marketing is the
selection of his marketing agency. We can either choose our independent or
our farmer cooperative market. The next question is, after that decision is
made, shall you sell direct or will you sell in the competitive market. If
we decide we want to sell in the competitive market we can either choose the
country market or the terminal market. If we decide to choose the terminal
market, we can go to the new increasing number of terminal markets operating auctions or we can go to the day-to-day market and bargain through the commission firm.

If we choose the country market many of those have auctions or they may be the day-to-day market. If we choose to do our own bargaining we may invite the packer himself to come. We might bargain on the basis of live weight or we might bargain on the basis of a dressed grade or we might even just load the livestock on the truck and send them to a packing plant previously contacted over the phone or some other way having bargained on what we might get on a direct basis. Or we might even just put them on a truck, put them in the hands of a packing plant and let the packer send us a check after they have been sold to the retailer.

Now, I am frank to admit that we have tried over a period of years some variations of any one or all of these, and I am also frank to admit that none of them had the total answer. They had their advantages and disadvantages and time permitting I would like to give you some illustrations to show that. It also shows that we do not apparently have the answer to livestock marketing from the feedlot to the cooler of the packing plant, or we wouldn't have so many of these facilities. But I do not believe this afternoon that here lies the real problem of livestock marketing. Now George has alerted you to our various experiences. We do have purebred experiences of approximately twenty years of production testing of sheep from various angles and that gives us the angle of the genetics and what we can expect in a period of time. During that twenty years it has been in the last few years that we saw any pattern develop. In the hog operation it is a complete operation from farrowing through to market. We are using production tested sires in crossbreeding and we are following some of them through to the packer and getting some of the evaluations, participating in some of the barrow shows and trying to learn something in that
direction. As far as the beef is concerned, we have followed some of them through to the rail, we have seen some of them through on the rail, but I think our greatest experience in all of these is the meat we dress ourselves that we have observed and the amount of cutout obtained from various types of carcasses—the amount of red meat.

The dilemma I want to present to you is graphically shown on the cover page of the Shepherd magazine in a recent issue. It says the sheepmen's dilemma, and I would say this would be the dilemma also of the beef cattlemen, the producer's dilemma—the packer wants them fat, the buyer wants them lean. Now I am quite sure that we know that the red meat is what the consumer wants, but we have been under the impression over a period of years not wrongly but that we had to put a lot of fat on the animal to be acceptable as a product over the retail market.

Now I am quite sure with the experience we have had in eating our own produce and the experience we have had in production testing in sheep and what can be done with the improvement of pork, I think the whole problem is still with us as far as lamb and beef is concerned. In other words, dual grading, in my opinion, is an effort in the right direction, but I think we should be beginning to evaluate the carcass to the individual cuts. I know it will be costly so that it cannot be done perhaps economically on the wholesale basis, but this is going to be a proposition from the producer to the grader, to the feeder, to the packer, to the retailer, and to the point that the breeder will get some of the results of the operation. In other words, I am saying that marketing starts when you turn the sire in with the dam, whether we are thinking in terms today of beef, pork, or lamb and it stops at the dinner table of the ultimate consumer. The conversation that goes around that dinner table when meat is eaten and the factors such as taste, tenderness, lean tissue, adaptability to the family's desire, and the
family's budget is very important.

With time permitting I would like to tell you of some of the experiences we have had within our own family, they are now city dwellers and married into city families here in Ohio, and we discuss this quite often. In other words, there is a whole big area being made of research and development and education starting with the breeding and carrying on through to the dinner table at which the meat is being consumed. And so I would like, with the permission of the moderator, to expand the topic of this afternoon that far if we're going to think in terms of development of a meat for the future of the next twenty years.

Moderator - Thank you very much Elwin. We are next asking the marketing agencies for their comments. We put them last--the marketing firms. After we have had remarks from the retailers, processors, and farmer-feeders, now let us take a look at the marketing firm and see what they have to say and what they think about this marketing problem. Then we are going to have our panel discussion.

