POSSIBILITIES AND CONSEQUENCES OF INCREASED

BARGAINING POWER FOR AGRICULTURE

by

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and

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Farm producers have long speculated about the possibilities of bargaining power as a device to improve their incomes. Concern over lack of bargaining power is expressed in the frequent comment of farm people that, "Our trouble is we have to pay what's asked when we go to the store and take what's offered for what we have to sell." Some farmers feel there is something wrong with the system which puts them in a squeeze between rising costs for machinery, land, fuel, and labor and decreasing prices for products and even decreasing total value of output. Individually, they feel helpless to change the situation.

Some producers would like to break the grip of the economic squeeze. They would like to move from a passive to an active role with respect to the prices they receive, the costs they pay, and the rate of return they accept on their labor and capital. To become active some feel they need power to control their markets. Farmers have watched the activities of laborers in industry and observed how they have gained a measure of power by acting collectively. Some merely feel that bargaining power is worth a try, while others valiantly declare that collective action is the only way individual producers can gain market strength.

Bargaining power can be thought of as the ability to influence the terms of trade and the conditions of sale in product or factor markets. In the case of agriculture, this implies some sort of collective action on the part of many sellers. There are two approaches to this collective action. (1) Government can aid in bringing unity. (2) Producers themselves can operate within the present laws or a somewhat more permissive set of rules.

The political possibility of obtaining and exercising a franchise for collective bargaining in agriculture is discussed in another paper. In this paper we discuss only the possibilities and consequences of bargaining power.

We shall assume that (1) farm producers have agreed to act collectively, and (2) society has granted permission for farmers to act collectively. We shall look at the alternative ways or directions in which a decision-making unit might exercise bargaining power and evaluate the consequences.

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Economic Policy Model

Let us assume the goal of the producer group is to improve the terms of trade for farm products and thereby increase the returns in agriculture relative to other parts of the economy. The terms of trade for agriculture can be improved by influencing supply or demand variables. However, some variables are more difficult or expensive to control than others. Devices used to manipulate the variables may be called instruments. Instruments include such things as (1) promotion to influence consumers preferences, (2) compulsory acreage allotments to reduce the land input and hence the total quantity of products supplied, or (3) liberalized immigration laws to increase population.

In most cases, a number of different instruments might be used to influence a given variable. They involve different costs and problems of administration. Each instrument is likely to generate different side effects. In selecting an instrument from a producer standpoint, it is therefore necessary to compare costs of the various instruments in moving a variable a given amount. However, society as a whole is concerned with all direct and side effects generated by an instrument. Society's evaluation of the desirability of employing an instrument is based on additional consequences--both costs and benefits.

Society has set up rules to govern use of instruments by various groups. The rules are subject to change depending on the disagreeableness to society of the direct and side effects of using the instruments. Political acquiescence is a permission of the moment. Rules which, at the moment, grant permission for the use of certain instruments may be expanded or contracted in a relatively short time.

The array of economically feasible instruments is also constantly changing. As science and imagination progress, new instruments are devised which are less costly. The variables which influence the terms of trade are relatively stable. The internal linkages within the agricultural economy are relatively stable. However, the relationships among variables change in time though in a relatively predictable manner.

To summarize, the terms of trade are improved through the manipulation of variables. Variables are moved by instruments. Instruments are available through acquiescence or direct permission of society. Improving the terms of trade is limited (1) by what is technically possible to do with the variables in the system, (2) by what is economically feasible, (i.e., which benefit the group using them more than they cost) and (3) by what is politically acceptable.

Demand, Supply Variables and Terms of Trade

Let us focus on the variables and technical possibilities of improving the terms of trade for agriculture. Perhaps the best way to look at the array of variables is in outline form. The terms of trade can be influenced by manipulating demand variables or supply variables. There may be some possibility of improving the terms of trade indirectly through a number of other factors called conditions.
of product sale. Let us ignore for a moment most questions involving the selection of instruments to control the variables. The following variables will be discussed.

