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The Mission of the Agricultural Cooperative Service: Commitments, Crises, and Possible Futures

Randall E. Torgerson

Public policy has encouraged services to the cooperative sector due to public goods that result when members use their cooperatives. Purveyors of public services to cooperatives have been affected by several crises and changes that have lessened resource availability. The Agricultural Cooperative Service-USDA, one of the primary service providers, has potential for expanding its cooperative development services to include nonfarm organizations in addition to its traditional farm clientele. Five options are offered for closer coordination between ACS and other public sector providers of services to cooperatively owned businesses.

The purpose of cooperatives is to help people improve their economic well-being and quality of life through mutual self-help business activities. Members put capital at risk so the cooperative's management team can hire employees and use its assets to strategically accomplish the organization's goals and objectives. Members share in benefits based on use of the organization's services.

Public sector encouragement of cooperation is justified for a number of reasons. Central to cooperative organization are the interrelated precepts of decentralization, organization, and empowerment—i.e., local control, local ownership, and empowerment through organization. When these precepts are realized through the formation of cooperatives, they have several "public goods" impacts. Among these are the following:

1. People learn how to exercise self-determination and to become self-reliant. This is particularly true of sectors where producers and consumers are structurally weak.

Randall E. Torgerson is administrator, Agricultural Cooperative Service, U.S. Department of Agriculture, Washington, D.C.

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2. Through group action, producers provide themselves with access to markets and reasonably priced goods and services and market rewards commensurate with supply and demand conditions and their own productive efforts.
3. In the process, cooperatives cause markets to operate more competitively, and market performance is improved.
4. By exercising self-help initiatives, cooperative members are less dependent upon governmental programs.
5. Participation in governing their cooperatively owned business strengthens democratic processes and the infrastructure of rural communities where members live.

Congress has encouraged these public goods by providing a program in the Department of Agriculture, now known as the Agricultural Cooperative Service (ACS), to promote and foster knowledge of cooperative principles and practices and to help users of the cooperative form of business to improve the efficiency and effectiveness of their organizations (Rasmussen). Through programs of research, some conducted jointly with land-grant university scientists; technical advisory assistance to emerging and existing cooperatives; statistical gathering and reporting; and education and information the agency has provided services to countless cooperatives domestically for more than sixty-seven years. Communicating cooperative basics and sharing information on what works and what doesn't has helped producers, boards of directors, and managers appraise the operational performance and structure of their cooperatives both in this country and internationally.

The ACS program of work closely follows missions identified in the Cooperative Marketing Act of 1926. Basic and applied research is conducted on cooperative theory and on the organizational, operational, financial, and merchandising problems of cooperatives. This phase of the agency's program is multidisciplinary and includes economic, legal, financial, social, and other disciplines related to cooperative operations. This activity accounts for about 40 percent of the agency's resources.

An equally demanding part of the program of activities provided for in the 1926 act is to analyze the operations and business practices of cooperatives at their request and to report back to them the results of such analyses. This technical advisory assistance provides a hands-on problem-solving dimension to the agency's work. Additional technical assistance results from requests from producer groups interested in forming cooperative associations. Agency personnel conduct producer surveys and feasibility analyses and develop business plans for newly organizing cooperatives. Assistance to both new and existing cooperatives accounts for another 45 percent of the agency's activities. The balance of resources is used for carrying out statistical gathering and reporting and information and educational programs.

Agency activities directed to both the establishment of cooperatives and to intraorganizational work (i.e., economic analysis, education, training, and communications) address the public goods impacts cited previously. Although new organizations bring a new structural dimension to markets,

the intraorganizational development work gives continuity and relative permanence to public goods impacts created by these organizations.

Missing from the literature and public perceptions has been a continuing appreciation of the rural development implications of these activities—in particular the establishment of cooperatives (Gray and Mahoney). Cooperatives generate jobs and income in their own right. Their establishment (and presence) has clear development advantages for areas where market failure problems exist and where broad distribution of user-benefits is critical. These conditions overlap closely and in some ways even define the needs of areas with major developmental deficits. Through its manifold missions and practices, ACS helps improve understanding of the practical concepts of mutual self-help business activity and the operations of cooperatives, thereby improving member economic returns and self-empowerment, organizational empowerment, and, ultimately, rural development.

Current Crises: Needs vs. Availability of Services

Current crises exist over the loss of funds and the shrinkage of education and assistance functions available to cooperatives and to producer and consumer groups contemplating organizing them. The crises affecting the flow of services to the cooperative sector and to the rural economy have roots in the general economy, as well as in changes influencing rural communities. Ironically, they have two opposing impacts.