Our next speaker comes with both packer and marketing company experience. Formerly he was associated with the slaughtering industry. He was born and reared in Northwestern Ohio and is a product of Ohio University (not Ohio State) at Athens. He also has had a lot of experience about the livestock buying end of marketing and, since he is directing a daily market operation on hogs and an order buying operation, he has had a very unusual type of experience that is very much worthwhile to us for this afternoon discussion. So I am happy to introduce to you Robert Pritchard who is in charge of the market operations for the Flechtner Livestock, Incorporated at Fostoria. Mr. Pritchard!
Mr. Pritchard - Thank you Professor Henning. Is that loud enough—can everybody hear me? I also might mention that I am also on the Board of Directors of the Independent Livestock Marketing Association of Ohio, and I have tried to contact some of the people in our organization to develop these remarks that I am going to make. Today we are discussing the future trends of market organizations and marketing in the livestock industry. This discussion I think is well timed because it comes in the period of depressed markets for all species of livestock with the possible exception of lambs. I am convinced that more dissatisfaction and distrust has been created among the average farmer-feeder in our present marketing system than has been felt for many years. Furthermore, I feel that this is being felt industry wide.

Margins of profit in all segments have been very narrow and in many cases non-existent. There have been many proposals made to stop this trend. Many of them have some good points but in my opinion no single one of them taken as a whole is the answer. These plans are unsatisfactory because each favors one segment or another of the industry at the expense of the others.

A case in point is the rail selling of beef. In my opinion, I don't think that this will work out in the long run without strict government control and supervision. I am quite sure that none of us want any more help from Uncle Sam. All of our farm organizations have gone on record in recent months to bring about the lessening of controls not to ask for more, so it would seem to me that our only answer to this very real problem is to sit down together as an industry and work out a satisfactory plan that is equitable to all; the farmer, the market man, the packer, and retailer. None of us can very well get along without each other. It behooves all of us to take a good long look ahead down the dangerous road we are traveling before it is too late, if it isn't a little bit too late already.
There are some definite trends ahead that I don't think any of us can change but we can recognize them and try to live with them. Here are some of them: (1) Decentralization of industry, (2) population shifts, (3) large feedlot operations, (4) decline of the family size farm, (5) changes in modes of transportation, and (6) buying habits of the public. These are all conditions that have come about in the last fifteen to twenty years due to the progress of our technology and are forces we cannot control. We must live in this new era. The livestock marketing picture has changed radically over the years so try to keep in mind those forces I have just mentioned.

First there were the terminal markets and the farmers who were too far away who dealt with the drover who in turn shipped to the terminal then the shipper cooperative developed. It also shipped to the terminal on a cooperative basis and when the receipts of sale were returned, they were distributed to the farmers. Then came the local concentration yard, and the local livestock auction appeared. Direct buying and finally rail selling arrived. All of these methods are now in use to some degree. However, I feel that the future will eliminate some of these operations as we know them today.

Many of the terminal markets are hanging on by their teeth at the present because they are badly located in relation to transportation and population. Many of the sale barns are either badly located or are too small to operate profitably either from the buyers or sellers standpoint. Many of the concentration yards have the same problem as the small auction and eventually will have to go.

Most packers want specific types of livestock at specified times so direct buying will stay. I would like to say that in my opinion in the future you will see some of the terminal markets stay in existence as they are now. Some of them will move from their present locations to new ones. New areas that are more readily accessible to both the farmer and the packer. The packer buying
stations will give way to concentration yards primarily in hog buying operations. I might explain there are some packers that are considering this today because as I said before they want specific types of livestock, specific types of hogs and when they receive them directly at their door they don't always get the sort that they want so they have to take them all. So they are going back to buying from the daily markets and are letting the markets do their sorting for them and shipping the specific type of hogs that they want. Rail buying will enjoy a fairly short popularity because of the regulations and controls necessary to provide for fair trade practices in this method and I don't think it can last.

