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BOOK REVIEW

A Cooperative Approach to Local Economic Development

Edited by Christopher D. Merrett and Norman Walzer

James R. Baarda

A Cooperative Approach to Local Economic Development is a collection of papers that "provides an overview of the success of the NGCs [New Generation Cooperatives] and examines various aspects of their management practices." Audiences targeted include farmers who wish to learn about group action to retain more value added to their products, the general agricultural community, and those involved in local economic development. Each of these audiences will find something of interest in the book.

The "cooperative approach" of the title is, for the most part, restricted to NGCs. The reason probably rests in the devotion of the authors to NGCs and a vision for widespread NGC establishment as an addition to or replacement of "traditional" cooperatives. The first part of the book discusses NGC basics and their formation. The second part describes how NGCs have fared, their potential, and their limitations.

In a well-written and thoughtful first chapter, Murray Fulton discusses the differences between NGCs and "traditional" cooperatives. Although accepting a few points of confusion offered by others in this book and elsewhere that overemphasize distinctions by underestimating the flexibility demonstrated by traditional cooperatives, Fulton summarizes differences well by stating that "the uniqueness of NGCs comes not from the fact that the characteristics found in an NGC are new, but, rather, from the fact that this organizational structure represents the first time these characteristics have been brought together and then replicated. . . . NGCs differ substantially from traditional co-ops in terms of structural elements and the motivation for formation. NGCs have emerged as a new co-op form because of the constellation of several forces, some of which are external to the co-op and some of which are internal." This understates somewhat the impact of peculiar characteristics that cause concern for the cooperative character of such organizations (tradable equity, investment orientation, outside investment, and variable valuation of equity, as examples), but is an excellent introduction to the remainder of the book. It would have been useful for some of the other authors to have considered Fulton's contribution carefully.

James R. Baarda is an economist at the Rural Business-Cooperative Service, U.S. Department of Agriculture.

A Cooperative Approach to Local Economic Development, ***Christopher D. Merrett and Norman Walzer (eds.), Westport, Connecticut: Quorum Books, 2001, 197 pp.***

Fulton categorizes external and internal forces on cooperatives and discusses the impetus for NGCs rather than traditional cooperatives. One may quibble with Fulton's reliance on theoretical "property rights" rubric in discussing internal forces, particularly with the conclusion that property rights confusion in traditional cooperatives have been reduced in NGCs. Many would observe that, in fact, conundrums facing any cooperative have actually been exacerbated by the introduction of several NGC features while few have been eliminated. The clarity of Fulton's discussion of NGC and traditional cooperatives highlights the work yet to be done to fully understand the richness of cooperation in economic systems.

The next two chapters address start-up processes and issues. Robert Cropp describes the general procedure for starting an NGC. Anyone familiar with cooperative start-ups will recognize the steps, the issues, the problems, and the risks. Cropp concludes with several useful lists developed by those experienced in cooperative development, noting the pitfalls and risks of NGC organization. These items also ring true for most cooperative start-ups. One issue probably deserves more attention than is given here in the cooperative start-up process for an NGC. The farmer's up-front and very substantial financial commitment to the NGC requires that the potential members' own circumstances be analyzed carefully. Given its importance to the cooperative in the short- as well as the long-term and the subsequent complications for the farmer, the panoply of start-up analyses and discussions should certainly include prospective member-farmers' financial situation analyses and strategies.

The chapter by Mark Hanson addresses legal issues in NGC start-up and structuring. While background statements and NGC descriptions repeat other chapters, the main focus is on selected general legal aspects of NGCs. Hanson identifies several issues that should be addressed, but the summary nature of the chapter precludes in-depth consideration.

E.G. Nadeau and Corinne Wilson introduce the main subject matter of the book—economic development. The chapter is divided into two rather disparate parts. In the first part, Nadeau and Wilson describe in summary fashion three agricultural NGCs and four non-agricultural cooperatives and "similarly structured organizations," noting positive and negative community impacts for each example. The impacts are qualitative observations only and are anecdotal. While interesting, they are of limited value for generalizations. Neither did the authors discuss the possible differential impacts on communities of NGCs versus other kinds of cooperatives. The chapter then shifts to cooperative community development, noting too briefly cooperative community development in planning, intergovernmental cooperation, community-based consumer initiatives, employee ownership, and joint venturing among local businesses. These are valuable windows on imaginative yet practical ways to address community economic development.

A more expansive view of NGCs as an economic development strategy is offered by Lee Egerstrom. Egerstrom bases his enthusiasm on three premises: (1) NGCs produce benefits for investor-members, community benefits then follow naturally; (2) the logic and power of the NGC idea will lead NGCs to become an economic development strategy in most rural regions of North America; and (3) cultural, historical, and geographic factors have brought NGC development to the Upper Midwest, but such forces do not preclude NGC development and use in other parts of the continent. Egerstrom asserts that rural community leaders and planners have three options: (1) go smokestack-chasing or try to lure a new technology plantation or industrial manufacturer to settle in town if jobs are the primary development objective, (2) if new wealth creation is the objective, then help farmers—the local entrepreneurs—change their economies of scale and scope and invest in NGC businesses in the community; or (3) "if you are content to wait and see what happens, just spread the word: 'Last one out, turn off the lights.'"