The first crisis is found in the general economy affecting agriculture. This is due to the country's fiscal condition manifested by the burgeoning federal deficit. Given the growth in entitlement programs and earlier defense buildups, the burden of cost cutting in federal budgets fell disproportionately to "controllable" programs of a service nature including education and various other facilitating services. These were subject to budget and staff cutbacks and the initiation of user fees for services like inspection and grading. In agriculture, the impact was compounded by a second crisis created by the farm depression of the mid-1980s when fewer producers entered farming and thousands of farm operators found it necessary to exit production agriculture (Reimund and Gale). Farm program safety nets were lowered by policies designed to be more market driven. Production increases worldwide led to depressed world commodity markets and to reduced export sales. Agribusinesses, including cooperatives, were forced to make significant belt tightening and restructuring adjustments.

During the eleven-year period from 1980 to 1991 the total number of farmer cooperatives declined from 6,293 to 4,494, a drop of nearly 29 percent. Net margins during the same period went from a record high of $1.9 billion in 1980 to a low of $688 million in 1986 before recovering to $1.6 billion in 1991 (Richardson et al.). Cooperatives cut back during this time in economic analyses, communications, education, and member relations programs. These cutbacks have resulted in fewer internal educational initiatives and less economic analysis work by the cooperative sector as a whole.

Each of these three influences—federal budget crisis, farm depression, and cooperative belt tightening—has resulted in a loss of supportive educa-

tion, training, and economic analyses activities. Most of this has resulted in losses in intraorganizational type of assistance to the cooperative sector.

The second broad crisis can be viewed in the larger rural context. It is found in the general collapse of the rural economy in the mid-1980s, which left many main street businesses in small towns boarded up and community infrastructure greatly weakened. This development has given more exposure to the cooperative form of business and the possibilities it represents as a tool for rural development. The public goods opportunities for cooperatives have therefore expanded as rural residents look to themselves for locally generated solutions and rely on local resources to generate local options (Flora; Green et al.; Flora et al. 1991; Flora et al. 1992).

Although the needs deriving from both structural adaptation of the cooperative sector and the new challenge of revitalizing communities across rural America are now greater and more complex, resources to aid in a cooperative development response are fewer.

Changing Public Sources of Cooperative Assistance

Concerns exist in the cooperative community that public services are being abandoned and that public support for group action is waning. As an example, large numbers of agricultural teaching positions and courses have been eliminated in high schools nationwide. The number of agricultural education teachers nationally has decreased from a peak of 12,510 in 1979–80, to 10,176 in 1990–91, an 18-percent drop (Oliver and Camp). The number of schools offering agricultural education programs has dropped by about one thousand.

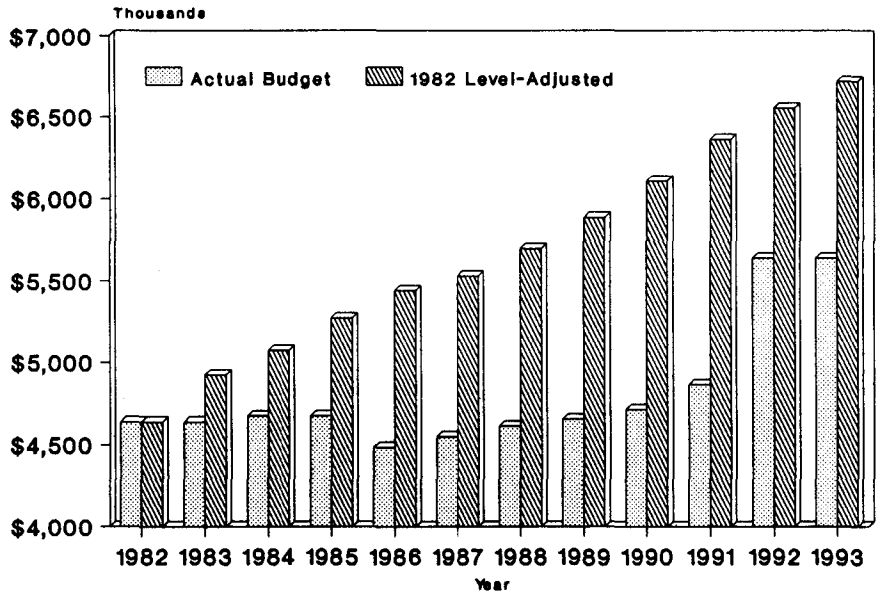
Following a similar pattern, extension programs at federal, state, and local levels have experienced attrition of staff and programs oriented to providing cooperative development assistance. Many teaching and research positions in universities have been eliminated or redefined, resulting in fewer courses and significantly less course content on cooperatives and other forms of group action (Schomish; Wells).