I. Demand variables

A. Population
   1. Immigration
   2. Natural increase (excess of births over deaths; achieved by lengthening life or increasing live births)

B. Income
   1. Level
   2. Distribution

C. Preferences
   1. Appeal of competing products (high income elastic nonagricultural; tax and color of oleo)
   2. Appeal of own product (subsidy, advertising, promotion, nutrition research)

D. Prices and quantities of competing products

E. Margins in marketing sector
   1. Rate of return on marketing resources
   2. Number of resources needed

II. Supply variables

A. Quantity of product placed on market
   1. In total
   2. On particular markets (multiple pricing)
   3. Distribution over time (pork seasonality - quantity and elasticity decrease in summer)

B. Price of inputs (increase pressure for internal disintegration)
   1. Return to resources used as inputs or used in making inputs
   2. Number of resources used in making inputs
C. Quantity of inputs

1. Decrease competing resources (other countries, regions, firms, new resources in other firms)

2. Increase complementary resources (those which raise average product)

D. Changes in production possibilities

1. Rate
2. Volume
3. Type

III. Conditions of product sale (indirect effect on terms of trade)

A. Product differentiation and multiple pricing (limited by change in total cost equal to or less than change in total revenue)

B. Market reporting and sale information (microproduct mix adjustment. Laurence Abbott, *Quality and Competition*)

C. Quality and purity preservation (export wheat, highly perishable vegetables)

D. Pricing practices to expand market (introductory offer, spoiling the market)

E. Margin variation to decrease not increase price flexibility

F. Product service as well as sale to expand market (IBM, soybean association)

**Demand variables.** Let us portray the consumer level demand curve as in Fig. 1. Quantity taken increases as price declines. Below and to the left of the consumer level demand curve lies the farm level demand curve. In this diagram it is separated by a constant farm to retail spread throughout the quantity range. To illustrate, OQ represents the quantity of pork sold per person in the United States in 1958—60 pounds per person. In that year the consumer paid an average of 62 cents per pound for pork. Putting it another way, consistently to move the volume of pork which was coming on the market, wholesalers and retailers found necessary an average price of 62 cents per pound at retail. After marketing, processing, and distribution costs and the shrinkage of the animals were subtracted, (42 cents per pound) farmers were paid 19 cents per pound liveweight for the hogs.
Fig. 1. Farm level and consumer level demand curves

Obviously, if more people had been present in the United States something less than 60 pounds per capita would have been available and pork presumably would have sold for a higher price. An increase in population would improve the terms of trade for agriculture. This could be accomplished through increased immigration or by influencing the natural rate of population increase.

The level of income influences the position of the consumer level demand curve. As people become wealthier, their demand for food rises somewhat except for so-called inferior goods such as dry beans and wheat. However, the increase is small: the added income is likely to be spent mostly on nonfood rather than food items. Increasing the income of low income people boosts demand for food more than increasing the income of high income people. Thus the terms of trade for agriculture could be influenced somewhat by varying the level and distribution of income. ³

³Wetmore, et al. "Expanding the Demand for Farm Products," Technical Bulletin 23, University of Minnesota Agricultural Experiment Station, April 1959, pp. 54-64.
The consumption of any product such as eggs or beef is influenced by the presence, appeal, and price of other products. In general, the presence of and consumer desire for many nonfood items will depress somewhat the demand for food. For example, a working girl may see a dress which is just exactly what she needs, and although it's very expensive, she is determined to have it. She may save a little each day on her food bill to buy it. On the other hand, food consumption was high during World War II when nonfood consumer items were scarce and people apparently indulged in large quantities of relatively expensive food.

One food item influences the demand curve for another. The price of beef influences the demand curve for pork. The tax on oleomargarine and prevention of its coloration probably enhanced the demand for butter. The demand for a product will be expanded by a tax or adverse publicity on substitute items quite as readily as by subsidy, promotion or favorable nutrition research on its behalf.

By reducing marketing margins the demand curve at the farm level can be moved upward and to the right without moving the consumer level demand curve. This type of movement has been a favorite wish of farm producers for many years. There are two obvious possibilities: (1) Reduce the rate of returns on resources used in the marketing, processing, and retailing sector. (2) Reduce the number of resources needed by adoption of newer, more efficient techniques in marketing.

