V. James Rhodes on

Farm Cooperative Competition Isn't Good for Farmers

Is competition among farm cooperatives of benefit to their owners? Ask that question to a cross-section of agricultural economists, cooperative managers and farmers, and you will probably get a majority of positive responses from each group. Why? Competition is a good thing; our economy rests on competitive markets.

Let's rephrase the question. In some (even in many) markets, there will be a socially adequate level of competition whether or not farm cooperatives compete with each other, because of the significant market shares of investor-owned firms. In those markets, is competition among farm cooperatives good for the farmer owners?

The Answer

From the collective viewpoint of the owners, the answer is ordinarily no. *A given set* of farmers will not ordinarily originate two or more cooperatives to provide their fertilizer or petroleum, nor to market their milk or grain. Why not? Because for any volume that these farmers demand to be handled, the total cost is lower for one firm than for two or more firms.

Thus within a given locality, a given set of farmers will find it most economical to operate one local cooperative rather than two or more. For any particular set of cooperative services, there are empirical questions concerning the extent of the region to be served most economically by one local firm, but that does not question the logic of non-duplicated services.

Likewise a given set of local cooperatives will not find it economical to set up two or more regional cooperatives to manufacture their fertilizer. The setting up of duplicate facilities and staffs is not economical for a given set of farmer-owners.

But is the answer different from an individual viewpoint? An individual member often perceives individual payoffs from getting two farm cooperatives to compete for his business. If two cooperatives each provide several services: A, B, C, D, & E, it won't be surprising if one cooperative prices lower say A and B while the other prices lower D & E. Many farmers secure each service at the cheaper place and praise competition.

Either the cherry-picking member is securing gains at the expense of his fellow-members or if all members are following suit, he is simply caught in a fallacy of composition. Nevertheless, the possibility of *individual* farmer gain from competing cooperatives is the reason—farmers have mostly tolerated—even encouraged—competition among farm cooperatives, which typifies most of U.S. agriculture.

The Key

The key to securing the collective gains of non-competition to a set of owners is an institutional arrangement that eliminates the potential for individual benefit at the expense of fellow members. The simplest institutional arrangement for non-competition among farm cooperatives is a market boundary between farm cooperatives providing a potentially competitive service. The market boundaries between Rural Electric Cooperatives is a prime example. The extra costs of duplicate electric distribution systems are so obvious that there is widespread acceptance of the institutional arrangement of market boundaries.

The Farm Credit System has also been characterized by boundaries. There have recently been rumors that the system's regulators may propose the elimination of boundaries. Perhaps some district mergers and other redrawing of boundaries may be justified. But please let's not eliminate the boundary concept. The Farm Credit System is in enough trouble without encouraging competitive blood-letting among the districts.

Public policy to restrain competition among farmer cooperatives is not as obvious in those markets in which no boundaries divide. While some policy steps might be helpful, there is little point in discussing them until there is far greater awareness that competition among farm cooperatives is not good for their farmer-owners. C

V. James Rhodes is Professor, University of Missouri-Columbia