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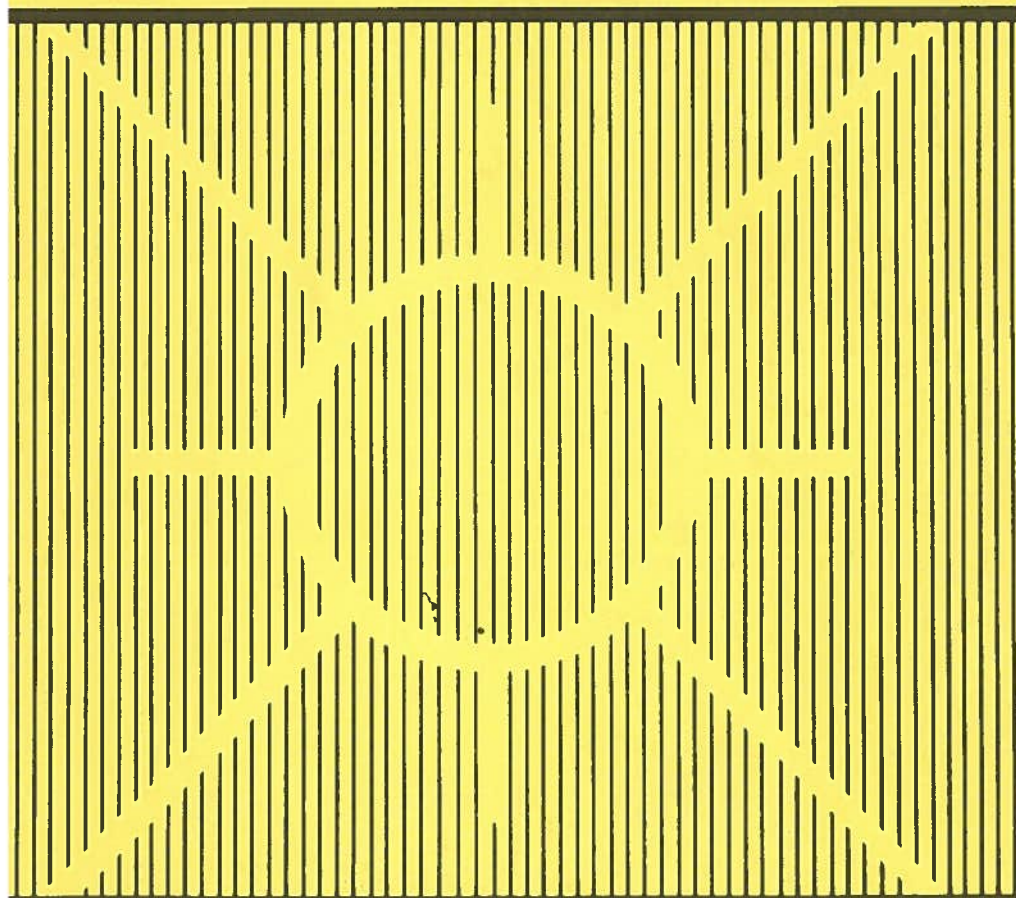
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THE IMPACT OF COOPERATIVES ON MARKET PERFORMANCE, SUBSECTOR COORDINATION AND THE ORGANIZATION OF AGRICULTURE

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INTRODUCTION

Agriculture and more specifically agricultural markets are beset with many different problems. At the root of these problems are questions of how well agricultural markets are performing, how well production is coordinated with the wants and needs of consumers, and the future control of agriculture. Many public policy and market institutions have been developed to address these problems. Among these institutions are the Capper-Volstead Act and cooperatives.

The purposes of this paper are to:

1. Identify the major problems in agricultural markets which have substantial macroeconomic performance implications.
2. Identify the major strategies cooperatives can employ to address these problems.
3. Establish the theoretical performance implications of the strategies.
4. Develop some tentative policy implications.

For convenience, I will deal only with major commodities such as grain, livestock and milk.

COOPERATIVE STRATEGIES

Cooperatives are not a homogeneous lot. While they all have the basic objective of improving farmers' income, they employ different strategies to achieve this objective. The most commonly used overall strategy distinction is between marketing and bargaining cooperatives. While this distinction has been useful, it is also misleading. It is a mistake to classify all marketing cooperatives in the same set either from the standpoint of their method of operation, their ability to achieve their central objective or their anticipated effect on performance.