It seems then that no matter what you or I think about what is happening matters—now and what will happen in the future; we do know that there is a problem that must be solved. I have an opinion about how the problem can be solved but more important I am sure that we all know some of the changes in the marketing system that are causing the problem. I will emphasize those again; (1) decentralization of industry, (2) population shifts, (3) large feedlot operations, (4) decline of family size farms, (5) changes in modes of transportation, and (6) buying habits of the public. To know the cause of the problem is always the first step in solving it. Thank you very much for your kind attention.

Moderator - Thank you very much Mr. Pritchard. Our last speaker on the regular panel comes from the Producers Livestock Association at Marion. However, his background though is from out of the state. He is a West Virginian by birth and did his undergraduate work at West Virginia University majoring in animal husbandry and also was an extension agent over there for a number of years. Then he came to Ohio and was an extension agent in agriculture in Hocking County and that is where I became acquainted with him. His experience as a county agent numbered about twelve years and then for the last fifteen years he has been associated with the Producers Livestock Organization. He
is now manager of the branch market at Marion. Many of you have known Jim Smoot for a long time. I think he has some real good ideas to report to us on livestock marketing, and the place that the marketing firm has in the marketing of our livestock. So Jim take over.

Jim Smoot - Thank you Professor Henning, members of the panel, ladies and gentlemen. Marketing is the final step in the livestock farmer's operation. That is the place where he gets his cash. The farmers are winning the battle of production but marketing still remains a major problem, and in our position as a marketing agency where we sell the livestock and pay the farmer for what he has to sell, we are the first fellows that get the "hell" and brother it has not been very pleasant for three months. It has been very unpleasant. In fact, I think if the prices are such that even our buyers feel very uncomfortable, everyone would feel better. Everyone would be in a better humor if prices seemed a little bit different.

As a marketing agency it seems as though our work depends considerably more in the future as Mr. Stone pointed out to you, that we have got to start back further than the feedlot because we are looking toward a different type of animal in the future. We are looking for a smaller animal, something that is not carrying too much excess fat. Maybe in those cattle it is a 900 to 1050 pound steer of good quality and still not carrying waste fat. When it comes to hogs, we are looking for a hog that has the highest percentage of cutout value in the primal cuts. We have already proven by your evaluation station here and by the university that some of these hogs with 58 to 60 percent cutout value and primal cuts is worth $2.50 per hundred more than the ordinary hog, and I think that Nick Hahn brought that out very clearly. Possibly we could encourage farmers to secure the right kind of replacement livestock. Some improvement programs here in Ohio include artificial breeding.
Some of them are by natural breeding. Some of you attended the annual meeting of the Northern Ohio Breeding Association last Saturday. At this meeting a representative of Armour and Company discussed this new breeding program which Armour is promoting and putting out these tested bulls and where the progeny of those bulls will demand a premium price because they believe that they will transfer to their progeny the high-meat, high-muscle content of that carcass. The purchase of feeder cattle that are consistent with the demand may change the whole picture in the future, maybe we are going to have to eliminate feeding so many yearling cattle and so many big cattle and look more toward feeding calves. That is going to be part of the marketing problem, Bob's problem in his operations and in part of our operations.

We are starting a feeder pig program, and we will try to supply to you buyers and you feeders pigs that have desirable characteristics that you may want in the future, one with the right amount of backfat and that five-inch loin muscle, and so on; some of the characteristics that will go to put forth the kind of product the consumer wants. We have also been supplying North-western lamb which gives us a high quality lamb. We need to do that as a marketing agency. We believe in selling on its merit through competitive bidders. We believe in Ohio, we have good packers. They are trained and are honest on their bidding when livestock is placed in front of them to be sold upon its merits that they will establish an honest price for that livestock. We have the responsibility of giving the packer service, honest weight, accurate grading, with a good supply to justify his presence at the market or his order by phone; and I think that is one of the facts that we as a marketing agency have to look to in the future. We must have a market that will have a desirable supply that will warrant his presence there. He will want to be there because there will be enough variety and enough quality that he will want to be on
that market. In the case of our hogs today, we sell 10 grades of hogs and this could apply to any market. I hope we don't leave the impression here that we are thinking just entirely of producer's operation and one of producer's particular markets.

