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DISCUSSION: THE ROLE OF FARMER COOPERATIVES IN A CHANGING AGRICULTURAL ECONOMY

Joseph D. Coffey

My remarks will be divided into three parts. First, I will comment briefly on the nature of farmer cooperatives. Secondly, I will briefly critique Christy's four main points. Third, I will discuss issues concerning the future of farmer cooperatives.

To make sure we are on the same footing, let me first define and explain the nature of farmer cooperatives. Farmer cooperatives are farmer-owned and farmer-controlled businesses where the earnings are returned to the members according to their patronage. Contrary to what many believe, cooperatives do not have a privileged position. Their success or failure depends upon their success or failure in the market place. Basically cooperatives, as with other businesses, must find out what farmers need and want and then sell it to them. I would submit that cooperatives are different from non-cooperative businesses, not so much in function but in philosophy. I would further argue that not only are they different, but farmers in fact view them as being different. Surveys suggest that farmers view cooperatives as more sensitive to their needs, more reliable, and more willing to perform services even though these services may not be profitable.

Let me now turn to four key points made by Dr. Christy and my comments upon them. First, Christy observes that co-ops are getting larger and fewer and that volume has declined due to deflation. The decline in co-op numbers is about the same as in farmers. I concur with Christy's comments and certainly the decline in farmer cooperatives would be even greater if it were measured in terms of their net returns rather than dollar volume. I would caution, however, that measuring the size of cooperatives in terms of membership is not very meaningful. As you will note in the statistics Dr. Christy cited, the number of cooperative members in this country is roughly double the number of farmers. Membership is a poor measure because many farmers hold multiple memberships, sometimes even in the same cooperative. Furthermore, a cooperative member may be an individual farmer or it may be a multi-million dollar local cooperative.

Second, Christy notes that the market share of cooperatives has increased, at least for the farm supply cooperatives and the marketing cooperatives at the first-handler levels. Christy's data used to measure market share are three or four years old, and there may have been substantial changes in the last two or three years, especially in the grain marketing area. Farmer cooperatives have retrenched substantially from that grain marketing area.

Third, Christy notes that the theory of the firm and firm growth theory don't offer much insight into the growth of cooperatives. He notes that what little work is available supports Gibrat's Law of Proportionate Effect, that is, big co-ops don't grow any faster than small ones. Despite the evidence Christy cites in support of Gibrat's Law, I am not convinced. My view is that in cooperatives, as with farmers, the large are getting larger and the small are getting out. Hence, I would argue that large cooperatives, in fact, are growing at a faster rate than smaller ones.

Fourth, Christy mentions four potential roles for farmer cooperatives:

(a) As a competitive yardstick.
(b) To provide farmers access to market information and provide management software services.
(c) To improve market coordination.
(d) To aid community economic development, especially among the rural poor.

I agree with Christy that cooperatives can serve as a competitive yardstick, and I have seen the impact that cooperatives have on prices when they open and close facilities. But cooperatives must be more than a yardstick. They must actually have some of the market share; otherwise, they can't continue. I would

Joseph D. Coffey is Vice-President for Economics and Planning, Southern States Cooperatives, Richmond, Virginia.

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also note that cooperatives sometimes are used as competitive yardsticks with respect to each other. Frankly, I don't know how many duplicate facilities the farmers can afford to own in order to maintain a competitive yardstick.

I agree that cooperatives should have a role in the future of providing information and computer-based services, but so far, cooperative ventures in this area have met with limited success. I know. I have been directly involved in one venture that had to be terminated. It is difficult to sort out the reasons why—whether these ventures are ahead of their time or whether they happen to start when farmers were retrenching due to difficult economic times or whether they simply won't work.

Our cooperatives can improve market coordination, and, indeed, one way to view a cooperative is simply as the way for the farmer to extend his ownership of the product beyond the farm gate. There have been a number of successful cooperatives for broilers, vegetables, milk, grapes, cranberries, and almonds which have helped to extend the farmers' ownership.

Cooperatives can play a role in community development as an advocate, leader, and catalyst for change. However, during these tough economic times cooperatives do not have much risk capital that they can afford to lay on the line. Hence, I see cooperatives' role in this area limited mostly to moral support.

Finally, let me turn to some of the issues I see for agriculture and cooperatives in the future. First, I would like to emphasize, let's not be overcome with the gloom and doom. Just as in the 1970's, we were probably overly optimistic about agriculture, in the 1980's we are probably overly pessimistic. There are exciting changes occurring in agriculture and in cooperatives, and I would encourage each of us to conscientiously consider the facts rather than become caught up in the popular fads.

One of the key issues, of course, is who will be the farmer of the future and what will this farmer need and want in terms of products and services? Large and small farmers have different needs and wants, and it is becoming increasingly difficult to serve both. However, strategically, there is a major advantage in serving both because it tends to spread the risk. The bankruptcy of a single large farmer is often enough to cause the local cooperative to become insolvent. And as the farm credit systems are finding out, having all of your business tied to the farm sector is very risky. Furthermore, agricultural business is highly seasonal, which means that many facilities and personnel are not utilized fully throughout the the year.

Another issue of concern is to what extent farming will follow the broiler and turkey example and become integrated. Frankly, I think the egg industry is rapidly headed in the industrialized direction. It looks to me as if we are headed toward large in-line laying complexes of .5 million to 1.5 million hens. If this is true, four or five such complexes will provide enough eggs to supply the average state. Hogs would also appear to be headed in the direction of large-scale production. For example, in North Carolina six large producers and/or contractors control about half of the production, and North Carolina is one of the leading hog states. Many of these large hog operations are also involved in poultry.

The new tax laws may have a major impact upon the future structure of agriculture. I believe this is an issue worth the close attention of the agricultural economists.

What will be the future role of the land-grant universities and extension? Will the land-grant colleges be the leaders in genetic engineering, or will this leadership be provided from elsewhere? What will be the role of extension with respect to the large farmers? Will our universities continue to provide services such as soil testing, ration formulating, and disease identification, or will these services be phased out? Who will provide marketing advice? Will the land-grant universities provide the leadership in computerized information services or will someone else, perhaps the cooperatives as Dr. Christy suggests?

Finally, let me encourage, indeed invite, those of you with the universities to become better acquainted with the institutions that serve agriculture and specifically, one of the major institutions, farmer cooperatives. I believe that agricultural economists have a lot to contribute to cooperatives and a lot to learn from cooperatives. Unfortunately, in these difficult times, most cooperatives do not have large sums of money they are willing to use to underwrite research. But even though they do not have money, they can offer practical problems, real data, audiences for your results, and jobs for your students, and I might add, professors too.