California is exploring options to reduced educational resources. Its views are based on significant structural rather than cyclical changes (Agriculture Education Foundation). In assessing its similar decline in educational resources, the New England region has concluded that even full economic recovery will not restore state support at a level sufficient to return to previous staffing patterns (Dunham). A new plan is, therefore, emerging that emphasizes greater regional cooperation and specialization of programs by New England's land-grant universities. It is anticipated that this plan may emerge as a prototype for regionalization of instruction and research programs throughout the country.

Although linkages continue between cooperative and public sector programs the frequency of such offerings also has been reduced. The geographical coverage of such offerings is spotty and doesn't cover the comprehensive needs of the cooperative community.

At the national level, several key cooperative advocacy and support agencies have taken on a different character. The Farm Credit Administration, long an active catalyst and legislative supporter of cooperative measures,

Figure 1.—ACS Budget Levels



Adjusted for inflation, ACS FY93 budget would be: $6.9 million.

is now a pure regulator. The Rural Electrification Administration, a solid promoter of cooperative ownership of utilities and telephone systems, now focuses mainly on lending programs. The Agricultural Cooperative Service is the only remaining agency offering comprehensive assistance to cooperatives. Renewed interest in cooperatives as a developmental tool in many rural communities has broadened the potential agenda and demands for research and assistance from the agency. However, it too has been a target of significant staff reductions in the early 1980s and of budget depreciation as shown in figure 1. Its legislative mandate referred to earlier, nevertheless is broad and comprehensive. The agency has exhibited staying power when other programs, particularly on rural development, have been more cyclical in support.

The irony of this development is that as the crisis in many rural areas has increased exposure of existing cooperatives, there has also been a new awareness of the use of cooperatives as development tools in new roles and functions heretofore unaddressed. So at the very hour when institutional support is needed from the public sector to help existing cooperatives to adapt to a rapidly changing environment and to help start new cooperatives, support sources appear least equipped to offer assistance.

Critical questions, therefore, center on what educational and other assistance needs exist and how they can be most appropriately met, given the realities of institutional change and budget constraints facing both public

and private sector programs. A natural question is how the Agricultural Cooperative Service should be adapted to emerging needs. Should its agenda be broadened to include nonfarm cooperative applications as well as those that are farm related? Should it remain the public sector's central information source for cooperatives or, alternatively, take on a quasi-public form? What linkages with other public sector programs should be expanded or explored? Are there any public/private sector approaches that are desirable? Are there opportunities to tie in with major national and perhaps even international programs that could bring renewal to cooperative business initiatives?

These are among the questions that need exploration and are the further subject of options identified in this article. They are intended to search for win/win strategies among purveyors of cooperative development services benefiting the cooperative community.

ACS Options for Future Assistance to Cooperatives

Five options for extending the ACS program merit further consideration by the agricultural and academic communities as a strategic means of enhancing cooperative development. They include expanded authorities, more routine use of the cooperative research agreements program, closer linkages with emerging cooperative centers, the use of two-way interpersonal exchange agreements, and government-to-government involvement in international assistance. Each is discussed in more detail in the following sections.

Expanded Authorities

The present legislative authorizations for work by ACS are found in the Cooperative Marketing Act of 1926 and the Agricultural Marketing Agreements Act of 1946. The 1926 act is explicit in defining the missions of the agency and also specifies that the agency work with "associations of agricultural producers." This raises the question of what constitutes producer associations and what latitude the agency has in determining the clientele to whom its services are extended. In earlier days, when it was the Cooperative Research and Service Division of the Farm Credit Administration, the unit's work and publications included such diverse clientele as rural health care associations and food lockers, in addition to conventional farm supply, marketing, and related service organizations. During the Kennedy administration in the 1960s, the Farmer Cooperative Service (FCS) was directed to orient its programs almost exclusively to new cooperative development in depressed rural areas. The program and projects closely paralleled those of the Office of Economic Opportunity in Appalachia and other regions where rural poverty was commonplace. Cooperative help was extended to nonfarm cooperatives engaged in handicrafts, fishing, and furniture, among others.