Working on any or all the demand variables gives the same effect. The demand curve at the farm level moves upward and to the right. Such a movement affects the terms of trade differently over the short run and long run. In fig. 2 we consider the case of a single product or a group of closely competitive products such as meat.

In a period so short that the supply is perfectly inelastic (that is, quantity supplied is constant) \( S_1 \) in fig. 2, any increase in demand will be reflected entirely in a price rise. This will mean an increase in returns to resources in the production of the product. As a result, relative returns will become more favorable in this enterprise.

Over a longer time, the supply will be more elastic. Producers, free to shift resources, will expand production of the product for which there is increased demand. In the next period, the price will decline. The amount of price decline will depend on the long-run elasticity of supply. If supply is perfectly elastic \( S_2 \) (that is, producers are willing to supply all the market will take at the old price), the price will decline to the original level. The increase in demand will show up entirely as expansion in quantity exchanged. Supply is likely to be highly elastic when the product absorbs a small proportion of total farm resources and substantial resources are readily adaptable to produce the product. This is probably the case for Idaho potatoes, Iowa pork, or Illinois soybeans. In these cases, the price effect of the demand increase
Fig. 2. Short and long run effects of demand increase on total revenue

is quickly dissipated over the whole farm industry. On the other hand, if the product absorbs a large proportion of total farm resources (such as feed grains), and/or resources in alternative uses cannot be readily adapted to the production of the product (maple syrup or cranberries), the supply is likely to be quite inelastic. If the supply is rather inelastic even in the long run, the increase in demand will induce a more permanent price rise. However, resource returns at the margin in the enterprise will not remain above the levels offered at the margin by production of other farm products. But average rates of return might remain separated for some time.

A demand increase for a particular product may be largely at the expense of other farm products. (For example people may decide to eat more pork and less beef.) When this is the case, the elasticity of supply of the particular product, pork for example, probably will be relatively large, and the price effect will be dissipated quickly. An expansion of demand for one meat at the expense of another will produce a shift in resource use among the two classes of livestock on farms. Resource returns in the enterprise expanding or in the industry as a whole may show little or no long-run improvement.
Even if the expanded demand is not at the expense of other farm products, the effect on resource returns may be more to the whole industry than to the particular enterprise. This is probably the case for soybeans, for which demand has grown rapidly. Expansion of the demand for soybeans has moved resources into soybean production, and out of feed grain and other production. Higher resource returns or smaller surpluses in the whole feed-livestock economy have probably resulted.

How much this shift in resources will affect the whole industry depends on the magnitude of the increased demand and the elasticity of aggregate supply. Since aggregate supply appears to be highly inelastic in the short run, the short run effect of expanded demand not at the expense of other products would be mostly to increase prices and not to expand total output.

Unfortunately the opportunity for expanding demand, especially of the noncompetitive variety, is relatively small, as summarized at a previous seminar, especially by Fox at that seminar. 4

Supply variables. On the supply side, the terms of trade for agriculture could be influenced in two main ways: (1) Vary the position of the supply function. (2) Choose a more favorable point on the present supply function.

The total quantity supplied could be controlled directly or indirectly. That is, it could be reduced by restricting marketings or by limiting the quantity of inputs used in production. The price of agricultural products rises so sharply as output drops that a smaller quantity sells for more total money than a larger quantity. For example the total value of hogs in 1958 was $3.4 billion, while in 1960 it was $2.9 billion. The volume was about 13 percent larger in 1960 but the value of farm sales, 15 percent lower.

Because of recent purchases by government, a reduction of 6 to 8 percent in grain production presently would be necessary before prices would rise. After such a cut, further reductions in production would not raise prices if society chose to release present stored stocks.