I am sure that practically everybody that buys hogs on a graded basis has a particular grade of hog that they desire and when we sell that grade of hog, if it happens to be pen No. 5 or pen No. 6 and you buy it week after week, I think that Nick Hahn will agree with me that you can very well depend upon that particular pen on being just as much alike week after week as physically possible for us to grade them that away. That is what we want to do, to hold that weight and grade so that the packer will have a product that he can use to his advantage as well as we can sell the commodity to that packer to the producer's advantage.

You are not just here for a day. We could throw in some odd grades. You know every once in awhile a farmer comes in and says you have hogs that are too heavy. We say we will put a few light ones in. Well that isn't the marketing program today, to put a few light ones in just to lower the average weight. You can do that with a hundred and fifty pound hog and a three hundred fifty pounder to average up, but the point is that if we would use timely marketing, it would help get this livestock to market when it is ready for market, regardless of the specie.

Right now in our own county we are faced with a lamb feeder who has a "string" of lambs today that average at least a hundred and fifteen pounds. Some of the most beautiful lambs that you would want to see, and he is cussing everybody. He is cussing the chain stores, and surely the chain store's ears should be ringing in the last 60 days because I think if there is any group of people "that has gotten hell," I think it has been the chain stores regardless
of whether it is deserving or not. I am just saying a lot of people think that they are the cause of everything. Well, I think if we think the thing through and listen to what these men have had to say today, we're fully aware that they're doing a good job of marketing and that we have to have them. But here we are faced with a heavy lamb that nobody wants, you see what I mean, nobody wants prime lamb today. And the lamb producer is mad at everyone. But there was a time to sell that animal. It could have been sold. The farmers didn't have to wait for a carload to be ready when he had 2,000 on the market. He could have sold 50, he could have sold 100. Our markets are close enough that they could have been disposed of profitably for him when they were ready for market. The timeliness, the quality, and the organized selling, and we believe in organized selling, I do not believe in the dress and grade selling in all cases because I think it is too costly and we're talking about bargaining today and certainly there is not too much bargaining there.

There are factors which tend to bring more to the farmer as well as to the better pricing system. It will sell this livestock when it is ready to sell. We believe in that. Farmers selling of livestock to buyers around organized sales may injure the price of livestock for any number of farmers. We need organized selling. I honestly believe that, if we expect to control or have any bargaining power. Our aim is to bring the seller and the buyer together by competitive bidding by professional buyers to set up a fair and just price. We don't believe the channeling of all livestock to any one particular market. What makes the market through competitive buying is because you have buyers on that market that have different needs, so you can't channel them all through one particular market. Competitive bidding by packers of different needs based on the merit of that livestock is still one of the best means of determining prices.
However the breaking down of carcasses today as mentioned here is changing the whole picture. The whole carcass does not have to be of one grade or the dual grading program, government grade men at their last meeting in Washington, Seattle, are under the impression that the next thing they are going to have to put emphasis on the grading of this livestock is the cutability as a factor as well as the finishing of the carcass. Hogs and lambs are pooled the same way, put into proper grades, and sold, and they must be put in the proper grade. The specialized buyer is the guy that can pay the premium price. Unless he can get proper grading the specialized buyer is not interested in paying that specialized price.

As a marketing agency we can not always follow a set of rules. That is the thing that bothers us at times and I have to come back to my old buddy over here, Nick on this. We have hogs that he knows and we know that are good hogs, but if we didn't know it through tests on the packing house floor, we might not grade them that way. But we know through reputation that they are hogs that we can ask a premium price for and a description of those hogs or the announcement that those hogs belong to John Dow--these are John Dow's hogs--we are in a position to ask the premium and he is willing to pay it because he knows what the performance of those hogs will be.

