

Negotiation, Supply Management, and Farm Income

By Richard A. Levins

As I write this, milk prices are ridiculously low. Hog farmers are still reeling from the eight-cents-a-pound fiasco of a few years ago. Grain and cotton farmers routinely face prices so low that government payments have become a way of life. Is there anything farmers can do about low prices, or are they doomed to run on an efficiency treadmill until they finally drop from economic exhaustion?

Notice that the question concerns what farmers can do, and not what the government can do. The government moves slowly and seems to have given up on the idea of supporting higher farm prices. I know too many farmers who don't have a lot of time to wait—their backs are against the wall. So, once again, I ask: is there anything farmers can do about low prices?

Negotiating and Supply Management

Negotiating and supply management are two important marketing tools for farmers to consider. The two strategies are commonly used in business. They work in different ways, however. To get a feeling for how they are different, consider a common experience we have all had, that of buying a car.

Surely, the supply and demand situation for cars influences their sticker prices. Today, the demand for most cars is low in relation to their supply, so dealers are offering all sorts of incentives to potential buyers. At other times, we've seen the opposite: certain desirable cars have commanded hefty premiums. This is the supply and demand story that is taught in every freshman economics course.

The sticker price for a car, however, is only part of the story. As we all know, it is often regarded as a starting point for a bargaining process. Some people do better than others in this bargaining, so some pay less for the same car. Some people get the free undercoating; some

don't. Some get more than others for their trade-in. These are all examples of negotiating. Negotiating, in a nutshell, tries to get a better deal no matter what the level of supply and demand might be.

Negotiating prices is hardly mentioned in the freshman economics text that I use in my classes. Everything is about supply and demand. The business school, on the other hand, has entire courses on negotiating. It is a common and accepted marketing tool in the world of modern business.

Supply Management Is Not the Whole Story

When farmers talk about changing farm prices, the discussion immediately turns to supply management. Most often, the difficulties with supply management are front and center. Supply control won't work unless almost everyone participates, so the issue of farmer independence immediately comes into play. Then there is the fairness issue—those who don't participate in supply management will receive the same benefits as those who do participate. Because of this, there will always be a temptation to jump ship. Many farmers think that only government involvement will make supply management successful, but they don't like government direction of business practices. In addition, our current affection for free trade policies makes supply management even more difficult than it would have been a few decades ago.

Believe me, I have thought about these objections as much as anyone. My book [Willard Cochrane and the American Family Farm](#) is, in essence, the story of failed supply management efforts in the history of U. S. agriculture. I've participated in discussions with hundreds of farmers on supply management, and the same objections come up in the same ways. We all know that we would be better off with supply

management, but we can't think of a way to make it work.

Sometimes, the solution to being lost is not to drive faster down the same road, but to find a different road. We are so busy looking for help on the supply management road that we have overlooked the negotiating road.

Negotiating Is Easier to Put in Practice

Imagine that a group of farmers hired a professional negotiator to meet with their buyers. Let's further suppose that the negotiator was successful in negotiating a better price for those who had hired him or her. We will set aside, for the moment, the question of how and why that happened. Instead, let's look at the advantages of such a plan.

For one, it wouldn't matter so much if everyone participated. Go back to the car example. Individuals routinely negotiate better deals for themselves simply because they have superior bargaining skills. Second, those who don't participate don't get any benefits. If I negotiate a better price for a car, the next customer still starts with the sticker price. And regardless of what happens in government policy, or what happens with free trade, there will always be wiggle room in prices that skilled negotiators can exploit.

There is another, more subtle, advantage to negotiating that will no doubt become more important if agriculture stays on its current path. Negotiating works as well for contract terms as it does for farm prices. Consider, for example, a farmer growing hogs that someone else owns. Managing the supply of hogs might mean fewer farmers, not higher farm income, in some cases. Farmers in these situations need better contract terms on how much is paid for raising each animal, on how death losses are treated, or how manure handling is to be charged. These issues, while very difficult to address with conventional supply management, are ideally suited to negotiation.

Participation and the Market Still Matter

When a big rental car company negotiates what it will pay for cars, you can well imagine that it does better than any single buyer could ever do. The fleet buyers are in a stronger bargaining position. If they take their business elsewhere, the loss to the automobile seller will be far greater than if any single buyer goes across the street to another dealer. In the same way, an individual farmer hiring a negotiator might not see much advantage. But if the negotiator represented a substantial number of farmers selling to a single buyer, the negotiator would be bargaining from a stronger position. The potential gains to the participants would therefore be higher.

Farmers will also have to be realistic about the size of the gains from negotiating prices. Supply and demand conditions will always set the stage for negotiation. The goal will therefore not be one of a "fair" price that would support all farmers. Under certain conditions of supply and demand, this might be possible even without negotiating. At other times, no amount of negotiating is going to fully address unfavorable market conditions. Negotiation is therefore intended not to achieve a certain pre-determined price. Rather, it is intended to take full advantage of whatever "sticker prices" supply and demand conditions are offering.

An Example of Farmer Price Negotiating

Here is an example of how farmer price negotiating might work. I offer it only to make the ideas in this paper more concrete, and not to suggest that there are no other ways the process might be implemented.