The potential is large, however, for increasing the total return by controlling supply. 5 The average total retail value of pork and beef combined could have been about 13 percent larger from 1949 to 1958 if 18 percent less beef and 16 percent less pork had been sold. This would be 50 pounds of pork per

4 Demand for Farm Products, CAA Report 2, Center for Agricultural Adjustment, Iowa State University, 1959.
5 The numerical estimates made in this section were based on demand equations provided by Wilbur Maki. The use of the equations and the accuracy of the calculations are the responsibility of the authors.
person per year instead of 59, and 60 pounds of beef instead of 71. Prices at retail would have been 35 percent higher if volume had been cut this much. Farm prices might have been up 50 percent. Net farm income from hogs and cattle probably would have about doubled.

Even more drastic cuts in production and still higher prices could be imagined. The maximum value of farm sales of meat animals would occur at a lower per capita consumption than indicated above. The net income would continue to rise even as output was cut below the level that would bring the greatest total value of sales. Net income of all operators would be a maximum when the quantity was set so that the last truckload of hogs sent to market added to total value of sales just what it cost to produce them. The total hogs marketed would, of course, sell at that point for perhaps much more than what it cost to produce them, since average revenue would be greater than marginal revenue.

These are rough estimates for the short run. Over a longer period the demand would become more elastic, and the production of substitute products would rise. As this happened the price received for a reduced volume of one or two meats would sink. Put another way, if a 30 percent cut were required in one year to raise hog prices above $25 per cwt. then to maintain prices at that level would require further cuts in supplies each year. There may be errors in the quantities estimated because we have no experience with even a 20 percent cut in per capita consumption. We cannot use the same relationships for large changes as we use for small changes.

Furthermore, a monopolist usually hesitates fully to exploit his position. A producer group would realize that the public would react negatively to agricultural bargaining power obtained through controlling supply if food prices became too high. Furthermore, informed producer groups would recognize that high prices and scarce quantities would make unity among farmers more difficult to maintain. This situation would also encourage the entry of other producers, regions, and even countries into the market. Therefore, the maximum revenue quantities should not be considered goals that would be striven for but only illustrations of the way in which control of supply could improve terms of trade.

There would be no need to induce farmers to cut supply; it is profitable for them to do so. But, we all know they do not readily agree to work together to attain this goal.

Let us return to the short-run and long-run effects on the terms of trade of operating at a highly favorable point on the supply function. Improving the price of one commodity through controlling the supply, such as hogs, would cause a reaction in close substitutes such as beef and broilers. The long-run gains from controlling supply depend on the closeness of substitutes and the willingness of producers of the substitutes to expand and supply the demand. If there is a perfect substitute and the substitute producer will supply all the demand without a price rise, there is no long-run gain from controlling the supply of the particular product. This is probably the case with two brands of gasoline.
If one company tried to improve its terms of trade by closing gas stations, customers might be able to buy all they wanted at a competing company's stations at the regular price. The first company could cut supply repeatedly until it had no more stations and still would not have improved its terms of trade.

In addition to varying total supply, a bargaining unit might try to institute multiple prices and allocate the supply among markets. There are two conditions for potential success. (1) The markets must be clearly separated so that quantities offered in one market will not flow into other markets. (2) The demands must exhibit different price elasticities. Under these conditions, the bargaining unit can increase total revenue by selling the product for different prices in different markets. From the producer's standpoint, the best allocation of product between the two markets is that which maximizes total revenue. This will occur when marginal revenue is the same in the different markets. This requires setting a relatively high price in the more inelastic markets and a relatively low price in the more elastic markets. Thus, his goal is to sell a limited quantity in the inelastic market and more than previously in the elastic market. If the elasticities are greatly different over a wide range of quantities, reallocation among markets and price discrimination can produce a large increase in total revenue. For example, a two-price plan for wheat might sell a slightly smaller quantity in the domestic food market at a substantially higher-than-present price. The remainder would be sold for less than present prices on the export and feed grain market. The result would be increased total value of wheat crops. Price discrimination has been forbidden by Federal law but is practiced with immunity in a number of agricultural markets -- milk, oranges, cranberries, and nuts, for example.