Many times condition of the animal when sold is another factor that a lot of us don't stop to think anything about: Condition. We overlook the quality of the animal because we are blinded by poor condition and poor grade which is a big factor. It is a factor that a lot of us don't stop to think about, but we as marketing agents should warn you. I read a letter from one of our competitors not long ago that said it is the responsibility of agents to tell you what to do. A lot of them tell us now that we made a mistake. It is not our responsibility to tell you what to do but to try to advise and to recommend to you the latest experimental data from Wooster telling you how to build up a
herd of hogs with the least amount of fat, where to start and where you would end up.

Newspapers are tremendous forces in selling meat. That has been one of our big factors. We don't want to go into that. The consumers will not buy meat just because the farmers are feeding livestock. The consumer is not going to buy just because you are a farmer and very few people know today what has happened to the livestock business price, the live price. Go to your hotelman, ask him what he is paying for his meat and see if he knows that live cattle are 4 to 7 dollars cheaper than they were the last of January or November, did he know that prices have been breaking for 18 weeks. My only objection, that I stated to these retail men over here and these supermarkets, it takes too long for a break in the live prices to get around to where they desire to lower the retail prices. Because I have noticed through years of experience that it doesn't take very long for retail prices to go up when live prices go up.

Moderator - Thank you Mr. Smoot. Well ladies and gentlemen I think we are now ready for the interesting part of our program. Before I turn it over to you folks, however, remarks have been made back and forth and I think we ought to give the members of the panel an opportunity to ask questions of certain individuals on the panel. Who wants to be first on the panel? Do you have any questions?

Mr. Newcomer - I don't want to be first but I want to make a challenge if some of you will accept it. As a farmer and purebred breeder, it seems as though it has come out here a number of times today that we haven't evaluated the carcass as we should beyond the rail and its cutout value. Now if that is true and if that is the place where we need some coordination--Marketing is selling what is produced, and I as a purebred breeder of one specie of livestock am willing to accept the challenge of production testing and progeny testing
providing the man who buys these rams and sires a king of lamb will improve that quality, will get recognition in the market; and we could apply that same thing to our pork operation and the same thing to our beef operation. Of course, we only supply the environment as far as beef is concerned. We can select from the purebred breeds as far as pork is concerned. But I would like to know how will we get to the marketing channels a reflection of the program that will improve the quality of the individual carcass? I think possibly the answer to this is in better educating the consumer which we have done in our operation through the Northern Ohio barrow show and also in conducting cutout demonstrations which we had opened to the public and through a great deal of radio and newspaper comments to get the public to come out. We went so far last year to conduct a cooking school in cooperation with the extension service in our area which included the five counties surrounding us. This was all accomplished by the extension agents in those five counties in conjunction with the Ohio Power Company and the nutritionist from Ohio State University. We had very good attendance at this cooking school. We brought in area schools by buses, the home economic classes from all the various schools. I think that is one way that a marketing agency can help. I think the packers, the retailers and everyone connected with the business along with the farmers should have this aim. Everybody needs to help and see that the consumers are properly educated as to what is a good cut of meat and why it is worth the money asked for it. If the carcass has more cutability, and the packer can sell it to the retailer for more, and the retailer can see where he can get more for it from the consumer, and if the retailer can say now here is a blue ribbon value from carcass tested hogs, then I think this will give one of the answers at the retail level. That is all I have to say on the subject.
Moderator - If there are no more comments that the members of the panel would like to make, I think we will start the questions with this gentleman over here. Before we start however, we are going to have this rule: Stand up, identify yourself, give your name, where you are from, and the organization that you are with so that we will know something about you.

I'm Bill Peterson, Vinton County Missouri, I'm a farmer and I'm with the NFO. Now we have had discussion here about two hours, every bit of it has been concerned with marketing not a bit with bargaining. I came here with the understanding that this was bargaining in agriculture. All right, now I want to pose a question to one of the chain store representatives here. "Are we overproducing of meat in this country today?" Yes or no.

Mr. Schear: Mr. Peterson, as I get your question you're asking me to answer whether in my opinion we are overproducing meat; do you mean all types of livestock?

Mr. Peterson - Our total meat production.