For this reason the following classification of cooperative strategies will be utilized:¹

1. **Bargaining Cooperatives** do not take title to the product. They typically negotiate the terms of integration contracts with first handlers or processors. After negotiation such terms are typically not binding on the producer. Instead, the producer independently decides whether to sign a contract with the processor.
2. **Competitive Buy-Sell Cooperatives** operate as a competitor in the spot or cash market. They are distinguished from other marketing cooperatives in that there is no legal commitment on the part of the producer to market through or purchase from the cooperative. Buy-sell cooperatives may or may not take title to the product. The typical terminal

livestock commission cooperative is an example of one that does not take title. A modern extension of this concept involves a cooperative that operates some type of electronic suction system. In contrast most grain cooperatives take title to the product but typically immediately hedge or sell such purchases on the spot market at the next pricing point. In the competitive buy-sell cooperative the producer picks the time of his sale and receives the associated price.

3. **Committed Commodity Marketing Cooperatives** make marketing decisions on behalf of producers. Producers have marketing agreements with their cooperatives. Once signed, such agreements transfer control of product to the cooperative who markets at the next market level. The local market pricing point is thus bypassed by the producer. The producer is paid for the product on a pooled basis with appropriate quality or other price differentials. As a result, the cooperative automatically becomes an active pricing factor in both the product market and the producer market. Dairy cooperatives are committed commodity marketing cooperatives in terms of their fluid milk sales. Grain cooperatives that have marketing agreements but sell to grain companies or livestock farmers would be committed commodity cooperatives.
4. **Committed Integrated Marketing Cooperatives** operate the same as committed commodity marketing cooperatives except that they bypass two or more pricing points. They typically market shelf-ready products rather than commodities. They are also integrated into the export market.

AGRICULTURAL MARKET PROBLEMS

Several efforts have been made in recent years to specifically identify problems of agricultural marketing and their alternative solutions. This was, in fact, the focal point of the Marketing Alternatives project² and more recent efforts to identify specific alternatives on a commodity basis. From these and related efforts, six major agricultural marketing problems can be identified:

1. oligopsony buyer concentration
2. price determination and discovery
3. price and income instability
4. subsector coordination
5. market access
6. control of agriculture

For each problem a norm needs to be established against which the alternative cooperative strategies can be evaluated. The basic norm used in this paper will be that of purely competitive *market results*. Thus, starting from where the market is, the question is whether the cooperative strategy moves the market in the direction of competitive results.

Possibilities exist for considerable discussion of how the purely competitive performance norm should be defined. I will use a relatively simple definition. A market is performing in conformance with the competitive norm if:

1. products are produced and distributed at least potential costs;

2. price levels conform to least potential costs with appropriate spatial, quality and time adjustments.

In other words, the market is in competitive equilibrium. Such a definition can be applied in either a short- or long-run context. It encompasses concepts of both operational and pricing efficiency. The table at the end of the paper qualitatively summarizes the impact of each strategy in terms of solving the specified problem.

OLIGOPSONY BUYER CONCENTRATION

It is only in recent years that agricultural economists have begun to recognize concentration on the buyer side of agricultural markets as a problem. Unfortunately antitrust regulators apparently still do not recognize it as a problem. One recent massive structural study of the dairy industry by the Department of Justice failed to even recognize the structure of the buyer side of the industry — national dairy companies and integrated retailers — as a relevant structural parameter.³ A second study devoted only 5 of 585 pages to issues of buyer concentration.⁴

There has been surprisingly little study of the extent of buyer concentration in agricultural markets. Yet statistics on the seller side of feed and food industry markets indicate the existence of a very real problem. For example, the fact that the five largest grain companies control about 85 percent of U.S. grain exports and 70 percent of the world trade in grain certainly creates the likelihood of oligopsony pricing at major price determination points in the grain industry. Similar situations exist in the meat packing industry. A Packers and Stockyards study indicates that 28 out of 40 states have four firm concentration ratios of over 65 percent in the *purchase* of steers and heifers. Thirty-six of 40 states had concentration ratios of over 65 percent in the purchase of hogs.⁵ The four largest firms in fluid milk markets have an average market share of 46.9 percent with smaller markets having a much higher level of concentration.⁶

