AGRICULTURAL ORGANIZATION IN THE MODERN INDUSTRIAL ECONOMY

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FOREWORD

This volume contains papers and discussions presented at a seminar on changes in the economic organization of American agriculture. Organization alternatives were examined in terms of workability, acceptability, consequences, and implications for public policy. Seminar participants included members of two North Central Research committees, NCR-20 and NCR-56, and selected other individuals whose experiences and areas of interest qualified them to contribute in unique and valuable ways.

The contents herein should be of particular interest to agricultural leaders who are formulating policy proposals bearing on agricultural organization, to educators who are dealing with issues of changing industry structure in their research and teaching programs, and to students of agriculture who are seeking greater comprehension of the kinds of changes and problems likely to be faced by agricultural people in the years ahead.

The seminar was planned by a Subcommittee of NCR-20 consisting of Peter Helmberger, University of Wisconsin; R. J. Hildreth, Farm Foundation; James D. Shaffer, Michigan State University; and Paul L. Farris, Purdue University, Chairman. The subcommittee coordinated arrangements involving NCR-56 with Dale E. Hathaway, Michigan State University. Manuscript preparation and publication arrangements were handled by Thomas T. Stout, Ohio State University.

Paul L. Farris
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THE ROLE OF COOPERATIVES IN VERTICAL AND HORIZONTAL INTEGRATION IN AGRICULTURAL PRODUCTION AND MARKETING*

Discussion

Wallace Barr
Ohio State University

Walsh provides a substantial amount of background data and information on the ability of cooperatives to grow and to increase their share of the total market. He discusses the opportunities and limitations of "operating" cooperatives as contrasted to "bargaining" cooperatives in 1) the efficiency in handling a large volume of goods, 2) the processing of raw products, 3) the introduction of new products and methods, 4) improvement of merchandising, and 5) selling abroad.

My intent is to be expansive in regard to the role of cooperatives in integration. First, however, a question needs to be raised in regard to the validity of the contention that the farther away from production of agricultural products the more profitable that stage. Restaurants are noted for low pay and high mortality rates.

Some Additional Roles

It occurs to me that cooperatives have played and could play an increasingly important role in improving business practices, improving standards, and providing new services. Many large scale cooperatives could initiate bold experimental and pilot programs in regard to business organization.

Some improved means of coordinating all the activities from producing goods and services to satisfy consumers wants are likely to develop. Cooperatives can play a leading role in helping determine what methods will be used, how many producers there will be, what combination of resources will be used, and what forms of business organization there will be. The motivations would be to reduce costs, gain market advantages, and provide a means whereby producers can help determine their own fate. Market advantages gained could be used in one of two general ways--provide services more efficiently or gain a larger share of the market.

Vertical Integration

Vertical integration, as used in the paper, consists of joining together under one management two or more stages of production

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and/or marketing. Cooperatives have traditionally coordinated vertically backward into the production of purchases of inputs or forward into processing or marketing. Walsh indicates more can be done.

Horizontal Integration

The paper intentionally confines itself to one type and one method of integration--vertical integration. Horizontal integration, or the combination of similar units or production or marketing under one management, is a role that could be further developed by some commodity cooperatives. Horizontal integration usually improves efficiency. It broadens the base and spreads the market enabling the cooperative to withstand short term reverses in one geographic area or price pressures.

We have "over 8,000" cooperatives in the country. Opportunities in horizontal integration may be overlooked. Cooperatives that can gain control over very large portions of the output of a product may be in a very advantageous position and may be able to play important roles. One role may be through improved efficiency and greater service as tha operative contribution to the value added. Another role is bargaining on prices and terms of sale. The possibility of federal legislation permitting marketing orders on more products or "agency shops" enhances this later opportunity.

Contracting

Another method to vertically coordinate production or marketing is through contracting. Under vertical integration, decisions are made administratively and those transactions do not pass through a market. Under contractual arrangements, many transactions may by-pass a market but they utilize markets and prices. The main difference is that contracts are for a limited duration and firms maintain their identity and objectives. Farmers need to recognize the necessity of abiding by their contracts.

Contract production is for a forward market or future delivery between independent firms usually with specifications. There may be three types including 1) market-specification, 2) production-management, and 3) resource-providing contracts. There are many reasons to contract including reducing risks, reducing costs, improving market position and assuring inputs. Some cooperatives already provide this type of coordination in conjunction with their operative functions. It is a role that many other cooperatives could perform. There is a possibility that an existing cooperative or one could be organized to provide the service of coordination.

Whether contracting or vertical integration is utilized by cooperatives will depend upon the availability of capital, resources controlled, degree of control desired and competitiveness of the market.

Summary

Cooperatives could play many roles in vertically integrating agricultural production and/or market functions. They have the opportunity to exert increased power through further mergers and consolidation. The possibility of more bargaining power being authorized by permissive government legislation through market orders or some type of "agency shop" legislation may provide cooperatives an opportunity. Forward contracting combined with further combination of various stages of production or marketing would seem to be fruitful.