Mr. Schear - I am sorry, but I don't think I am qualified to answer. I don't think it can be answered with a yes or no.

Mr. Peterson - I think it can, maybe one of the other men here can answer with yes or no.

Mr. Hahn - I don't think this is a courtroom. I think this panel is entitled to decide in their opinion what the future trends are. This is not a bargaining session. You can argue yes or no. I can throw the question to you, "Is it a case of overproduction or underconsumption?" What is your answer?

Mr. Peterson - I contend that we are underproducing livestock for meat in this country today. Our total underproduction last year amounted to a billion, three hundred, fifty thousand pounds of dressed meat. In addition we also shipped into this country over a million head of feeder cattle so our total
underproduction was somewhere around $5\frac{1}{2}$ to 6 percent. This was the greatest underproduction in the history of this country. Alright now, then why has our livestock prices broken in these last few months? I would like to address that question to anyone of these panel members that would care to answer it.

Mr. Hahn - We help support the processing business. We buy from all types of markets. There is a saying in the meat business, whether you like it or not you either sell it or you smell it. Had anyone been to any of the marketing places and have seen the volume of livestock coming to market and a lot of volume of the wrong kind of livestock on the market you would have a different impression. You have to remember that a larger percentage of hogs today are moving direct to interior buying points. You don't get a true picture of total hog buying on the terminal receipts. Had you talked with any order buyer, commission man or direct buying points, they would have told you that they had hogs running out their ears. We were running as high as one day's oversupply. In other words, I was buying not by choice. We have regular accounts we buy hogs from. We would like to hold those accounts, and I would like to buy hogs from these people this summer. We have direct buying stations. On Mondays, we ended up with possibly more hogs every day for the last two months than I could kill on Tuesday. A lot of days we were carrying hogs three days from purchase date to slaughter just hoping possibly the next day we wouldn't have this heavy run, but they just keep coming. As long as you have this situation and you had it the first week of lent, and for pork in particular, demand just drops and when it is coming in the back end of your plant faster than you can push it out the front end, you are not very conducive to paying high prices. You have to lower the retail wholesale price to move the product and hope that it will move.

Mr. Peterson, NFO - Does it lower at retail then?
Mr. Hahn - That is one of my pet peeves, every farmer that comes in says, "Why hasn't the price of pork come down in the stores?" I don't follow pork ads, but I have a memory, last summer I think we all remember that pork chops, center cut pork chops, were bringing right at a dollar a pound. In our paper last week I looked and center cut pork chops in about every chain store in town were 59 cents a pound. That is a drop of 40 cents a pound. I don't think hogs will drop that much.

Mr. Peterson - Alright, I am going to, just as a final little point of reference here, I am going to drop over to the last issue of the Farm Journal. I am going to read you a little remark here made by Farm Journal. They said, "Sharp market declines came ahead of the buildup in supplies as buyers anticipated the heavier kills." In other words, we have got a break before it was justified--much before it was justified. As long as we are importing into the country there is no surplus here. Irregardless of what you or anybody else tells me because none of that that is brought in goes to waste. Everything we produce goes to waste or everything we produce is consumed and; therefore, we are underproducing in this country and there is no excuse for price break. We are getting gouged and the consumer is getting gouged.

Mr. Hahn - I have one comment on your importations. Are we importing whole-choice cattle and whole-pork carcasses or are we not importing a lot of cheap varieties of mutton, boneless beef, canned hams, individual items.

Mr. Peterson - We import into this country beef and mutton, practically every bit is junk meat and we are getting paid right today, let's say from 3 to 6 cents a pound for our old ewes on the slaughter carcass basis that would be 6 to 12 cents a pound. Figuring that the other 50 percent pays the cost of packaging that meat. Alright, and the meat coming in from Australia and New Zealand is costing around 25 cents a pound, that is junk meat coming in.
Same quality that we are getting paid 6 to 12 cents a pound for. The pork coming into the country is costing around 70 cents a pound, that is cured ham and fresh. We are importing pork from Canada at the present time when their price is approximately 65 to 70 percent above what it is in this country. Now tell me why we are importing except for one purpose, to break our market?