In writing of this era, an ACS division director states that work proceeded without written directives or specific appropriation language. It is likely that Secretary Orville Freeman and Assistant Secretary John Baker decided to have FCS proceed with this work until challenged (Savage). In addition

to numerous projects resulting in new cooperative starts, this work also created a backlash among leaders of established cooperatives who felt that their needs were being overlooked. This resulted in near obliteration of the program of assistance to new cooperatives by the incoming Nixon administration. Since the mid-1970s a semblance of more program balance has been achieved in services to both newly starting and existing cooperatives.

Two things emerge from this brief post-World War II historical account: (1) the legislative authorizations for work are directed specifically to agricultural producer cooperatives, (2) programs of the agency have deviated somewhat to include a wider range of cooperatives in nonmetropolitan areas.

The increasing assessment of cooperatives' role as one alternative business form for current rural revitalization clearly raises the issue of whether the ACS legislative authorities should be expanded to include nonmetropolitan cooperatives in addition to those organized by agricultural producers. The types of governance, management, finance, member relations, communications, and legal issues faced by cooperatives tend to be generic whether the organization's members are farm or nonfarm in nature. The federal government's central source of information and services on cooperatives could be adapted to a broader clientele base and, at the same time, could be a player in meeting the country's critical rural development needs.

Assumption of a broader role would require legitimization through formal directives or legislation and a commitment from the traditional clientele groups to support program expansion.

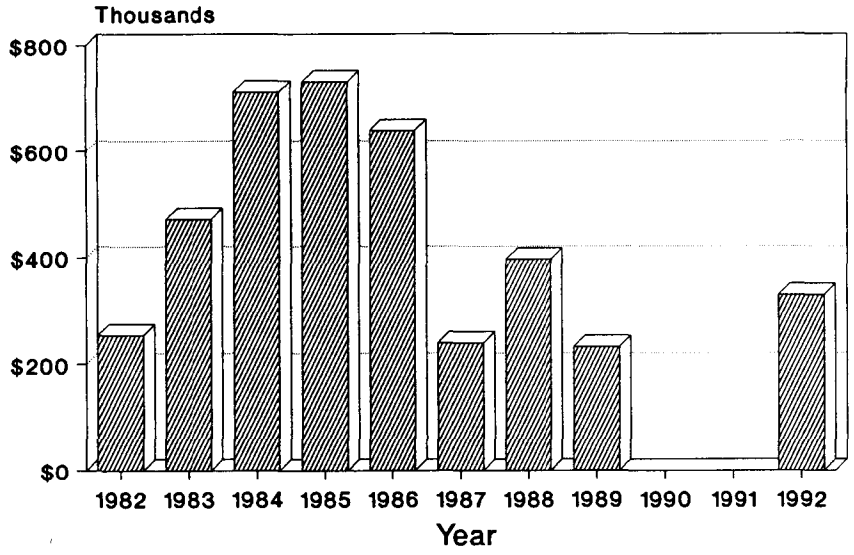
Expanded Program of Cooperative Research Agreements

Since the mid-1970s, ACS programs have maintained a strong association with the 1862 and 1890 land-grant universities in carrying out research. One vehicle for this activity has been participation in regional and national research committees on cooperatives such as NCR 140, NC 117, NE 165, and others. Another has been extensive use of cooperative research agreements, when funds have been available. These agreements have enabled collaborative research on a comprehensive number of topics. Under this mechanism, ACS provides monies from its appropriated funds that are matched by the universities on specific projects. During the 1980s, for example, more than $3.5 million was allocated by ACS through agreements with colleges and universities to expedite this program.

Results of this work have taken two basic forms: (1) research reports, articles, and educational materials published by ACS, professional journals, or magazines and/or through other university outlets and (2) graduates who have advanced training in analysis of cooperative issues. This latter role of educating people who will be future educators, trainers, and managers has a major multiplier effect in expanding knowledge about the cooperative idea and method of doing business.

A future strategy is to institutionalize this funding arrangement to institutions of higher education. As shown in figure 2, funds from ACS for this use have not been consistently available. To overcome this dilemma, an inflation-adjusted pool of funds administered by ACS would be built into

Figure 2.—ACS Coop Research Agreements with Colleges and Universities



the agency's budget and administered by one or a combination of two methods. The first would be project-by-project funding based on proposals sought by the agency or submitted by university researchers. The second would be through the selection of recipients using a competitive bid process for research on specific topics. The net result would be that ACS would retain its role in encouraging research on cooperatives and would serve as a central source of published results. University researchers would benefit by having a pool of funds they could tap into on projects that are mutually determined to be undertaken.

