Some Observations on New Generation Cooperatives

Murray Fulton
University of Saskatchewan

The development of New Generation Cooperatives (NGCs) in Minnesota and North Dakota over the last seven to ten years has raised many interesting issues and questions, three of which I will address: 1) the experience of NGCs in the prairie region of Canada; 2) the pooling inherent in most NGCs; and 3) the development process that has gone into creating the NGCs.

The Experience of NGCs in Canada

There is substantial interest in NGCs in the prairie region of Canada. A good deal of this interest arises because of factors common to the Canadian prairie region and Minnesota and North Dakota. As David Cobia points out in his paper in this collection, one of the reasons farmers and rural residents in North Dakota began to explore NGCs was that NGCs were seen as part of a rural development strategy. The need for this strategy developed from the exodus of people from rural North Dakota, which in part stemmed from the price decline in grain that occurred during the late 1980s and early 1990s. The restructuring of agriculture, often referred to as "agricultural industrialization," has also been a factor, since NGCs provide a mechanism whereby farmers can vertically integrate forward into the food system. A third factor has been the rise of new industries, such as specialty livestock, which have required investment in infrastructure as part of the development process.

In addition to the factors outlined above, Canadian farmers and rural communities face an additional element. In the summer of 1995, the subsidy on grain transportation from the prairie region was removed. This increased the amount paid by farmers for grain transportation by roughly a factor of three. As a response to this policy change, farmers agribusiness firms and rural communities are investigating opportunities for processing agricultural commodities and products in the prairie region, rather than exporting them. NGCs are one of the organizational forms being investigated.

Although there is substantial interest in the NGC model, to date there have been no examples of NGC formation. One reason for this lack of formation is a scarcity of familiarity with the NGC model. For instance, a common reaction among farmers is that they understand why the NGC is a successful model, but they themselves would have trouble signing the delivery contracts since they would like to retain the freedom to deliver their product where they want. There appears to be some evidence that the degree to which this attitude is found among farmers differs according to how far away they are from Minnesota and North Dakota. This spatial pattern suggests farmers that are closer geographically to the existing NGCs have had more exposure to the concept and are more comfortable with agreeing to the conditions required for NGC formation.

Pooling and New Generation Co-operatives

Pooling is inherent in most NGCs, since the payment made to members at the end of the

year is adjusted so each member effectively receives the same return on the product delivered to the co-op, regardless of when the product was delivered. Since pooling is a form of temporal cross-subsidization (Lavoie), and since cross-subsidization is often not feasible (Faulhaber), it is useful to consider the implications of pooling for the successful operation of NGCs.

In its simplest form, cross-subsidization involves two groups of people, each paying a different price for the same good, with the lower price being below the cost of production. The group paying the higher price is cross-subsidizing the group paying the lower price. As Faulhaber points out, this cross-subsidization can be undertaken successfully only if sufficient economies of scale exist in the production of the good. Without sufficient economies of scale, someone else will be able to produce the good at a cost less than the price at which it is being sold to the group of buyers who are paying the higher price. If this outcome occurs, then cross-subsidization will not be feasible, since the revenue that was obtained by selling the good at the higher price will not be available to cross-subsidize the lower-priced good.

The above discussion suggests that for pooling to be successful in an NGC, the NGC will have to have sufficient temporal economies of scale to make cross-subsidization viable. There is some evidence from other co-operatives that this proposition has merit. For instance, Hammonds observes that the successful pooling operations among the ones he studied had at least one special feature (specialized grading services, brand-name products at the consumer level, quality control programs, and substantial vertical integration) which gave them a competitive edge. This special feature appears to be linked to economies of scale. Hammonds notes that "Any cooperative or other body initiating a market pool must be certain it can provide a special service or expertise that is truly beyond the reach of individual growers, if sustained success is to be assured. Evidence is conclusive that merely combining the crop volume of a number of growers for marketing purposes is not enough" (p. v). Smith and Wallace arrive at a similar conclusion in their analysis of California co-ops.

The processing focus of NGCs suggests these co-ops have the potential to generate economies of scale, which in turn would allow them to operate pooling schemes. However, much more research is required on the relationship between pooling and economies of scale and the degree to which NGCs exhibit both of these features.

Cooperative Formation

As cooperative developers have long known, cooperative formation depends on outside organizational support, whether from government or existing cooperatives. As David Cobia points out in this paper, the experience of the NGCs is no exception. For example, the Rural Telephone and Electric Cooperatives and the Cooperative Banks have played a major role in the formation and development of NGCs, providing development officers and sources of capital for both members and the new cooperatives. Government and other public and quasi-public agencies have also played an important role in the development process by fostering the proper development environment (Harris et al.).

Development assistance is likely required because of the problems associated with the collective action that is an inherent part of co-operatives. Although there is a benefit to collective activity, groups of people find it difficult to coordinate their individual actions to achieve this collective activity. Development agents and organizations may be a mechanism for achieving the coordination and assurance required for cooperation to proceed (Harris et al.).

Although much is known about what co-op developers need to do "on the ground" to assist co-op development, little has been written from a theoretical perspective about the role of the external agent in co-operative development.

One starting point for a theoretical model of co-op development would be that collective action requires individuals in a group to adopt a common frame or a common social theory (see North, p. 23, for a discussion of the idea of a common frame). The adoption of a common frame through which to view the conditions in which people operate provides a mechanism for the coordination and assurance outlined above. In the simplest terms, if all members of a group view and interpret the world in the same way, then all will act in the same way, and collective action is not a problem.

The idea that a common frame, or a common social theory, can reduce collective action problems suggests the co-op development agent's role is to develop such a common frame among potential co-op members. For the co-op development agent to be successful in this effort, the common frame that is being advanced must coincide to a substantial degree with the pre-existing views of the members-to-be; otherwise, the task of creating a common frame among the members would simply be too difficult.

The theoretical propositions presented above are preliminary and need to be tested, modified and expanded upon. The development experience of NGCs, as well as other types of co-operatives, provides a rich environment for such testing, modification and expansion.

Notes

Murray Fulton is Director, Centre for the Study of Co-operatives, and Professor, Agricultural Economics, University of Saskatchewan, Saskatoon.

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