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FARMER COOPERATIVES
FOR
THE FUTURE

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IMPLICATIONS OF THE FUTURE MACROECONOMIC ENVIRONMENT FOR SUCCESSFUL EVOLUTION OF FARM COOPERATIVES: DISCUSSION

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It is difficult to disagree that Dobson has adequately addressed the macroeconomic environment. It is always difficult to forecast interest rates and, given this forecast risk, cooperative efforts should concentrate on managing interest rate risks. We also believe that inflation will not be sufficient to make prior investment decisions look good. It is further agreed that export prospects, especially for grain and specifically for wheat are not positive in the near term. Indeed, the economic environment for farmer cooperatives in the next three years will be "more hostile" than during the period of 1973-1981.

The base period 1973-1981 can be characterized as a golden era in the process of cooperative evolution when defined in economic terms. For example, marketing/supply cooperatives in participation at the Central Bank for Cooperatives expanded their total assets by 166% during this period. This growth, however, was financed by a 182% increase in term debt and a 128% increase in equity. Given the nature of the assets acquired during this period, cooperatives also became more capital intensive. The accompanying growth in term debt also made them more interest rate sensitive and little prepared for the high interest rates of 1980 and 1981.

This highly levered set of cooperatives was then impacted by the increase in interest rates and lower inflation documented by Dobson during the period 1982-1984. During this period, this set of cooperatives lost \$10.5 million in earnings, reduced both assets and term debt by 17% and saw a 3% decline in net worth.

In 1981, cooperatives began a disinvestment process that continues today. Cer-

tainly, disinvestment reflects the realities of the macroeconomic environment and shows that cooperatives are sensitive to changes in their environment. The 1986-1988 environment foreseen by Dobson implies that this trend will continue and gives real meaning to Darwin's "survival of the fittest" theory.

Project 1995 envisioned several changes occurring in the agricultural sector over a 10-year time frame. Macroeconomic forces continue to cause these adjustments to occur in a much more compact time frame than 10 years.

Dobson's paper focuses on the first three years of the 1995 10-year projections. A small quibbling point, is that for at least the GNP projection case, he has used the 10-year projection as representing the next three years of GNP growth. Dobson may be premature in characterizing the Project 1995 projections as excessively sanguine, if the 10-year horizon is considered versus a 3-year horizon. He is, however, quite correct to focus on the next three years given the critical nature of agricultural sector problems. Cooperatives and their farmer member-owners aren't going to be overly concerned with where they will be in 10 years, if they can't survive the next two or three years.

Concern about this survival process is permeating the thought processes of everyone associated with agriculture. As economists we understand that the "marketplace" is insistently demanding a reallocation of agricultural resources. But as social scientists we may agonize over the timing and magnitude of such resource reallocations. In addition to these concerns, cooperative bankers are concerned about the implications for cooperatives.

Dobson identifies implications for farmer cooperatives, as follows:

- Need to obtain investment funds.
- Need to direct efforts to management of interest rate risks.
- Need to exhibit quality decision processes.
- Need to possess an unsentimental view of operations.
- Need to understand how changes affect their business.

Given the title of Dobson's paper, we can then assume that this list represents the implications for the successful evolution of cooperatives. However, this raises the question of what cooperatives want to be in the future -- a description of the cooperative goal. The implications imply that cooperatives should evolve to a position that allows cooperatives to improve their business performance in a period when much of agribusiness is undergoing major restructuring. Perhaps the real implication is the need to reposition cooperatives within the environment identified to allow them to achieve their mission.

Cooperative pioneers had a clear picture of the cooperative mission because they operated in an environment sans cooperatives. They had a vision to achieve market power collectively that they could not accomplish individually. Most of us have not had the opportunity to experience the cooperative need as directly as did these pioneers. Our perception of the cooperative mission has become "fuzzy".

Dobson implies that their mission is for business purposes and we agree with that proposition. Although cooperatives do have a broader purpose, the anticipated hostile environment will force cooperatives to answer the question: What specifically do we need to do to survive the 1980's? We would identify the implications relating to achievement of the cooperative mission as follows:

- Need to optimize long-term financial viability.

- Need to enhance equity capital, both quantity and quality.
- Need to differentiate business purpose from a broader purpose.
- Need to identify a structure that facilitates the mission.

The requirement to optimize long-term financial viability has always been a real need. However, the current economic environment has forced this issue to the top. The need holds significant research implications. The need to build equity capital is real as is the need to assess the quality of cooperative equity. Cooperatives are discussing joint ventures and other structural alternatives as a solution to the problem. One grain cooperative, for example, has recently entered into a joint venture with a non-cooperative grain entity. That cooperative has taken action to reduce risk while concentrating on the cooperative comparative advantage in grain origination.

The need to be able to focus the cooperative organization on the business purpose as opposed to political or social purposes is a product of the economic environment and is structural in nature. Cooperatives must stop competing with each other, redefine their markets and adjust structurally to serve those markets. Organization structure should be determined by defined goals, and we believe that the cooperative structure as we know it today is under pressure from the operating environment. We also believe that the subject of cooperative structure is one that demands time from the researcher and represents the "heavy" implication from that environment defined in the Dobson paper.

A popular song has lyrics which say something to the effect that you never miss the water until the well runs dry. Everyone associated with cooperatives is currently being challenged to insure that the cooperative well does not run dry. The paper in this session has defined a hostile environment facing cooperatives in the immediate future. We have surfaced what we believe are significant implications to cooperatives resulting from such an environment. We have

referenced an example of a cooperative that has taken steps to adjust to this environment. History will ultimately judge the appropriateness of this decision, but one thing is clear, the hostile environment described in Dobson's paper will not tolerate inaction by cooperatives.

References

U.S. Farm Credit Administration, "Production Agriculture and Rural America in 1995," Project 1995, June 1984.