Linkages with Cooperative and Agribusiness Centers

Although the number of professionals in universities devoting their research, teaching, and extension skills to cooperatives and other forms of group action has declined in the aggregate, a small number of centers for cooperatives or distinguished cooperative positions have been created at universities such as California, Cornell, Kansas State, Missouri, North Dakota, Texas, and Wisconsin. The basic idea with the centers is to create a critical mass of three or more people who specialize in cooperative-related issues and carry out respective programs of teaching, research, and extension. Their mutual support as a resource group provides a synergistic response to exploring issues in-depth and to offering assistance.

ACS can develop a strategy to locate professional ACS staff with emerging centers to help coordinate and carry out programs of research, technical

assistance, and cooperative development. At present, ACS has three field offices in its Cooperative Development Division, two at federal centers in Raleigh, North Carolina, and Hilo, Hawaii, and the third in the Department of Agricultural Economics at The Ohio State University in Columbus.

Common location facilitates professional interaction and program integration, where appropriate, and avoids program redundancy. It represents another win/win strategy among public sector sources of expertise that can reinforce each other and greatly aid in cooperative development.

Expanded Use of Exchange Programs

The Intergovernmental Personnel Exchange Act provides for the exchange of personnel from universities and local and state governments with the federal government. The opportunity for university personnel to use sabbaticals and receive support for work in a federal agency is highly worthwhile, based on ACS experience. University people become more familiar with ACS and other governmental programs, ongoing research, and cooperative clientele and have the opportunity to participate in specific projects. Similar exchange programs are available, although less routine, with the business sector.

Expanded two-way exchange programs between universities and businesses with ACS have the potential of creating individual growth situations and human resource development that can benefit both participants to the exchange and the cooperative sector. Initiatives to better define program terms and availability can go far to create improved opportunities for making such programs workable.

International Program Involvement

The process of cooperative development has many applications in emerging democracies throughout the world, particularly in Eastern European countries and the CIS. Here privatization and democratization is occurring among highly literate people who are seeking informed help in the transformation process.

An important component of this transformation is the proper attitude and role of host governments toward newly emerging businesses, including cooperatives. Often it is difficult for those countries operating under former state command systems to comprehend government marketing mechanisms and services that can actually help markets perform better. An element of government-to-government assistance can therefore be essential in helping to create an environment for positive institution building.

In many respects the ACS role may be a model for governmental facilitating programs in emerging democracies. ACS has a core staff and group of alumni who are very familiar with the organizational developmental processes and the operations of cooperative business organizations. The agency's publications have been widely translated and used by the State Department and development agencies abroad. More direct involvement in the government-to-government assistance process has potential if the right programs and forces are set in motion.

Summary

New self-help efforts involving producers and other rural residents are being advocated as a response of choice in many areas. The Department's program on cooperatives has a track record of service to agriculture that can be parlayed into a broader support effort to revitalize assistance to other public sector support institutions—like universities—as well as to nonmetropolitan constituent organizations. Cooperative leaders in both the public and private sectors need to study options and develop strategies for securing viable programs in the future. If current trends are allowed to play out, cooperatives and rural people will awake one day to find that some of their most helpful institutional support mechanisms have been allowed to perish during a time when they may have been most needed. Modest expansion and extension of ACS programs can be a cost-effective means of meeting new expressions of self-help needs with strategies that seek to empower local peoples through local cooperative organization and with fiscal sensitivity. Current conditions, both the fiscal crisis of the state and the situations of many rural socio-economies, may call forth (or demand) a broadening of choices and approaches.

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ACS Mission and Clientele: Perspective of a Former Administrator

Ronald D. Knutson

Cooperatives and the U. S Department of Agriculture face important issues regarding the mission and clientele of the Agricultural Cooperative Service (ACS). As Torgerson has indicated, this is not a new issue. ACS has suffered from changes, often politically inspired, in the priorities of mission and clientele, sometimes extending beyond the scope of the legislation that created it. This shifting has been the case in spite of a persistent deterioration in the competitive market position of moderate sized, commercial farm operations that are the cornerstone of cooperatives' membership. A steady and persistently strengthened base of support for commercial agriculture-based cooperatives could have made a difference in both the strength of cooperatives and their predominantly family farm membership.

It is often politically asserted that smaller farmers, as opposed to commercial family farms, should be the focal point for government support to farmers. Reality, however, suggests that it is the moderate size and family-owned commercial operation that is in the greatest jeopardy—particularly in livestock, fruit, and vegetable production where integrative operations are displacing traditional family and cooperative-based farming.

Ronald D. Knutson is professor and director, Agricultural and Food Policy Center, Texas A&M University. He served as administrator of the Farmer Cooperative Service from 1973 to 1975, in the administrations of Presidents Nixon and Ford.

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