Theoretically, the impact of oligopsony is to reduce the level of the producer price and thus distort the allocation of resources in the production of agricultural products. Which of the alternative cooperative structures has the best chance of dealing with the problems of oligopsony buyer structures in agricultural markets? First, for commodities such as grain or livestock, where the producer holds title to the product and integration contracts are not prevalent, there are substantially better marketing alternatives for dealing with oligopsony. On the other hand, where contract integration is prevalent and no open market exists, contracting is one of the few marketing alternatives available to producers—the other being the formation of an integrated cooperative.

Second, it is clear that the buy-sell cooperative system, that is typical of the grain and livestock industry, has not dealt effectively with the problem. Theoretically, the buy-sell cooperative could neutralize problems of oligopsony by: (1) providing a new competitor with a different objective—increasing producer returns, (2) acting as a market innovator or “competitive pacemaker,” and (3) returning to the producer margins over and above cost. Unfortunately, marketing cooperatives that have operated strictly in this context have not been very successful in dealing with oligopsony problems.⁷ Even the more sophisticated buy-sell system of Farm-

land Industries in meat packing has had questionable success in neutralizing oligopsonistic forces in the industry.

Whether modern electronic extensions of the buy-sell cooperative system can do the job is problematical. The advantage of these systems are that they improve access, expand the potential number of buyers and sellers in otherwise geographically separated markets, and improve market information. In grain, the futures market already serves this function. In markets where only a handful of firms effectively control grain movements the competitive impact of any open market trading system—whether a futures market or electronic auction is— is questionable. Livestock *may* be different. Regional markets for livestock do exist, the wholesale market for meat is questionably competitive, the futures market is at best shallow. In this setting one or more central electronic exchange systems could have a substantial beneficial impact in neutralizing oligopsonistic effects.

Committed marketing systems can deal much more effectively with problems of oligopsony either by grain cooperatives more effectively marketing committed grain to the major grain companies or by bypassing the majors through vertically integrated committed systems.⁸

To neutralize oligopsony the committed commodity marketing cooperative will normally either utilize the increased marketing power or increased market skill and flexibility derived from control over the product it handles. It may use both. The danger with such systems is that they potentially overbalance the effect of oligopsony and become an oligopoly problem. The Department of Justice would argue that this is what happened in the milk industry. In reality, this is an extremely unlikely danger in commodities like either grain or livestock where the current impact of cooperatives on price is negligible and concentration on the buyer side of the market is even higher than in milk. In addition, Section 2 of the Capper-Volstead Act was explicitly established by Congress to deal with such potential abuses.⁹

Committed integrated cooperative marketing cooperatives operate on the theory of bypassing the oligopsonists and competing with them by producing shelf-ready foods in the oligopsonist product markets. Cooperative's have demonstrated the ability to neutralize oligopsony by this means. Virtually all of the really successful cooperatives operate as a committed integrated system. Such systems do not hold as much potential for anticompetitive oligopolistic effects as committed commodity marketing cooperatives. This is the case because in major commodities such as grain, livestock and fluid milk cooperatives are starting virtually from ground zero in building an effective committed integrated marketing system. However, grain and milk cooperatives have a considerably broader horizontal base from which to spring vertically.¹⁰

PRICE DETERMINATION AND DISCOVERY

Problems of price determination and discovery in agriculture in part have their roots in the oligopsony structure of agricultural markets. But the problem is more basic. It is becoming more critical as contracts which use open market pricing base and marketing agreements with pooling become more prevalent.

Problems associated with the price determination process in commodities such as eggs, butter, and cheese have been recognized for some time. In reality, however, the problems of price determination and discovery cut across agriculture.¹¹ In livestock 16.3 percent of the hogs and 14.4 percent of the steers and heifers move over terminal markets which form the pricing base for the first pricing point.¹² The representativeness of these livestock in terms of the total supply has been subject to considerable question. Wholesale meat prices are based on the equally questionable yellow sheet. When combined with questions of how well the grading system in livestock reflects quality of the product, serious problems of price determination and discovery are evident.