Editors Christopher Merrett and Norman Walzer present a survey of NGCs to answer the question, "Can a cooperative model that operates successfully in Minnesota or North Dakota succeed elsewhere in the United States?" The authors argue that two factors lead to the decline of the number of "traditional" cooperatives—loss of the originating ideals of mutual aid and cooperation, replaced by corporate goals of capital growth and profitability. The consequent "disconnect" between management and members leads to member decline. The conclusion that such cause and effect explains declining cooperative numbers is not supported. The authors identify organizational structure as a second problem that undermines traditional cooperatives, emphasizing traditional open membership and undercapitalization caused by disaffecting members. They conclude that the growth of NGCs is a dynamic response to these problems and to a changing economy.

The centerpiece of the Merrett and Walzer chapter is a report on results of a survey conducted of 120 NGCs (with sixty respondents). NGC numbers and structures are summarized. Start-up conditions describe who initiated NGCs, start-up capital by source, and reasons for forming the NGC. Merrett and Walzer then relate NGCs to community development, including a ranking of factors contributing to the success or failure of NGCs. They conclude that NGCs are more successful when operated on a small scale with collaboration between farmers and the host community. Because the study showed no relation between an NGC's success and the state in which it operates, Merrett and Walzer conclude that "there is no reason why the NGC model cannot be applied successfully elsewhere in the United States."

A chapter by Duncan Hilchey describes several cooperatives and their marketing efforts with emphasis on direct marketing activities in urban areas. Hilchey draws a number of lessons from the reported experiences, none of which are surprising and some of which are quite general.

In a welcome move beyond NGCs, attention is turned to value-added enterprises in rural communities in a chapter by Joan Fulton and Kevin Andreson. The authors outline "value chains" as economic structures in which value-added businesses fit. Increased vertical coordination is the predominant character of contemporary value chains. NGCs are a mechanism for investment in the value-added enterprises in the value chain, with both advantages and disadvantages. Fulton and Andreson summarize the question of control: Who will have the most and least control in the new agricultural system with its vertical coordination? What factors influence the control? And how can producers best position themselves to remain profitable in the long run? The challenge for producers and communities "is how to structure value-added investment to make the most of the advantages and avoid as many of the disadvantages as possible."

Chris Williams and Christopher Merrett describe Kansas-based 21st Century Alliance, a non-NGC cooperative organized to raise money to investigate new farming and processing opportunities. Alliance members invest in "a process, not bricks and mortar." Five resultant organizations are described. The authors take a realistic view of NGCs and their success although a more detailed analysis of each could have been instructive. On the whole, Williams and Merrett conclude that NGCs have helped producers retain control of their farms, reduce market risk and increase profits. They say that value-added cooperatives "present a powerful and innovative strategy for sustaining farms and rural communities in the twenty-first century." The book concludes with a chapter by Doeke Faber and Lee Egerstrom that takes a world view of the twenty-first century global business environment and international cooperative business. The authors assess what NGCs do well and what they cannot do (repeal the "laws" of economics, for example, or be government-type programs). Doeke and Egerstrom assert that NGCs will be the mechanisms to connect farmers, communities, and existing firms to ever greater degrees in the future. They believe that NGCs will be the answer to many issues foreseen for the millennium and the system may come to be more widely used in developing countries than in the United States or countries of Northern and Western Europe. "With NGCs and sibling forms of co-ops, a new era of cooperation has been born."

As is often the case in a book that collects papers from authors with differing backgrounds, the chapters vary widely in depth, style, and approach to the problem. A more thorough editing could have eliminated some of the rather considerable repetition and a few of the internal inconsistencies. On the other hand, the diversity of presentations adds to the appreciation of the many facets of cooperatives and their roles in the economy.

The book leaves unanswered some significant questions that naturally arise given the title and theme. From the economic development perspective, one might ask: How does an NGC differ in its community impact from a traditional cooperative that is involved in adding value? Might not placing the financing and risk burdens on non-cooperative businesses rather than on NGC members have the same or even a superior impact on a community in times of downturn? How is the impact of an NGC different than that of a locally-owned IOF? How does a typical NGC processing operation actually compare with high technology or smokestack branch employment in numbers employed, levels of pay, and skills utilized? How are NGCs superior to IOFs in terms of community impact if the deep pockets needed for local business are simply not available from farmers? A somewhat more inclusive view of cooperative actions would have enriched the book, but may also have detracted from its focus.

From the NGC/farmer perspective, more satisfying depth could have been offered with answers to questions such as: Are NGCs and members able to accurately assess the farmers' opportunity costs of the considerable investment in the off-farm business? Do NGCs and members fully appreciate the risks of the enterprise? If the value-adding enterprise does not offer enough economic incentive to attract non-cooperative entrepreneurs and investors, to what extent are NGCs absorbing the costs of an off-farm venture to preserve the farming activity? When an NGC closes its membership, what is the impact on farmers who can produce the product but do not have the financial resources to invest in off-farm enterprises, and what is the overall impact on a community? What is the community welfare impact of the closure combined with the elimination of the competitive yardstick impact of cooperatives? Does concentration on "delivery rights" mask a significant problem when holders of the rights make purchases from other producers for delivery to the cooperative and thus essentially become the middlemen that cooperatives were designed to by-pass?

It is, of course, not fair to ask a single book to address the many unanswered questions within the book's broad theme. Indeed, much of the value of the book may be in discussing NGCs and economic development in such a way that the unknowns become evident. However, a concluding chapter on uncertainties and unknowns may have been useful as a suggestion for further inquiry and a caution that much remains to be done. The editors are to be commended for creating this important work.

Members of all audiences targeted should read this book as a starting point and source of ideas. Above all, the book should be appreciated for its appropriately-tempered enthusiasm and vision. From there on, its value will depend on how it is used by farmers, by solution-seekers supporting agriculture in times of stress, and by those who value the communities that make rural America vital and rewarding places to live and work.