

POLITICAL SUPPORT FOR FARMER COOPERATIVES

by

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WP-68

March 1983

PREFACE

This paper was developed by Geir P. Isaksen under the general direction of Edward Jesse while Isaksen was a visiting scholar at the University of Wisconsin during 1982. Isaksen is pursuing a doctoral degree in agricultural economics at the Agricultural University of Norway. He has broad experience and training in the Norwegian cooperative movement.

Isaksen's views on political support for U.S. cooperatives offer a perspective that should prove useful to cooperative members as well as scholars.

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Introduction and Summary

The U.S. is a highly organized society, with complex and powerful institutions within almost all sectors of economic and social life. The Federal government has a unique position within this system--there is a network of interrelationships among the government and institutions of all kinds. For many institutions, governmental recognition and support is essential. A decline in such support can seriously jeopardize their existence.

Farmer cooperatives (co-ops) are often claimed to possess strong political support. The objective of this paper is to examine the evolution and nature of this support. The concluding part also contains some recommendations on co-op behavior likely to retain political support in the future.

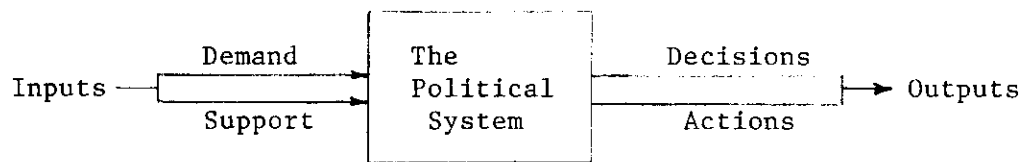
The analysis shows that the rationale for political support for farmer co-ops has changed through the times and with the times. That these organizations perform in a socially preferable fashion to other corporations is a common historical theme. But normative prescriptions on cooperative behavior have changed considerably. An important objective of this paper is to describe, analyze and explain these changes.

Another important argument used to defend political support of farm co-ops relates to their democratic nature and their social performance. Even though this argument has been more stable in content than defense based on economic performance, it has also been given different interpretations in different political contexts.

The paper concludes that farmer co-ops are under stress. There are strong claims on them from three different groups--their members, the market and the political system--and these claims are partly contradictory. The co-ops need to balance their activity to keep the support from all these groups. To the extent they succeed, they will remain an important part of American agriculture in the future.

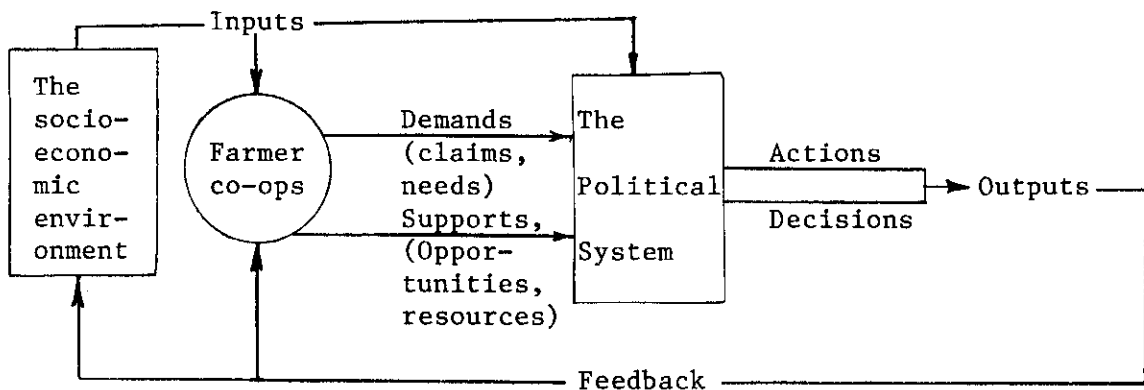
### Farmer Co-ops and the Political System

A simple model for analyzing political systems is developed by Easton (1957, 1965):



The inputs to the political system consist of demands and supports which create a political process and lead to an output consisting of decisions and actions with consequences for society.