Similar problems exist in grain. The factors included in the grading system are equally questionable. Price differentials at the local level are importantly a function of local competitive factors. Problems of price determination and discovery also exist in milk as the performance of butter and cheese markets, the Minnesota-Wisconsin price series, classified pricing, and premiums imposed by regional cooperatives come into question. Economists have contributed little to addressing these issues.

The previous contention, that bargaining holds little hope for remedying problems of buyer concentration, raises questions about how well bargaining can deal with problems of price determination and discovery. Bargaining probably holds more potential for remedying problems of price discovery than for price determination. The reason is that incentives exist for improved grading and timing of production and marketing on both sides of the market. Similar incentives for improvement do not exist on the buyer side in either locational dimensions or in determination of the general price level.

Once again buy-sell cooperatives have helped but not effectively dealt with problems of price discovery and determination. The root of the problem appears to lie in their inability to be an effective market force when they do not control the product they are dealing with. In addition, most buy-sell cooperatives lack sophistication in marketing. Electronic exchange systems may help in that better information is available, improved access exists, local or regional market barriers may be broken down and transaction costs could be substantially reduced. However, substantial changes and improvements in grading systems will be required before such systems can be effectively implemented.

Committed commodity marketing cooperatives hold the potential for improving price discovery largely through improved grading systems, improved timing of marketing and the establishment of more realistic location differentials. Through competition such effects would be anticipated to spread throughout the market. Whether improvements in price determination would result depends on the specific balance that is established between buyers and sellers in the market and the access of the cooperative to complete market information. The ability to establish a balance of market position is extremely delicate and easily overbalanced one way or the other. The latter is critical since the lack of information on demand factors has a considerable impact on price determination performance. An example is the delay that existed in knowledge that the Russians were in the market for wheat in both 1972 and 1975. On the negative side committed marketing systems do

have the effect of further detracting volume from a spot market pricing base. The importance of this negative impact depends upon how good the pricing base is to begin with and how effective and pervasive the committed cooperative marketing program is.

Access to markets and the demand conditions in those markets are the critical factors that result in improved price determination and discovery performance potential from committed integrated marketing cooperatives. Such improved performance can readily be passed back to the cooperatives members through transfer pricing and by competition to other producers.

PRICE AND INCOME STABILITY

Low income, particularly for medium and smaller size farmers, has been a basic characteristic of the farm problem throughout our history. More recently, the problem has shifted to one of price and income instability. Further expounding on this problem is not necessary. Some would refer to it as the major problem in agriculture.

Some might suggest that there is nothing cooperatives can do about the problem of price and income instability. This is true of traditional buy-sell cooperatives except in the context of facilitating forward sales through the use of the futures market. Electronic modifications of the buy-sell concept would not be expected to significantly change this situation.

Bargaining cooperatives that negotiate a firm price reduce within year price variability. If the contractors effectively control production through the acreage contracted, this may also reduce year to year price variability and thus result in increased income stability for the contracting producer. If the contracts specify spot market pricing as a base to determine the producer price, no price or income stabilizing effect would be anticipated from bargaining.

Committed commodity marketing cooperatives have the potential for stabilizing prices and income through: (1) their increased sophistication in marketing, particularly as it relates to timing in commodities such as grain and (2) price averaging which results from the pooling process. However, no price is as nailed in as in bargaining contract. Also, the difficulty or impossibility of controlling production frequently means that enhanced prices one year foretells increased production and lower prices and income the next. While the cooperative can close membership, production increases normally occur outside the cooperative, and the cooperative's market share declines. It is virtually impossible to contain the favorable effects of cooperatives on the price level within the cooperative. This is the source of the so-called "free rider" problem.

Committed integrated marketing cooperatives have an advantage over committed commodity marketing cooperatives in that prices are generally more stable at more advanced market levels — particularly in shelf-ready or branded products. The benefits of this increased stability can then be passed back to the producer. Otherwise the effects on price and income stability are the same as for committed commodity marketing cooperatives.