Total return from a given sized crop can also be increased sometimes by influencing the time when products flow to market. This can be accomplished partly by storage and also by collective production planning. Orange and apple producers frequently vary the time pattern of crop delivery to market to increase its total value. It would be foolish for a bargaining agent to send another load of produce to market this week if such action would only decrease the total return for the week's shipment. Destroying it, diverting it to some other use, or holding it until next week would seem only logical. Presently, in most agricultural markets the last loads of produce to arrive at the market during a week or month reduce the total value of the shipment.

Acting collectively in the purchase of inputs would be only a small step if producers were acting collectively with respect to selling their products. It is apparent that total return above out-of-pocket costs could be increased by lowering the cost of purchased inputs. Two possibilities exist. (1) Decrease the returns to resources used as inputs or used in making inputs. (2) Reduce the number of resources used in making purchased inputs.

On the supply side, there are also variables associated with improvements in production techniques. Let us say the cost per unit of input is stable.
The cost of production still could be decreased if fewer inputs were needed per unit of output. Most new technology increases output and worsens the terms of trade for agriculture after it has been generally adopted. Improvements in production techniques might be regulated to lessen their depressing effect on the terms of trade for agriculture by: (1) controlling the amount and rate of release of new technology, or (2) selecting the products so only those with more elastic demands and mobile resources would be affected.

Conditions of product sale. Actions besides specific manipulation of supply or demand variables may improve the terms of trade for agriculture. Conditions of sale in agricultural collective-bargaining contracts would be somewhat similar to the working-condition provisions usually included in labor contracts. Producers of farm products usually have no control over the way in which their product is handled after it leaves their ownership. However, in a collective-bargaining situation, producers could influence to some degree how products were marketed. If there were some advantage to them either directly or indirectly, one would anticipate that bargaining agents would try to specify certain conditions of sale. For example, producers might desire additional or less product differentiation, improved market reporting, quality and purity preservation, pricing practices which expand the market, different management of farm-retail margin variation over time, or additional product service to consumers. The opportunity to make gains from any or all of these may be limited. In principle, however, they might have some indirect impact on the terms of trade.

Product differentiation and multiple pricing might increase the total return for a given volume of output if some people prefer one of the differentiated products.

Improved market reporting and sale information would make it possible for producers to gear their product mix more perfectly with the desires of the market and increase volume or price. The broad product mix usually considered by agricultural economists (eggs, milk, beef, potatoes, pork and oranges) is probably handled well by the price and market system. However, the price and market mechanism is not precise in reporting the values of alternative qualities of a specific product. These might involve gluten strength of wheat, meatiness in livestock or variety choice in grains or vegetables. These consumer preferences could be reported to a bargaining group which would in turn relay the information to their producer members.

The preservation of quality and purity sometimes concerns producers. Wheat growers have been irritated considerably by reports from foreign users that American wheat is occasionally adulterated with inert material. Highly perishable products such as bread or frozen foods presently are delivered on contract, specifying the exact way in which they will be cared for in the store. If producers could gain directly or indirectly through quality and purity preservation, they might ask or bargain for guarantees concerning the conditions relating to sale of the product.
To expand markets, farmers might encourage pricing practices designed to acquaint new consumers with the product. Producers might ask the merchandisers of the final product to help insure that newly acquired customers are retained or that the product is adjusted to their desires.

Marketing margins vary between periods of low volume and high volume. There is some tendency to accept small margins when volume of farm production is low. During periods of seasonally low supply, competition among processors is keen. If marketing margins were larger rather than smaller than average at these times, the price to the farmers would be lower, but perhaps the over-expansion of production in the next cycle would be less severe. Conversely there is also tendency to take large margins when volume of production is high because of reduced competition. Considering average total costs, margins might be smaller than average at such times because costs decline with increased volume. If they were small at times of heavy marketings, this would move a large production into consumption without depressing prices to farmers so much. Thus, if the cyclical pattern of marketing margins could be reversed, (that is, large margins accepted at low volume and low margins taken at high volume), demand would be more elastic at the farm level and livestock prices and production might become more stable.

Producer manipulation of variables. Obviously, you will dismiss some of the supply and demand variables discussed above as beyond the practical control of producer groups. In almost all cases, the short-run gains of manipulation appear larger than the long-run gains.