This model may be extended and related more directly to farmer co-ops in the following way:



Farmer co-ops are among the "producers" of inputs to the political system. The political system will perceive these inputs in light of conditions in the general socio-economic environment. This means that demands (claims, needs, etc.) from the farmer co-ops will be given different treatment by the political system according to different conditions in the socio-economic environment. And the same is true for the supports (opportunities, resources, etc.) delivered by the co-ops: Their "value" to the political system will vary with the nature of the problems facing the socio-economic environment.

The feedback loop illustrates the fact that political actions and decisions induce changes in the socio-economic environment which, in turn, will lead to new inputs into the political system. Hence, the process is continuous in the sense that earlier decisions are important inputs to later ones.

The focus of this analysis is the political system. Important Federal governmental decisions regarding farm co-ops are reviewed to determine which inputs have been the central ones, which demands and supports from the farmer co-ops have been given the most weight, and how each has been related to conditions in the socio-economic environment. The analysis begins with a description of the evolution of political support for farmer co-ops from 1915, emphasizing those arguments that have been used to legitimize supportive action.

#### The Evolution of Political Support of Farm Co-ops

There are two ways in which the political system can support co-ops: through legislation alone and through more direct financial and organizational means (which are also, of course, funded on legislation). The Capper-Volstead Act is an example of legislative support. The Agricultural Marketing Act of 1929 is an example of legislation that

also provides more direct support like credit funds, research and advice agencies, etc. Both these acts will be more thoroughly discussed later in this chapter.

#### 1915-1920: Market Efficiency

A logical historical starting point for a discussion of the evolution of political support of co-ops is the Appropriation Bill of 1913. Before then, several laws had been passed on the state level providing for the organization of cooperative associations, and numerous other acts pertaining to co-ops on both the state and Federal level had been enacted. But the 1913 appropriation bill provided money for co-ops. Specifically it allowed the Secretary of Agriculture to spend \$50,000 "to acquire and diffuse among the people of the United States useful information on subjects connected with the marketing and distributing of farm products . . ." (Knapp, 1969) While \$50,000 is not a very significant grant, subsequent actions provided a view of how farmer co-ops were regarded by the political system (represented by the USDA) at that time. An article in the 1914 USDA Yearbook of Agriculture, "Cooperative Marketing, and Financing of Marketing Associations," describes the marketing situations for the single farmer:

"The individual grower frequently discovers that he is unable to do certain things which are economically essential. The average grower is not competent to grade and inspect his own products and, even if he were, he does not produce enough to create a reputation beyond the limits of his own private trade. Not being able to ship full carloads, his products are transported to market under more expensive freight or express rates. The extent of his business does not warrant any great expense in securing reliable information as to market conditions and prices. This lack of information puts him at a disadvantage when dealing with well-informed buyers . . . Working alone, the average farmer is practically helpless to develop an efficient marketing system. (Basset et. al., p. 187)

In the same article, co-ops are seen as a solution to these problems, and USDA is identified as a strong supporter of co-ops:

"Cooperation as an economic principle is receiving the serious consideration of practically all industrial classes. Its application to special lines of agricultural distribution and marketing is entirely feasible, and offers a solution of problems and difficulties that are practically hopeless insofar as the individual is concerned. In the USDA cooperative organization is considered to be a primary and fundamental project, for it is believed that cooperation in agriculture is a corrective measure that will place the industry upon a solid basis and do much to ensure the future happiness and prosperity of the nation." (p. 210)

Obviously, co-ops were believed to be capable of increasing the efficiency of marketing, which would benefit both producers and consumers. This was the main justification for USDA's promotion of farmer co-ops. The positive effect would come not only from enhanced production and consumption, but also from a redistribution of income. Cooperatives would be "corrective measures" in the sense that they would compete with private "middlemen" to prevent unreasonably high profits.