SUBSECTOR COORDINATION

Subsector coordination refers to the process by which various vertical value adding systems in a subsector such as grain, livestock, or dairy are brought into harmony.¹³ Subsector coordination problems in agriculture have been explicitly recognized since the work of Mighell and Jones in 1963. The National Food Commission highlighted coordination as a central marketing problem in agriculture. In fact, the problem of effectively coordinating production with market needs through the various horizontal and vertical segments of the industry has been with us as long as the price and income problem. Realistically speaking, it has probably become less of a problem over time but is still a major problem. For example, a recent study of information and communication in beef concluded:

"Intergoal conflicts and operational inconsistencies within the beef marketing system persist and are largely unresolved by the current and ongoing price mechanism and pricing procedures."¹⁴

The study goes on to indicate that significant coordination pressures toward integration exist with the industry.¹⁵ These same pressures exist throughout agriculture.

Cooperatives were in part designed to deal with these pressures. Some cooperative strategies are better at dealing with them than others. The buy-sell cooperative contributes marginally more than the free market to coordination. The margin of difference likely lies in the cooperative's contact with market forces and improved communication back to the producer. Yet without the control that can be specified in a contract or marketing agreement, buy-sell cooperatives are not likely to contribute substantially to subsector coordination.

Aside from the free market, contracts are the most prevalent method of achieving subsector coordination in agriculture. Contract integration not only allows for production of a more uniform product but also provides the potential for producing in accordance with market needs. In these contract situations, bargaining is prevalent. Bargaining over contract terms can further the cause of subsector coordination by injecting and negotiating a compromise in contract terms which considers both producer and buyer needs.

Committed marketing cooperatives can use the marketing agreement to the same end as corporate integrators use contracts in achieving subsector coordination. The difference between a committed commodity marketing cooperative and a committed integrated cooperative, in accomplishing subsector coordination, once again lies in the cooperatives direct contact with the market. Through the marketing agreement, the ability exists to communicate and coordinate production with final market needs at least cost. However, cooperatives have not as effectively utilized these instruments as corporations. However, the only cooperative system that can be expected to effectively compete with the contract coordinated corporate system is the committed integrated cooperative system.

MARKET ACCESS

Market access refers to the ease with which sellers or buyers may enter or exit a market. Ease of entry is predicated on: (1) the openness of the market to new buyers or sellers and (2) whether there are alternative markets which can be

entered.¹⁶ In the context of the present discussion, market access thus refers to the ease with which producers may enter or exit markets and the number of alternative markets available to them.

Problems of market access may, however, exist at more than just the producer level. In fact the most difficult access problems lie at higher levels of the market where producers face large corporate processors and retailers producing branded products, controlling shelf space or export markets. Such firms are frequently the gatekeeper for the food industry at all market levels. Solving the access problem requires that it be addressed at both the producer and advanced market levels.

Increasing buyer concentration, contracting, deterioration of the open spot market, ownership integration and dichotomy between large commercial and smaller farmers has made market access a more important agricultural marketing problem. In the future, without substantial changes in trends and market institutions, it could become the major problem farmers and even regulatory officials are concerned with.

Buy-sell cooperatives have helped to maintain the open market. They allow producers to freely enter or exit the market. They provide an alternative market to the proprietary corporation. Unfortunately, however, most buy-sell cooperatives simply turn around and sell the producers products to the proprietary corporation albeit in larger more uniform lots and maybe at a somewhat higher price. Buy-sell cooperatives thus provide a reasonably efficient method of assembly with maximum producer freedom and marginally higher producer returns.

Electronic extensions of the buy-sell cooperative would provide an additional alternative market that is readily accessible and provides maximum information on trading. Such extensions hold the potential for revitalizing public terminal and auction markets in livestock.

Bargaining cooperatives do little to help the problem of market access. They may actually hinder it by limiting buyer procurement to members of the cooperative, by creating friction between the producer and the buyer, or by encouraging ownership integration. On the other hand, a bargaining cooperative may, at least temporarily, encourage openness by causing the buyer to seek out new contracting producers.