Producer groups are organized to some extent at the present time. We see them trying to manipulate some of the variables. For example, they try to expand the demand for their product. Through the use of Public Law 480 foreign currencies, several groups have tried to develop larger export markets for their products. With money collected from producers, some groups have worked on product development and searched for new uses for the product. Several producer groups have a production research committee which meets with scientists or may support scientists who explore the possibilities of new cost-reducing technology. Commodity groups have long attempted cooperative selling to try to increase the total value of output by regulating the flow of a given sized crop to market and increasing competition in the marketing sector. Buying cooperatives also exist to try to reduce the cost of purchased inputs through making volume purchases and stimulating increased competition for their business among farm supply industries. There may be additional opportunities to improve the terms of trade for farm products in these ways. However, it appears that these opportunities are fairly small. Moreover, their exploitation by producer groups is likely to be costly with only negligible long-run effects on resource returns in the industry.

The chances are slight that producer groups can increase demand by controlling such variables as population, per capita income, and the price of competitive products. Congress controls the opportunity to influence the
distribution of income for food by means of food stamp plans, consumption subsidies, etc. Producer groups are limited to bringing political pressure on public decision-making units, particularly Congress. While some improvement in the terms of trade might be induced by a large food subsidy program for low income groups, such a program cannot be financed by private producer groups.

It is on the supply side that opportunities are greatest for the producer to influence the terms of trade. Unquestionably the potential here is very large. To exploit these opportunities, instruments must be available to control market supplies directly or indirectly by influencing inputs or the transformation of inputs into outputs. Here we are not going to be concerned with details of the methods of control. Our interest is primarily in analyzing consequences that are common to most, if not all, methods of controlling supply.

Consequences of Supply Control

Programs of significant proportions to control supplies of a single major commodity are not likely to be permanent. A control program for a particular product is likely to lead either to retaliation by other producer groups or the imposition of general controls. Where there is an excess aggregate supply of farm products, there is little opportunity to shift surplus resource problems from one commodity to another without serious income effects on producers of the substitute products. Thus, the ensuing discussion of the consequences of supply control will focus on general controls.

General controls to improve the terms of trade fall into two broad categories in terms of their consequences. (1) Some labor resources could be permitted to remain efficiently employed in agriculture; others would be removed and re-employed outside agriculture where they might produce a product of larger value than that which they produced in agriculture. (2) All labor resources might be kept in agriculture and some either unemployed or used less efficiently. The effects of the two types of control programs on agriculture and the general economy are very different. Instruments (that is, farm programs or actions by producer groups) are available to prevent farm resources from producing so much. Compulsory quotas or universal voluntary farmer participation in a producer group slowdown or strike are examples.

In the first case labor diverted from producing farm products are re-employed outside agriculture, the total real income of the system is increased, and income to farmers is increased relative to nonagriculture. This is a relatively pleasant situation; most segments of the economy are better off. For these shifts to occur, the labor resources must be re-employed in such a way that they produce outside agriculture products of more value than those which they earlier produced in agriculture. For this to be possible the resources must be mobile, and there must be productive opportunities to employ additional resources of the quality coming from agriculture.

6 Programs not specifically designed to transfer resources may nonetheless create opportunities which eventually lead to transfer and re-employment.
If there exists substantial unemployment of labor similar to that released from agriculture by controlling supply, the hope of re-employing the released labor may be dim. In addition, certain types of control programs may, at least for a time, make it difficult for released labor to be re-employed outside agriculture. Thus, it may be worthwhile to look at the second case in which resources are unemployed or underemployed in the process of controlling supply and not re-employed at a higher marginal value product as in the first case.

In this case, the total real income of the economy would be reduced, but the share of the total going to agriculture increased. In fact, because of agriculture's relatively small size and the inelastic demand for its products, the total income of agriculture in real terms would be increased. The total pie would be slightly smaller, but agriculture would have a larger slice—more pie than before. With more to divide among the same amount of resources, all resources including unemployed ones could receive more income than before controls. Of course, the increase in resource returns would be less than if some re-employment had taken place. Interestingly, it would appear that a voluntary supply control program which paid people not to produce could be self-financing from a producer group standpoint.