Relating this to the model for political systems, the most important inputs to this political activity comes from the socio-economic environment. That is, the demand for agricultural products at this time was high, and an increase in production and a more effective market system would benefit both producers and consumers. The farmer co-ops could be used as "tools" in achieving this -- they represented an opportunity for a political solution. To make this solution more effective, the political system was willing to meet some of the need for information and advice by increasing funding for co-ops. The farmer co-ops themselves were not very active in the political system at this time in history. Their "input" consisted of their mere existence combined with the belief within the USDA that co-ops could contribute to a more effective marketing system.

1920-1928: Orderly Marketing

By the early 1920's, the situation within U.S. agriculture had changed. Most agricultural products were in surplus, prices were falling, and the need for "orderly marketing" was more and more obvious. In 1922, Secretary of Agriculture Henry C. Wallace described the problems and the consequences in his report to the President"

"If financial rewards were measured out in proportion to the results of honest, productive effort (unfortunately they are not always), the farmers of the nation would have little reason to complain of their returns this year. In contrast with various other groups of workers they have produced abundantly and without cessation . . . If the relationship between prices now was such as existed before the war, this would be a prosperous year for agriculture, and consequently a prosperous year for the nation. With the distorted relationship of prices at the present time, the farmers find themselves still laboring under a terrible disadvantage compared with other groups. There is food in super abundance, and this contributes to the prosperity of business and industry for a time, but the inadequate return which the farmer is receiving, and has received for three years, inevitably must result in readjustments in the number of people on the farms and in the cities, which will not be for the continuing good of the nation. (emphasis added, p. 1)

In this historical setting, the problem was not to increase production or the effectiveness of the marketing system, but to balance production and consumption. Wallace sees a role for co-ops in solving this problem:

"Such associations (co-ops), when well conducted, effect considerable savings in market costs. In addition, they are decidedly helpful in indirect ways; for example, as directing attention to the grading of farm products and prices as influenced by grades, to the need of regulating the amount marketed to what the demands of the consumer will absorb at a fair price, and in general to the economics of agriculture." (p. 9)

The Capper-Volstead Act was also passed in 1922. The arguments in support of this act were colored by the problems agriculture faced

at that time, and are, in many respects, similar to those presented by Wallace.

The Capper-Volstead Act states that "Farmers . . . may act together in associations . . . in collectively processing, preparing for market, handling, and marketing in interstate and foreign commerce, such products of persons so engaged." Such organizations may not, however "monopolize or restrain trade in interstate or foreign commerce to such an extent that the price of any agricultural product is unduly enhanced by reason thereof, . . ."

There are some disagreements concerning why Congress passed Capper-Volstead. One position is that the Congress wanted to support farmer co-ops because co-ops made marketing more effective (the same argument used by Basset, et. al. above).

Breimyer (1977) cites Judge Lewis R. Morgan on the legislative history of the Capper-Volstead Act: "Congress meant to improve the bargaining position of farmers vi-a-vis corporate middlemen in order to increase farm income and, importantly, to stop the rise of tenancy and the migration of farm families to the cities." (p. 7) But, according to the same source, the Congress didn't intend to give the co-ops any advantage in the market, but wanted to give "individual farmers . . . through agricultural cooperatives acting as entities, the same unified competitive advantage - and responsibility - available to business acting through corporations as entities."

In a U.S. Department of Justice report, Fones et. al. states the view that "Congress, in legalizing cooperatives, never anticipated that they would exercise substantial market power, but saw them as small, local organizations that simply contributed to farmers' marketing efficiency."