Suppose a farm organization employed negotiators, and the members had access to the service of those negotiators. Membership fees of one sort or another would pay the expenses of the organization and its professional negotiators. At the time members were either ready to sell their products, or to renew contracts to produce products for another business venture, the

negotiators would become involved. Ideally, they would represent a group of members who were all dealing with the same buyer or contractor.

The negotiator would work with the buyer or contractor to gain more favorable terms for the farmers being represented. The benefit negotiated might show up directly as a higher price, or perhaps as a lump sum payment establishing each farmer represented as a “preferred supplier,” or in any number of other ways. The important thing to remember is that it would go to members and no others. The negotiator would not represent all farmers, nor would he or she try to bargain the price of all farm products or the terms of all contracts.

Once the first round of bargaining was completed, the negotiator would report back to the members represented in that particular negotiation. Any gains would immediately go to the members. If the gains were too small, or nothing was gained, the negotiator would report that to the members as well. He or she would also report to the members on ways they might strengthen their position. For example, would the members be willing to take their business elsewhere? Would the members be willing to sell less than the amount being asked? Do the members have any legal avenues they might pursue? Are there ways to involve more farmers in the negotiating? These suggestions would come directly from the bargaining process and would change with time and circumstances.

The members would then have a decision to make. They could settle for what (if anything) was gained, or they could authorize the negotiator to go back with information on what the members were willing to do. Not all members may be willing to do what is recommended. If so, the negotiations would continue only on behalf of those willing to take additional actions, and only those members would participate in any further gains.

Notice that negotiating would be a continuing process, not a one-time deal. This is to be

expected, however. Bargaining a good price for a car gets you very little the next time you buy one. You have to start over. The same will be true in pricing farm products. The buyers usually have a full-time staff that does nothing but make sure that purchases are made on terms most favorable to the buyer. To be treated fairly, farmers will need similar, and constant, representation. Sometimes it will be successful, and sometimes not.

The Negotiating Organization

A few words need to be said about the negotiating organization itself. It is common for farm groups to take positions on all sorts of issues. Some favor smaller farms; others think larger farms are the way to go. Some favor free trade; others want protection from imports. Some support a particular piece of farm legislation; others oppose it with just as much determination. I have even seen farm groups take positions on issues that have very little to do with farming. It is essential that the negotiating organization take no such positions. It must have only one goal: successful negotiation of better farm income for its members.

The reason I say this is that negotiations from strength will involve more members rather than fewer. Every position taken by the organization, no matter how appealing to some, will be offensive to others. This will limit membership, and therefore hamstring the negotiators. Those wanting to join any other organization and support or oppose any issue should be encouraged to do so. There should be only one criterion for membership in the negotiating organization—a desire for a higher price or better contract terms.

Having said this, I also want to add that the negotiating organization may take positions on certain issues. Those issues, however, must be directly related to making the negotiating process more favorable to farmers. For example, the organization might oppose packer ownership of livestock if it concludes that

packer ownership will increase the strength of buyers and therefore reduce the strength of farmer negotiators. There may also be specific legislation governing what farmer negotiators can and cannot do that would be of obvious concern to the organization. Nonetheless, care must always be taken to choose issues and frame arguments so that it is clear to everyone that the organization has only the goal: the best possible prices and contract terms.

Negotiation Is an Important First Step

We all know that effective supply management would lead to higher prices. But would farmers get all of the benefits? Would contract farmers get anything at all? This comes down to a matter of market muscle. Do farmers have the economic strength to take what is theirs, or will more powerful corporations help themselves to an especially generous slice of the supply management pie? We must remember that supply management, in general, will only create the conditions necessary for consistently high prices. It does not make farmers strong enough to take full advantage of those higher prices. Going back to the car example, even in times when supply is tight, some buyers will negotiate better prices than will others.

Negotiation, on the other hand, makes farmers stronger in an economic sense. Through it, they can take full advantage of whatever circumstances they might face. Because of this, I would recommend that farmers first pursue negotiating and worry about supply management later. I say this for two reasons. First, it is easier to do. Any early success shown by negotiating will encourage other farmers to participate. This, in turn, will snowball into more effective negotiating. As this process goes on, the threat of supply management will build. Under those circumstances, farmers may not need to exercise that threat. The second reason I recommend farmers look first to negotiating is

that if farmers move toward supply management, negotiating will have developed the economic muscle farmers need to take full advantage of more favorable supply and demand conditions.

Conclusion

I must end with the biggest question of all unanswered: will negotiating farm prices bring any appreciable benefits to farmers? I think it has the best chance of anything I can think of, but that is hardly a conclusive “yes.” Research shows that many sectors of our food system are using market power to influence prices. These are the circumstances in which negotiating can be effective. What economists call “excess profits” are created by market power, and who gets those profits can be influenced by negotiation. Farmers must use negotiation in a serious way for an extended period of time if they are ever to know how it will play out in the real world.

Whether farmers pursue any of the ideas here is rightfully a decision that only they can make, for they will be the ones to bear the costs and enjoy the benefits. My own feeling is that without more economic power than they have now, farmers will always be at a serious disadvantage when pricing and contract terms are on the table. What I have suggested here is the best way I can think of to begin building that market power in realistic ways.

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Willard Cochrane and the American Family Farm is available from the University of Nebraska Press at 800-755-1105.