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FARMER COOPERATIVES  
FOR  
THE FUTURE

A WORKSHOP  
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James D. Shaffer, Chairman	Michigan State University
Roger G. Ginder	Iowa State University
David L. Holder	Extension Service, USDA
Randall E. Torgerson	Agricultural Cooperative Service, USDA

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## STRATEGIES FOR RESEARCH RELATED TO FARMER COOPERATIVES: DISCUSSION

David H. Harrington  
Economic Research Service

I'd like to cover four major points in my discussion of Jack Armstrong's paper. First, I'd like to expand on a few of Jack's background assumptions--particularly on the environment we expect to see for agriculture over the next 10 years or so. Next, we'll turn to considering some of the lists of research topics Jack presented. Then I'd like to relate Jack's characterization of cooperative's problems as being survival problems to a few statements by cooperatives researchers. Finally, I'd like to conclude with a consideration of what we can do as researchers to help cooperatives with their most pressing problems--how to survive and assure their place for the future.

### The Future for Agriculture and Farmer Cooperatives

What kind of environment do we expect to see over the next 10 years; and what does it imply for cooperatives? Jack's paper states "Problems facing cooperatives will become increasingly complex and more of a survival nature." Laced throughout the paper are implied references to the future environment of agriculture. Let me try to summarize them here:

- (1) We have, and will likely continue to have, excess capacity in production agriculture and in the cooperatives that serve agriculture. This excess capacity is likely to persist for a long time in spite of financial stress in agriculture.
- (2) We foresee less buoyant markets for agricultural products--both domestically and internationally. Domestically we are becoming a mature economy with lower income elasticities of demand for farm and food products. Internationally we're facing expanded competition, third

world debt problems, and greater protectionism--all of which imply continued sluggishness of markets, even if the value of the dollar adjusts to lower levels.

- (3) We foresee a continuation of the trends and pressures for a more market-oriented policy environment. Deregulation and lowering of farm "safety nets" appear likely in the face of continued Federal budgetary deficits and efforts to deal with them. The diminishing Federal role in market regulation may provide opportunities and needs for increased private sector (cooperative?) regulation of markets.
- (4) We are experiencing a wrenching financial adjustment to all of the above. This is seen in cashflow problems, squeezed profit margins, and declining asset values. None of you need to be told that these are severe for an alarmingly high proportion of farmers and their cooperatives. These financial adjustments are continuing and may not have peaked yet.
- (5) There is the prospect of a financial and production capacity *over-correction*. Asset values that went too high in the buoyant 70's can also go too low in the troubled 80's. Sustained financial difficulties have nearly stopped the replacement of capital equipment and may result in abandonment of some marginal production capacity, if expected returns fail to cover expected short-run variable costs.

We should all remember that "revaluing assets" and "restructuring assets" are neutral terms that economists use. Nevertheless, they necessarily imply human pain and

suffering. To the extent that there is over-correction of asset values and asset ownership, then there is needless human pain and suffering.

### Research Lists

Jack's list of "research one-liners" is a bit "business as usual" in orientation. There is little that is specific for the crises facing farmers and cooperatives today. Indeed, there is no recognition of the most severe cooperative problem today--the precarious state of the Farm Credit System. There is little priority ordering of the questions that would allow us to select the areas of research that would assure survival until tomorrow. And, there is little recognition of the opportunities and risks that tomorrow may present for cooperatives. The January and March 1985 lists by Randy Torgerson were less "business as usual" and, being more fully fleshed out, they were closer to the mark.

### Today's Problems

There is a crisis in the farm sector right now. Estimates differ on the exact extent of the problem and the abilities of farmers and institutions to adjust to it through their own resources; but, no one is questioning that financial conditions among farmers and their cooperatives are severe. The Farm Credit System is a case in point. The Congress, the Administration and the Farm Credit System are trying to chart a way through these troubled waters right now. And, as you well know, coops generally have to turn to their farmer members for greater support, in terms of capital, retains, charges, etc., at just the time when farmers are in their worst financial shape in fifty years. Professor Ray Goldberg in a recent paper, stated it the following way: "As in all volatile agribusiness systems, the person least able to adjust ends up having the largest adjustment to make. The individual and institution has been and continues to be the farmer and his farm cooperative." John Marten, chief economist for *Farm Journal* magazine, characterized one of the problems of the Farm Credit System as borrowers having to choose whether to "fight or

switch." If loans from the cooperative Farm Credit system are two or more percentage points higher than from other sources because of need to replenish and set aside reserves for loan losses, then some farmers who have the opportunity may switch to other lenders. The Farm Credit System has to know how serious this problem may become in their planning of ways to survive the current financial crisis. Other cooperatives likely face comparable "fight or switch" choices of their patrons in the agricultural environment we are in.

I read a statement by Barney Barnet of the Louisville Bank for Cooperatives in the April 1985 minutes of NCR-140. It is applicable here "the pace of academic research must pick up if we are to use the results for anything other than a post-mortem."

### What Can We Do?

As researchers there are several things that we can do; some of which have been demonstrated here at this workshop.

- (1) We can analyze and report what did work and what didn't work, as has been done in the Loveridge paper "Bankruptcy of a Michigan Cooperative," distributed by Jim Shaffer to NCR-140 members.
- (2) We can compare cooperative and non-cooperative performance as Babb has done earlier today. And, like Dobson, we can make the comparisons specific to the strategies that coops may adopt for dealing with the current financial and agricultural conditions.
- (3) Finally, like Dobson, Rhodes, Shaffer, and Vitaliano we can project the likely future *policy* and *market* environments and assess the possible roles of cooperatives in counteracting the possible over-correction of markets; or, as Randy Torgerson suggests, assess the possible roles of cooperatives in private sector regulation of markets that suffer excess volatility or excess capacity after de-regulation by the public sector.

### References

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