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ROLES AND RELATIONSHIPS OF FARMER COOPERATIVES

James D. Shaffer\*  
Michigan State University, Dept of Agricultural Economics

This panel is charged with identifying issues involving (1) competition among farmer cooperatives and (2) interrelations of operating cooperatives, bargaining associations and farm organizations. I will begin with an issue and two ideas for new roles for farmer cooperatives in the future.

The Operating and Bargaining Cooperative Relationship. An issue arises when a bargaining cooperative and a processing cooperative deal with the same commodity in the same geographic area. Should the processing cooperative bargain with the bargaining association and its members pay a fee supporting the bargaining effort? When state law provides for collective bargaining by farmers the issue involves the exclusion of processing cooperatives from the obligation to bargain and pay fees. The proposed national bargaining legislation provides for this cooperative exclusion and was a major issue among the groups which drafted the bill. This issue revolves around several questions which could be subjected to research. These include:

1. Is such bargaining feasible? Does it make sense for members to bargain with themselves? Note that a few processing cooperatives do bargain with a bargaining association and that members in the two cooperatives are not likely to be identical.
2. Could such a bargaining relationship contribute to the solution of the problem of distributing benefits and costs among members of processing cooperatives, especially by establishing raw market prices in their markets? How would distribution of costs and benefits between bargained and non-bargained commodities be influenced? The problem of pooling and allocation of costs has received research attention.

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3. Does bargaining benefit members of processing cooperatives and does their failure to contribute to the cost of bargaining weaken farmer bargaining?
4. Would investor-owned processors put up less resistance to good faith bargaining with growers if competitor processing cooperatives also bargained and their members paid fees?
5. If processing cooperatives bargained for raw product terms of trade, would they be less likely to be downside price leaders?
6. Would bargaining for raw product terms of trade make it more difficult for cooperative processors to obtain financing?
7. How would bargaining influence the behavior and performance of the cooperative management? Would it bring additional discipline reducing costs of processing?

New Cooperative Systems. We have a natural tendency to focus research attention on the existing cooperative system. Are there other systems of cooperatives which would improve performance and better serve farmers?

For example:

1. In the 1920s I understand that one of the concepts of the cooperative movement was a view of cooperatives organized to coordinate supply with demand to deal with the chronic problem of excess supply and low prices. The alternative view was of individual cooperatives bringing more competition into less than competitive markets. The later objective has been the general approach of U.S. cooperatives. The bargaining cooperatives, of course, put more emphasis on price enhancement but generally do not focus on commodity wide matching of supply with demand. Farmers have tended to look to Government for help in matching supply to demand rather than to the cooperative system. Given the very large current budget expenditures for farm support programs and the pressure on budgets, the time of these Government programs may be limited.

At least it would appear useful to consider the feasibility of cooperative systems designed to improve the coordination of supply and demand. Consider the feasibility and potential of national federated marketing cooperatives which would coordinate production and marketing of commodities through pre-production contracts with their members and with buyers. Modern computer and communication technology would seem to make such a system technically feasible.<sup>1</sup> Institutional feasibility is another question.

The role of the coordinating cooperative would be to determine future supply and demand schedules for commodities of specified characteristics, establish prices based upon these schedules, and contract with members and buyers. The supply and demand schedules would be determined by contract offers by members and bids from buyers. The cooperative would construct a competitive market in contracts for future delivery.

The advantage to farmer members would be the establishment of firm prices prior to major production decisions. The advantage to buyers would be assured supplies at known prices. The advantage to consumers would be an efficient market. As long as membership was open the potential for monopolistic profits would not exist. Because yields and quality cannot be perfectly predicted contracts would have to provide contingency clauses. However, with a cooperative representing a national geographic area the risks on yield could be pooled and adjustments made to an extent not possible with individual contracting. Coordination could be further enhanced by an information system developed by the cooperative. Clearly many practical problems would have to be solved to make a workable system. Pooling agreements would create a problem for example. For such a system to be most effective a very

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<sup>1</sup>This system is designed for annual commodities and appears inappropriate for preannual crops.

high rate of participation would be required. This would require a new cooperative movement with support from organized farm groups. Most effective would be 100 percent participation, in which case the cooperative would provide a planning system based upon the decisions of those in the best position to know costs--the growers--and future demand--the buyers. Less than 100 percent participation would create a potential problem of substantial instability in the residual market.

2. Is it feasible for marketing cooperatives to form, through federation or agencies in common, national merchandising organizations which would develop national brands and provide specifications, coordination, promotion and selling services to member cooperatives. Then rather than cooperatives competing in the low return commodity business they would get into the higher return product business. More fresh fruits and vegetables are packaged and branded which provides new market potentials especially for nation-wide organizations capable of organizing year around supplies of products with consistent quality. Processed fruits and vegetables and possibly processed meats are other good prospects. We have enough examples of success with cooperatives in brand merchandising to encourage aggressive investigation of further potential developments. The modern communication and computer technologies would facilitate this type of organization.

Conclusion. My purpose is not to promote any particular system of farmer cooperatives but rather to stimulate a discussion of possible new ways of developing cooperative systems to best meet the needs of farmers in our modern food system. The relationships among cooperatives is influenced by views of the proper roles of cooperatives. Most importantly, are cooperatives viewed as independent organizations or as a system serving farmers?