**Juengling** - We said before that the majority of the beef that is imported is junk beef. Why then are our cows and our undergraded cattle selling so high in relation to our fat cattle? If we need the meat, why are we so underproduced? Why don't you pay more for choice cattle? Because you don't have a demand for that meat. I would like to ask you this, what caused the black Monday we had last May? I would like for you to answer me this, you tell me when this market is going to respond and you and I are going to be partners? I have my feedlot empty, I feed cattle, I feed 150 cattle a year my own feedlot, and I am glad my feedlot is empty. Why? The market did it, who do you say.

**Mr. Buehler from Shelby County** - I just want to ask Mr. Liberal over here whenever they buy their cattle from the feedlots of the farmers, all we hear is too much surplus, well, if there is such a surplus why does Mr. Liberal have to start feeding cattle too? You would think he would use up some of that surplus, but instead he feeds cattle, too. What is the reason? Did you get the question sir?

**Mr. Scheer** - Yes, I get it. I think it is a good legitimate question.

**Mr. Buehler** - I think so, too.

**Mr. Scheer** - Do you farmers from Shelby County think that we shouldn't be feeding cattle?

**Mr. Buehler** - Yes, we do. Indeed we do because you know what kind of jam we get into when we try to butcher meat on the farm and sell it. There is a law against that.
Mr. Schear - Well, we don't slaughter the cattle on the farm. We have been feeding cattle for some time. Do farmers in Shelby County think that we are wrong in our purebred operation? In our cow and calf herd? Or our purebred angus cattle?

Mr. Buehler - Yes, we think that should be the farmers responsibility. Another question I would like to ask, maybe you are right about it but the farmers don't think you are. We think you are getting into our business. What about all of these probes into the meat price sir? Here is a clipping from the Drovers Journal. They are anti-HFO too, by the way, and they tell about all of these meat probe prices all the way from South Dakota, Iowa, Nebraska. They have the senators talking to the Department of Agriculture investigating the reasons behind the drastic fall in beef prices. None of that was ever brought out at these University meetings. What we farmers need is prices. Raising what the consumer wants doesn't help us any as long as we don't get the prices.

Mr. Schear - Do you think we are doing any better on our feeding operations today than you are? Every time you market a load of cattle we also have quite a few tears with them today.

Mr. Buehler - Yes, but you have a way of deducting that off your income. You boys are setup with this advantage today. The farmer isn't.

Mr. Schear - They differ in the orderly marketing of livestock. There are so many different segments. It is easy to be critical of the individual in other phases of it. I feel this way, that in our society, the way we are setup, it is more difficult to get a franchise and the area to control your destiny on that basis. There are many people in the supermarket field who have cried bitter tears with the advent of the discount operation where they have used their feed departments to operate at a loss. We don't sell any foods in our stores so I don't feel under our present situation it would do us any
good just to complain, we have got to do something in defense of it. We have
got to find a way out. We are not in the cattle business to try to hurt
anyone, ours is more of a test basis. We are trying to prove that starting
with the right type of calves and feeding them on the right basis gives us
the right kind of cattle. We are interested in cutability on these cattle.
That is all we are doing. We are not in it for competition. That is
the farthest thing from our minds. That is why we are in the purebred business.

Maybe you don't agree with everything that has been written and every-
things we have seen, maybe we want to do some things on our own. I don't feel
that we are stepping on anybodies toes. I think that we try to work with
organizations and all we are trying to do is learn a little bit more about
the feed business. That is basically what we are involved in.

Moderator - Just a point now. I believe that one of our other panel
members would like to make a statement.