James L. Guth (1982) argues against the Justice Department view: "Contrary to the Justice Department theory, the Capper-Volstead Act was not an innocuous blessing conferred on harmless farm organizations by a benevolent Congress, but rather the culmination of a decade's controversy over antitrust restraints on cooperative activity." By 1922, some co-ops, especially within dairy products and fruit were big and had considerable market power. Attempts by government officials to restrict their operation caused these large co-ops to be some of the strongest supporters of the bill. Guth argues that there were many people in the Congress on both sides of the debate that were fully aware that co-ops had some market power and wanted more: "According to Volstead, every cooperative must have an element of monopoly if it is to serve any purpose." (p. 80) "According to Walsh (Dem. Senator Thomas J. Walsh of Montana, the leader of the opposition against the bill) the gentlemen representing the organizations of milk producers frankly declared their desire to set up a monopoly of the supply of milk." (p. 81)

Guth defends his view further by pointing out what happened after the act was passed: "For two decades, Congress, the USDA, farm groups and the Department of Justice acted as if farmers had been granted a substantial, if not limitless, immunity . . . The Attorney General in 1930 noted that the act "exempted" cooperatives from the antitrust laws. Not until the late 1930's did the Department of Justice finally renew its antitrust campaign against cooperatives."

It is impossible to point out the intent of Congress in passing Capper-Volstead, simply because there was no unified intention behind it. Different groups had different intentions. It is clear that a significant group in Congress wanted to allow marketing co-ops to

establish substantial market power, hoping that this could help in solving marketing problems.

Regardless of Congressional intent, there is no doubt that the Capper-Volstead Act was (and still is) a piece of supportive legislation for the farm co-ops. Again, it seems that the most important input came from the socioeconomic environment. The decline in farmers' income was a serious political problem. It led to migration from rural communities to large cities, and was seen as a threat against the agricultural structure of family-farms.

In supporting passage of Capper-Volstead, farmer co-ops were more politically active than they had been before. Larger co-ops, especially those in dairy marketing, felt they needed some sort of protection from antitrust prosecution. This was their demand vs. the political system. To legitimize this demand they argued that they would help fulfill a political goal--to increase income to farmers.

#### 1929-1932: Production Control

Economic conditions for U.S. farmers deteriorated throughout the 1920's, and the Federal government gradually became more active in trying to resolve farm problems. The principal vehicle of government farm support during this time was the Agricultural Marketing Act of 1929, within which cooperatives were to play an important role in lifting agriculture from depression.

The Agricultural Marketing Act of 1929 provided for: (1) the creation of a Federal Farm Board, with the Secretary of Agriculture as ex-officio member; (2) the appointment of advisory commodity committees to advise the board members concerning marketing of their respective commodities; (3) a revolving fund of 500 million dollars from which loans were to be made to cooperative associations (loans that could be

used for cash advances to producers as well as for investment in facilities etc.); (4) the establishment of stabilization corporations to handle whatever surpluses of agricultural commodities may exist; (5) price insurance to cooperatives; and (6) producer-controlled clearing houses. (See Bakken and Schaars, 1937, p. 287-288)

The Secretary of Agriculture at the time, Arthur M. Hyde, had high expectations for the program. In his report to the President in 1929, he wrote:

"Outstanding among the events in 1929 was the passage of the Agricultural Marketing Act . . . It sets up a Federal farm Board with unusual powers and resources. It contemplates that rural prosperity may be increased by the creation of a new agency to function parallel with other government establishments in the furtherance of a broad and constructive program for agriculture . . . in the act itself stress is laid upon the effective organization of cooperative-marketing associations as means of improving farm conditions . . ."

In the same report, the Secretary notes the present status of cooperatives and the policy that will be applied in making the program work:

"Under the Agricultural Marketing Act rapid progress in the coordination of cooperative marketing may be expected, inasmuch as greater unity of effort among producers' organizations is a leading object of the act. Support is not to be given to the upbuilding of unrelated cooperative units in the same brands of agriculture, since to do so would increase wasteful competition in marketing between producing groups and between producing regions. Thinking in local or regional terms, necessary in the early stages of the cooperative movement, must now be supplemented by thinking in commodity terms. Such a view of cooperative requirements is entirely consistent with the continued growth of local and regional associations, provided these become units in a coordinated movement." (Hyde 1930, p. 22)<sup>1</sup>