When labor is not re-employed, the increase in farm real income is less than the decrease in nonfarm real income. It is true that the additional income received by agriculture is a pure transfer from nonagriculture. However the nonagricultural sector in addition is forced to consume a smaller volume of agricultural products. Furthermore some loss of employment and real income occurs in the marketing, processing, and retailing sectors as a result of the smaller volume of agricultural production.

The effects of controlling agricultural supplies without re-employing the released resources are almost exactly the reverse of the consequences of a technological advance in agriculture. As technology advanced in agriculture, output from given resources rose, food prices fell, total cost and percentage of income spent for food fell, average real income rose, and employment in manufacturing and service industries expanded. As a consequence agriculture's real income fell and resources were beckoned to the non-agricultural sector. Economists said the adjustments were part of economic development. Controlling agricultural supply without re-employing the released resources, especially if the released resources were of major proportions, say 20 to 25 percent, would result in less total output from given resources. Food prices would rise, total cost and percentage of income spent on food would rise, average real income would fall, employment in high income, elastic industries would fall. Resources would be less frantic to leave agriculture.

Regardless of unemployment or re-employment of resources, controlling agricultural supply and the resulting income transfer affect the nonfarm economy. As a result of paying more money for farm products, nonfarm people will have less money available to buy nonfarm products. This situation may be offset in total volume of spending by farmers' increased purchases of nonfarm products out of the additional or transferred income they receive. With incomes and prices constant in the nonfarm sector, the income transfer would not affect aggregate
spending for nonfarm goods if nonfarm people reacted exactly oppositely to a decrease in real income as farm people reacted to an increase in money and real income. Thus a perfect offset is possible. However, we believe the net effect of the transfer would be to increase aggregate spending for nonfarm goods and reduce savings, especially in the short run.

The effect on the kinds of goods produced is interesting and would also be of concern to the voters. Re-employment again has an influence on the volume of goods but not a great effect on what kinds are produced. Momentarily after controls were placed on agricultural supply most people in the nonfarm economy would receive the same money income, but with larger sums spent on farm products they would have less available to buy other goods. Presumably they would cut purchases most on high-income elastic goods such as entertainment, recreation, education, and medical services.

The farm sector, on the other hand, would experience an increase in income. Farmers might desire more conveniences both on the farm and in the home. There would be some reduction in the total demand for purchased farm inputs. Consumption good purchases probably would increase. There would be an adjustment required in the overall mix of goods and services produced. The additional items purchased by farm people would likely not be exactly the ones foregone by nonfarm people.

Any supply control or bargaining power program changes the income distribution in the system. How much does society want to change the income distribution? How much of the benefits of technological advance would society permit to remain in agriculture as a result of bargaining power through supply control?

**Price Targets, Controls and Political Acquiescence**

A range of price targets is discussed by farm leaders. The 1960 corn support rate was at 65 percent of parity, and some discussion indicated that 90 percent of parity was considered too low. There is no objective way for us to say what price targets ought to be. This is related to the distribution of income and the rate of real income growth. Both are a matter of much concern and disagreement among economic policymakers.

The use of some instruments to reduce the quantity placed on the market and hence fix prices and raise farm income would probably be accepted by society at this time. It might even be accepted for producer groups to do this themselves if they were able. This would be the granting of a franchise to operate a monopoly. The principles discussed in Dr. Nordin's paper apply to this monopoly as well as any other. At the same time, it must be remembered the public has several antitrust and price-fixing laws to regulate monopolies.

With large surplus stocks of farm products held by the government and farm incomes apparently still below the level society desires, agriculture might
be able to obtain a franchise to operate as a regulated monopoly. An offer by agricultural producers to "do it themselves" by collective bargaining might be preferred to the present set of relatively expensive farm income support programs. Theoretically, larger incomes could be obtained for agriculture through the market place by reduced supply. However, society would probably limit the operations of producer groups which attempted to raise prices to very high levels.