Mr. Newcomer - I would like to make a statement on the farmers' point
of view of this particular matter whether or not someone else has a right
in the cattle feeding business. Maybe I don't like the competition, that
is our bread and butter feeding cattle. Somebody else can go into the cattle
feeding business and make money and we can't; we will have to get into some-
thing else. If someone else wants to be in the cattle feeding business, and
I can say they can't and put them out--I am looking for another country to
live in because I think we are losing our democracy. Someone might tell me
then that I dare not slaughter or dress any of the animals that I raise to
eat. Now as long as we are in a competitive area, I think anyone has a right
to be in the cattle feeding business as well as some other form of farming,
and I am sure that I don't want to try and tell someone else whether he should
or shouldn't because I don't want him to try and tell me whether I should or
shouldn't. Now from my understanding of this whole situation, I think we need to work with the people supplying the consumer. I am sorry I am going to have to take issue with what someone down here said previously about educating the consumer. I think the consumer knows what kind of piece of meat they want. I think it has to be supplied by cooperative effort, on the part of the breeder, the producer, the feeder, the slaughterer or the retailer. I don't think we are going to get any place on any of the marketing programs unless the whole program is working.

My name is E. T. Kantner, I am from Auglaize County. This doesn't have too much to do with the problem you have now, but I am a farmer and from a farmer's point of view I would like to know what is the cost of producing 100 pounds of hogs in the state of Ohio.

Moderator - Any member of the panel want to answer that?

Mr. Kantner - Is there anyone from the University that understands that?

Moderator - Some of production people from the University might care to answer that later but that is outside of the area of our panel discussion. Does anyone else have a question on marketing, because we haven't too long to go?

I am representing marketing from Clark County. I would like to know why we can't have bargaining so we can sell this stuff at the right weight instead of having to hold at the market price. We have to contract with our markets so that we can distribute stuff. We keep our stuff too long then it's not suitable for the packer. We would like to know why they won't contract with us for this stuff.

Moderator - Who would like to answer that?

Clark County farmer - I would like to hear from Mr. Baehr.
Mr. Baehr - It would save us as much money as it would save you if we had a stabilized market because every time the market on the live end drops a cent a pound so does it correspondingly drop on the carcass beef, but isn't that what our economy is based on, the supply and demand schedule.

Clark County farmer - Supply and demand, that has been ruled out a long time ago--that's Grandpa's day.

Mr. Baehr - Why is it?

Clark County farmer - Today it is an all together different thing.

Mr. Baehr - Why has it been ruled out?

Clark County farmer - Because it is.

Mr. Baehr - Who is controlling the supply?

Clark County farmer - We are marketing on a one-man market today.

Mr. Baehr - Answer me this, in 1961 and 1962 how many Plymouths were sold as compared to Chevys?

Clark County farmer - I don't know.

Mr. Baehr - Well, you know there were a lot more Chevys sold and why? Because they had a better product. Not that I agree but just the fact that it was. They had a better product therefore there was more of a demand, and you go into a Chevy dealer today and ask him how much he will take off for a Corvet Stingray if you lay down cash, he is going to laugh in your face.

Clark County farmer - You are talking about luxury against a necessity.

Mr. Baehr - An automobile is now a necessity not a luxury.

Clark County farmer - It isn't my business.

Moderator - Wait a minute! If we are going to carry on a discussion, we want to carry it on logically. What is your question now?

Clark County farmer - We are debating on quality.

Moderator - Let me have your question.
Clark County farmer - My question is about grading. It will not work because I have used the same animal on a first calf heifer and she produced nothing. Change the animal and they were both top animals, in production animals, and she had been milking in the first of the month; now tell me how you can break it with these rations?

Moderator - Mr. Hahn wants to answer that.

Mr. Hahn - I will attempt to answer it. Genetics are a little bit like the marketing situation. Everything doesn't work according to theory. However, if you buy tested seed stock and mate it to tested seed stock, your percentages are going to make a vast improvement--this has been proven time and time again--Check with Mr. Brunner.

Two or three other questions were asked by farmers from the audience and answered by panel members. However, the questioners did not speak clear enough for an accurate recording and accurate reporting on this paper.

Moderator - Ladies and gentlemen, most of the audience have left, but those of us that are still here should give our panel a good--applause--the meeting is adjourned.