The Secretary did not speak only for the Department of Agriculture. President Hoover started the board out on its official life, with a meeting at the White House on July 15, advising the group: "If we are

to succeed, it will be by strengthening the foundations and the initiative which we already have in farm organizations, and building steadily upon them with the constant thought that we are building not for the present only but for the next decade." (See Knapp 1973, p. 123)

Even if the situation for U.S. agriculture was bad in 1929, it grew much worse in the following years. And the Federal Farm Board ran into very serious problems. The depression spread world-wide, markets were closed and foreign investments lost. There was little disagreement about the Federal Farm Board when it was established in 1929, but when it failed to turn back the tide of depression, criticism of the Board grew. Much of the criticism can be attributed to the need for a scapegoat during the hard times, but trading interests opposed to farmers' marketing co-ops also strove to blacken the image of co-ops and the Board. And their campaigns had effect.

The Board itself admitted problems, but blamed the times rather than the program. This seems to be a fair assessment. The board saw the way out of the problems to be more complete organization of farmers in cooperative marketing associations, and they believed that the farmers would have been much worse off without their activity. In the Third Annual Report of the Federal Farm Board (1932) their views are clearly stated:

"Continued progress was made during the year, in the creation of new associations, in strengthening associations already operating, and in maturing their organization under the test of severe business depression. No system of organization, however, would have been sufficient to offset the drastic decline in demand for farm products which characterized the year, and which largely overshadowed the benefits of cooperative efforts . . . If agriculture is ever to attain a position of economic equality with other industries in our highly organized society, producers of each type of product must establish their own cooperative organization and develop it to a high point of effectiveness." (p. 7)

Later in the report, the problem of stabilizing prices over a longer period of time was addressed: "The very act of purchasing supplies and maintaining prices in surplus years tends to encourage farmers to continue production, and so to prevent deficit years, in which the supplies could be sold without loss, from ever arriving. In the long run stabilization thus tends to perpetuate the very situation it is aimed to relieve."

The need for production control is thereby introduced:

"Experience with stabilization thus demonstrates that no measure for improving the price of farm products other than increasing the demand of consumers can be effective over a period of years unless it provides a more definite control of production than has been achieved so far. In a few limited and specialized lines, cooperative associations have made progress toward such control. For the great staple products, however, the problem still remains for future solution." (p. 62)

The Federal Farm Board had opponents from outside the agricultural sector--the trade interests that disliked the competition of co-ops. But it also faced criticism from inside the cooperative movement. Not surprisingly, Edwin Nourse<sup>2</sup> was strongly in opposition to the ideology of the Board. At the Eighth Summer Session of the American Institute of Cooperatives at the University of New Hampshire in August 1932, he delivered a paper on "Cooperative Structure and Farm Board Policy." Here he related the Agricultural Marketing Act to what he called "Sapiroism":

"In the first place we may say that the whole act has the general orientation of the 'commodity marketing movement' . . . It took over the old cadre of 'orderly marketing' but, whereas Mr. Sapiro had pinned his faith entirely upon the distributive aspect of the problem of farm price and stubbornly turned his back upon any idea of production adjustment, eight years of mounting agricultural surpluses caused the drafters of the Agricultural Marketing Act to link 'orderly production' with 'orderly marketing' in a coordinate relationship. . . It added one feature that might be called super-Sapiroism in that it put

government effort and government funds back of a gigantic holding movement for the enhancement of prices by so-called 'stabilization corporations.' (p. 81, 82)

The Board lost its political support, and during the election campaign in 1932 the Democrats rallied against it, calling it "The Republican Farm Board." With the Democratic victory in the national elections, it became apparent that the Board would no longer be in effect. The new president, Franklin D. Roosevelt, wanted to merge all Federal farm credit agencies, and by May 26, 1933 the Board was abolished and the authorized position of Chairman of the Farm Board was changed in name to Governor of the Farm Credit Administration. (See Benedict, p. 264)

The rise and the fall of the Federal Farm Board is a good illustration of how the political system has worked vis-a-vis the farmer co-ops in the U.S. In times when the political system has faced problems that co-ops--according to the contemporary view--could help solve, the co-ops have received substantial support. The co-ops themselves have been more or less active in demanding such a support. The decision on the Federal Farm Board was made with little input from the farm co-ops. Indeed, some groups within the cooperative movement were strongly opposed to the "political use" of cooperative organizations.