Committed commodity marketing cooperatives address the market access problem at both the producer and advanced market levels by: (1) providing an alternative market outlet with superior marketing talent and (2) providing a product of the quality, time and quantity that the buyer needs it. However, to be a part of a committed commodity marketing cooperative, the producer must sign a marketing agreement. Once signed this agreement reduces his marketing alternatives and the access of other producers to this market.

Committed integrated cooperatives provide an additional dimension beyond commodity marketing cooperative by providing direct access to advanced markets — foreign and domestic. As such, committed integrated cooperatives tackle some of the most difficult market access problems in agriculture with the only strategy that can provide access at advanced market levels.

CONTROL OF AGRICULTURE

Who will control U.S. Agriculture has been the subject of extension education, research and increasingly public policy debate. There appears to be an increasing consensus that without a change in government policies: (1) the open market will gradually disappear, (2) contract and corporate ownership integration will become more prominent and (3) family farm agriculture will disappear.

Some could argue that agricultural economists have created a straw man in the control issue. Yet anyone who looks seriously at the progressive spread of corporate contracting across processed fruits and vegetables, broilers, turkeys, eggs, and increasingly in livestock, cotton and grains, is forced to conclude that a very real danger exists. Buy-sell cooperative have done little to stem this danger.

Bargaining, while scoring reasonably high marks on dealing with some of the other problems such as subsector coordination and price and income instability, does not score high marks on control. Bargaining has retrieved relatively little control to the farmer. If title to the crop has passed to the buyer, it normally stays there despite a bargaining association. The basic terms of the contract affecting the autonomy of the producer in making decisions remains the same. What is normally up for negotiation is the level of price not whether the producer is going to be a piece laborer.

If the demands of the bargaining association become excessive, bargaining may actually push the industry further in the direction of corporate ownership integration.

Committed commodity marketing cooperatives can more effectively serve the needs of advanced marketeers in the food industry. This requires the maintenance of a highly efficient and progressive production, assembly, and marketing system. To the extent that it does this without extracting monopolistic returns it will maintain control at the producer level. Otherwise it will encourage direct contract and ownership integration by corporate buyers.

The theory behind committed integrated cooperatives is that they compete with corporations at all market levels. They maintain control in the hands of producers by seeing that the producer has a market outlet, obtains returns whereby he can survive, and has a controlling voice in his market outlet.

Committed integrated marketing cooperatives have the best chance of surviving in the evolving food industry structure in competition with major food processors, exporters and retailers.

CONSUMER AND GENERAL PUBLIC IMPACTS

Consumer and general public considerations have become increasingly important in policy decisions with respect to agriculture.

CONSUMER INTEREST IN MARKETING PROBLEMS

While the problems discussed in this paper have been cast in the context marketing problems impacting the producer, these same problems also impact the consumer. Since these impacts may not be readily apparent and have not been previously discussed, brief discussion of the consumer interest in each problem

merits consideration. Considerable expansion and research of some of the suggested relationships would appear warranted.

Oligopsony buyer concentration, while having its most direct impact upon the producer, has at least two significant indirect consumer effects: (1) To the extent that it distorts the allocation of resources in production, it also distorts the mix of products and quantities available for consumption. (2) The existence of oligopsony buyer concentration would tend to solidify or strengthen the oligopsonists' position in its product market. To the extent that the latter happens, higher prices would result.

Price determination and discovery at the producer level has important effects at other market levels because of its effects on the general price level, special, time and quality considerations. Ideally for the market system to operate price changes at the producer level should be reflected through to the retail level. In addition, price should fluctuate in accordance with supply-demand forces. If not, adverse consumer and producer effects will be experienced. Shallow spot markets which become the pricing base for the industry are subject to manipulation by either processor or producer interests.

Price and income instability is of interest to consumers because with greater stability, risk is reduced. With lower risk, farmers can get by with somewhat lower prices. Reduced price instability also lessens or at least stabilizes the inflationary impact of agriculture on the economy in general.

Subsector coordination benefits consumers by providing a product that is more in accordance with market needs. Subsector coordination, if accomplished, could remove dramatic surplus and in some case deficit conditions that have tended to characterize agriculture.

