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A POSSIBLE UNEXPLOITED ROLE FOR FARMERS' COOPERATIVES - OCT 29 1984
COORDINATING SUPPLY AND DEMAND FOR FARM PRODUCTS

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Let me explore with you the possibility of an institutional innovation in the way supply and demand are matched in U.S. agriculture. The basic idea is simple: it is to develop a system of markets dealing in contracts for future delivery for farm products and perhaps selected farm inputs. The design, implementation, and management of such a system is not simple. Farmers' cooperatives could play critical roles in the development and management of such a system.

The idea that farmers' cooperatives have a role in coordinating supply with demand is not new. During the 1920s cooperatives were promoted as an institution to coordinate supplies with demand to deal with the problems of chronic excess supply and low prices in agriculture. This role for cooperatives continues to be reflected in the bargaining cooperatives, but the emphasis of most modern U.S. farmers' cooperatives has been on improving competition and efficiency in farm supply and farm product markets.

Marketing of farm products, Cooperative
Farmers looked to the Federal Government rather than their cooperatives for help in balancing supply with demand. But currently the price and income support programs are under attack. Program costs have been high and budget deficits large. It has become generally recognized that price supports benefit farmers in proportion to their production. Reports of very large transfer payments to wealthy farmers were common this past year. Farm families achieved incomes generally comparable to non-farm families. The price and income problem in farming has been redefined by many as one of instability rather than of a cronically disadvantaged class.

The political mood seems to favor market oriented programs and farm groups have a strong preference to receive benefits through markets rather than directly from the government.

The problem of farm price and income instability remains. Or more accurately the problem of effectively matching supply and demand at prices consistent with costs of production and consumer preferences remains. Markets as currently instituted do not provide reliable guidance to production, resulting in too much or too little production. Spot markets effectively allocate commodities among alternative uses once produced but are not reliable indicators of future prices. Markets in contracts for future delivery would establish relative certain future prices. It is an institution to facilitate decentralized private planning to coordinate future supply with future demand.

Cooperatives could play very important roles in the design, implementation and management of these markets. Their role may be essential for without broad based participation in the markets the aggregate coordination function is diminished. The roles of cooperatives would include:

- Establishing trading rules for the markets.
- Providing the communication and computer system for long distance double auctions trading.
- Analyze and display information from bids and offers and supplementary information facilitating competitive, transparent information-rich transactions.
- Provide the mechanism for assuring the terms of contracts were met.
- Most importantly the cooperative would provide the mechanisms for settling contracts where the quantities produced are more or less than contracted due to causes beyond the control of the contracting parties. Farm production remains uncertain and contingencies must

be dealt with in an effective contracting system. A master contract between the cooperative and buyers and sellers could deal with the contingencies.

- Local cooperatives could pool offers from smaller farmers to give them equal access to the market.
- In the case of very thin or highly concentrated markets cooperatives could act as an agent for farmer members, bargaining over appropriate aggregate production and prices, and allocating contracts based upon offers from members and bids from buyers.

Elements of the proposed system currently exist. Most vegetables for processing, for example, are produced under some type of contract. Local elevators will forward contract grain based upon a hedge on the futures market. Most farm product contracting is by private treaty. There is no open, transparent, market in the contracts. Existing contracting facilitates coordination between a single grower and handler but does little to coordinate aggregate supply and demand for a commodity. The suggestion here is to develop a system of open, transparent markets in contracts for future delivery at a level of participation which would make the system an effective mechanism for planning.

Farmers' cooperatives are not the only prospect for development and operation of such a system of markets. The existing commodity exchanges could perform the function or a new private enterprise could do it. Since there are public goods characteristics of the system it might be argued to be a proper function of government.

The argument for farmers' cooperatives accepting the role are several. Perhaps most important is the fact that it is not being done. There is an unexploited niche. To be effective in performing aggregate coordination

of supply and demand a high level of participation is required. Farmers through their organizations will have to promote the system. While the system would benefit handlers and consumers as well as farmers, farmers have the most direct interest in the existence of an effective mechanism for coordinating supply and demand for farm products and they have the organizations to undertake the tasks of promotion, development and management. Cooperatives are in a unique position to develop and implement procedures for settling contingency contracts. Institutional innovation does not arise automatically in response to need. The needed institution must be effectively designed and marketed.