In this case it became evident that farmer co-ops could not fill the role that the political system gave them. So, the political philosophy changed and the farm co-ops obtained another role in the agricultural policy theater. But the decisions that had already been made regarding co-op credit policy could not easily be changed, and were important to decisions made by the new administration.

The New Deal: Back to Market Efficiency

The Federal Farm Board and its program died with the Hoover administration, but government support for co-ops did not cease. When the Board was abolished, many of the powers assigned to it were transferred to the Governor of the Farm Credit Administration. However, a change in ideology was apparent. The new administration did not see the same role for co-ops as "policy tools" for the government. The Federal Government would deal with the problem of overproduction more directly through the Agricultural Adjustment Act (AAA). The co-ops would have their place in marketing. This was more in line with the Nourse philosophy presented above.

In an address to the AIC's annual meeting in 1933, Secretary of Agriculture Henry A. Wallace spoke about production control: "With a few exceptions, it has probably been a mistake for cooperative groups to try to perform this function. The experiments have been hazardous to the cooperative movement. The centralizing power of the Federal government, it seems to me, offers a far greater prospect for success." (p. 17)

The administration was careful to emphasize that this change in direction did not imply diminished respect for co-ops. The Administrator of the Agricultural Adjustment Administration, Chester C. Davis (1933) put it this way:

"The purposes of the Agricultural Adjustment Act are essentially identical with the declared objects of the cooperative movement. In going beyond the farmer's organizations to the individual farmer, in its program for rehabilitating agriculture, the Administration does not in any sense deprive the cooperatives of their proper functions. On the contrary, it buttresses their plans in vital ways. As this truth becomes more fully realized, the Administration and the cooperatives will find it easy to work hand in hand." (p. 65)

The Farm Credit Act of 1933 proved that the new government did not intend to turn its back on co-ops. The act established a central bank and twelve regional banks for making loans to co-ops. These banks proved vitally important in giving credit to farm co-ops throughout the U.S. While the Farm Credit Act in many ways built on the Agricultural Marketing Act of 1929, it also showed a change in policy. The act made clear that Congress desired no more attempts to control farm surpluses through stabilization operation by a credit agency.

Frank W. Peck, speaking on behalf of the Farm Credit Administration in a paper delivered to the AIC meeting in 1934, described the government's change in perspective on co-ops as follows:

"We have passed through distinct phases of development in the cooperative movement, from the mechanics of marketing operations, with the emphasis upon cost, to the extreme attempts at surplus control and price stimulus through stabilization operations. We are now essentially in the stage of management emphasis, expansion of markets and the orderly distribution of commodities without attempting to fix and control the prices thereof." (p. 162)

The Farm Credit Administration was very important in supporting co-ops, and in a much more permanent way than the Federal Farm Board. Knapp (1973) comments on its importance:

"Few realize how much marketing co-ops were benefited during the New Deal days by the lending services provided by the Farm Credit Administration through its bank for cooperatives and by its research, service and educational activities . . . the banks for cooperatives were more than banks for cooperatives. They were entrepreneurs of cooperative development." (p. 403)

The New Deal demonstrated very clear political support for co-ops. But at the same time, the belief in co-ops as a means of solving the surplus problem was gone. Left was the idea that co-ops could make markets work more effectively.



Farmer co-ops themselves had also changed from 1920 to 1933. They became larger and more centralized. Through the years of the Federal Farm Board they had been working in much closer cooperation with the government, and their political influence grew as a result.