Market access is a problem of increasing concern to consumers as well as producers. If specific producer segments are denied access to markets, consumers are denied access to their production and competition is reduced. Also small producers—such as part-time farmers are most likely to be denied access to today's markets because of the higher costs of handling these products. Alternative marketing systems will need to be devised for handling this production and making it accessible to consumers.

Control of agriculture is an issue of longer term concern. The impact of shifts in the control of agriculture away from the family farmer might be felt by consumers only after a period of many years when farmers have in effect become unionized hired labor for the integrator and industry concentration has increased to levels comparable to those which exist in other major U.S. industries such as automobiles, steel or breakfast cereals.

CONSUMER INTEREST IN COOPERATIVE STRATEGIES

Consumer impacts may also be analyzed in the context of specific cooperative strategies. The question addressed here is the extent to which individual strategies designed to address specific problems increase the potential for abuse of the consumer and public interest. Such potential is related largely to potential monopolistic or predatory abuse resulting from the market power that could be exercised by the cooperative. The use of the word "could" is significant in this context since

the use of power is discretionary and is a function of the intent of the person or firm using it.

Bargaining cooperatives raise relatively few questions of potential consumer abuse in addressing marketing problems. Within the present legislative framework, bargaining cooperatives have generally not achieved sufficient market power to even offset the superior market position of the processor. The only potential exceptions exist where marketing orders have been used in conjunction with bargaining. To the extent that coordination is improved, consumers benefit.

Buy-sell cooperatives also do not pose significant consumer concerns. Electronic extensions of the buy-sell concept would tend to strengthen competition in such markets and thus be even more pro-consumer in impact.

Committed commodity marketing cooperatives have as their objective increasing producer returns through improved marketing skill and, at times, the exercise of market power with respect to buyers. Improved marketing skill as reflected in the timing of production and/or sales, accumulation of more uniform lots in accord with buyer needs, quality control or increased efficiency of assembly, storage and handling raise no consumer concerns. On the other hand, the success of a committed commodity marketing cooperative is in part a function of size. Either efforts to achieve size or size itself may result in abuse as has been alleged in milk.

Committed integrated marketing cooperatives attempt to improve producer returns by improved marketing skill at all levels of the marketing channel in competition with major food processors or exporters that would otherwise be buyers. Such increased competition is generally considered to be desirable even though integration potentially provides a firm with more power to influence the market in which it sells. With very few, if any, exceptions, committed integrated marketing cooperatives presently pose no threat to consumer interests. On the other hand, if the integration concept is carried to its extreme, the same structural questions arise in agriculture as in other major U.S. Industries.

POLICY IMPLICATIONS

The title of this seminar "Agricultural Cooperatives and the Public Interest" implies a discussion of the policy implications. The main conclusions and implications that fall out of my paper are:

1. Agricultural marketing problems do not dictate a single uniform cooperative strategy. While buy-sell cooperatives (and modern electronic extensions thereof) get high marks for maintaining open market access, bargaining cooperatives where contract integrating exists get high marks for improving subsector coordination, and committed integrated cooperatives get high marks for maintaining control.
2. The optimum cooperative strategy differs from commodity to commodity depending on the specific marketing problem and its marketing structure at any point in time. For example, at this point electronic buy-sell cooperative may be needed in livestock, the greatest need in grain is for a committed integrated cooperative extending to the export market. As

the structure of an industry evolves the marketing problems facing producers change and cooperative strategies must also change.

3. Cooperative enabling and regulatory policies should be flexible enough to accommodate all cooperative strategies.
4. The legal bases for defense against market abuses by cooperatives are in place and adequate if enforced. These include prohibitions against predatory practices, involvement with noncooperatives or nonproducers, and undue price enhancement.
5. While predatory practices may ameliorate one marketing problem such as oligopsony buyer structures, they intensify others such as market access, in addition to its adverse affects upon individual producers or firms. Predatory practices therefore, have no place in the cooperative marketing mix.
6. Capper-Volstead gives cooperatives the authority to gain 100 percent control of a market. While obtaining 100 percent control of a market is unlikely, prohibition of undue price enhancement is the ultimate protection that consumers have against potential monopolistic abuse by cooperatives. The greatest potential for such abuse lies in the committed commodity marketing cooperative.
7. The Secretary of Agriculture has not to date taken the job of undue price enhancement enforcement seriously, established standards for undue enhancement, nor done an adequate job of analysing undue enhancement complaints. In spite of this there have been only a few instances of abuse by cooperatives.
8. To protect the integrity of the Capper-Volstead Act: (1) the responsibility for undue enhancement monitoring and enforcement should be specifically delegated, (2) standards for undue enhancement should be established and made public, and (3) the Secretary should assert his authority to hold hearings and if necessary remedy abuses. If he is unwilling to do this, enforcement of Section 2 of the Capper-Volstead Act should be transferred to the Federal Trade Commission.
9. Any action against particular cooperatives or industries must consider the implications of removal of the cooperative as an effective market force on market performance, subsector coordination and more important control of agriculture. What will replace the cooperative institution and what effect will it have on the decentralized structure of agriculture are important considerations in such policy decisions.

Table 1. Summary of qualitative impact of cooperative strategies in contributing to solving producer marketing problems.^a

Strategy Problem	Bargaining Cooperative	Buy-Sell Cooperative	Committed Commodity Marketing Cooperative	Committed Integrated Cooperative
Buyer concentration	+	+	++	+++
Price determination discovery	+	+	++	++
Price-income stability	++	o	++	++
Subsector coordination	+++	o	++	+++
Market access	o	++	+	+
Control of agriculture	o	+	++	+++
Potential for conflict with the consumer interest	o	o	++	+

^a All cooperative strategies are pure without government assistance though devices such as marketing orders or exclusive agency bargaining.

NOTES

- 1 It is recognized that this is still an oversimplification. Specific elements of the mix of marketing, financial and management strategies result in considerable variation in the performance of cooperatives within each overall strategy.
- 2 See *Marketing Alternatives for Farmers*, Committee on Agriculture and Forestry, U.S. Senate, 94th Congress, 1976.
- 3 Phillip Eisenstat, Robert T. Masson and David Roddy, *An Economic Analysis of the Associated Milk Producers, Inc. Monopoly*, U.S. Department of Justice, Washington, D.C., 1975.
- 4 Roger W. Fones, Janet C. Hall and Robert T. Masson, *Report on Milk Marketing*, U.S. Department of Justice, Washington, D.C., 1976.
- 5 Arnold Aepelin and Gerald Engleman, "National and Local Oligopoly in the Meat Packing Industry, unpublished paper, Pand S, USDA, Washington, D.C. 1973.
- 6 Alden C. Manchester, *Market Structure, Institutions and Performances in the Fluid Milk Industries*, Ag. Econ. Report No. 248, ERS, USDA, January 1974, p. 11.
- 7 In contrast, it is interesting to note that input or supply cooperatives operating with the same buy-sell strategy have been much more successful.
- 8 For discussion of the features of such systems see W. E. Black, *Contracts and Agreements with Members*, infra.
- 9 Section 2 of the Capper-Volstead Act prohibits undue price enhancement.
- 10 In the longer run, it appears that integrated retailer-Food converter (HRI) systems are likely to become prevalent. Such systems present even more formidable challenges to the market portion of family farmers and their cooperatives.
- 11 Olan D. Forker, *Price Determination Processes: Issues and Evaluation*, FCS Information 102, USDA, Washington, D.C., 1975.
- 12 *Packers and Stockyards Resume*, Vol. XIV no. 7, P & S, USDA, Washington, D.C., December 24, 1976, p. 3.
- 13 B. W. Marion, "Vertical Coordination and Exchange Arrangements: Concepts and Hypotheses," *Coordination and Exchange in Agricultural Subsectors*, N.C. 117, Monograph 2, North Central Regional Publication 228, Madison, Wisconsin, 1976, pp. 179-195.
- 14 See Kenneth E. Nelson, *A System Analysis of Information and Communication in Beef Marketing*, Unpublished Ph.D. Thesis, Oklahoma State University, Stillwater, May 1976, p. 199.
- 15 Ibid, p. 200.
- 16 These two concepts of market access were developed in draft of "Forward Deliverable Contract Markets" *Marketing Alternatives For Farmers*, by David L. Holder and Thomas L. Sporleder, op. cit.