While farmer co-ops had a strong political support through the New Deal period, there are signs indicating that this support has declined since then, especially in the more recent years. No agricultural co-op was charged under antitrust legislation between 1922 and 1939. Since then, several antitrust suits have been decided unfavorably for co-ops. The U.S. Department of Justice has called for modifications in the Capper-Volstead Act that would place co-ops in a less favorable position, but no changes have been made so far. Cooperative leaders are concerned that the political climate is less favorable for co-ops than it has been. (See Abrahamsen 1980, p. 51-52)

#### Present Political Support for Farmer Co-ops

Current political support for farmer co-ops and arguments used to legitimize this support can be divided into two classes: legislative and direct.

The most important legislative support is the antitrust exemption of the Capper-Volstead Act. The farmer co-ops in 1930 were seen as completely exempt from the antitrust laws. It was a political goal that they should restrain trade and production in order to increase the price on farm products. The Capper-Volstead Act was the legal foundation for this policy.

Today the dominant view is that the Capper-Volstead Act gives farmers the right to form co-ops. Co-ops, as such, are not in violation of antitrust legislation. But Capper-Volstead does not give co-ops any right to unreasonably restrain trade or to behave in ways that are illegal for other corporations.

This change in perspective on the antitrust exemption of co-ops since 1930 can be seen as a decrease in political support. Laws are what the courts interpret them to be and courts reflect the changing temper of the times. But the Capper-Volstead Act still gives farm co-ops necessary protection, without which many co-ops would be charged for restricting competitiveness as soon as they "touched someone's sore toes."

In addition to antitrust exemption, farm co-ops receive some special tax treatment, which can also be seen as legislative support. Basically, "double taxation," is avoided, e.g., income is taxed both in the hands of patrons and their co-ops (applies to patronage refunds).

Some would not call the antitrust exemption and the special tax treatment 'political support,' but rather see them as necessary adjustments to reach a more desirable market structure and avoid discrimination. But it is a fact that the political system that provided these exemptions also has the power to take them away. In this way co-ops are dependent on political support, and if they lose it they will probably find it hard to compete.

Direct support, which requires use of government funds, was historically most significant in the form of credit policy in the 1930's. The cooperative banks were founded by the government in 1933 with a 500 million dollar grant. These co-ops gradually took over ownership by building up equity, and by 1968 all government capital was paid off. The Federal government still grants loans to co-ops through the Farmers Home Administration, but these loans are limited to co-ops directly involved in farming on a small scale, and cannot be counted as general support for co-ops.

Another type of direct support is education, research, direct advice, etc., that is aimed at helping co-ops perform better. The Agricultural Cooperative Service is a separate USDA agency that has this as its main objective.

Some of the research and teaching on co-ops that goes on at universities may also be categorized as organizational support for co-ops. However, co-ops have much less support through universities than the business sector in general.

The conclusions so far is that the only significant support farm co-ops presently receive from the political system is legislation regarding antitrust and tax exemption. Governmental credit policy was important in a period when the co-ops within the farm sector grew rapidly, but does not play a major role today.

#### The Rationale for Present Support

The political support for farm co-ops in the '20's and '30s was to a large extent built on the belief that they could be used as tools in solving serious economic problems. Present support seems to be founded more on a positive public attitude toward cooperative performance--both economic and social performance.

Arguments in support of co-ops on grounds of economic performance are based on what is called "cooperative theory". There are several different approaches to explaining the performance of cooperatives that carry the label "cooperative theory." Here, this concept refers to more recent extensions of conventional price theory to markets involving co-ops.

Results of formal economic analysis depend entirely on initial assumptions. In this sense, cooperative theory is as value-loaded as cooperative ideology. On the other hand, if the analysis is properly

conducted, cooperative theory may serve as a test of cooperative ideology. That is, performance predictions from theoretical models can be compared with ideological assertions. But in reality the only way to test the theory would be to compare theoretical predictions with co-ops as they really are. That kind of test is seldom found in the literature. It may also be argued that such a test only applies to the cooperative tested. Still a set of similar tests could provide an indication of how far away from reality cooperative theory is.

The works by Helmberger and Hoos and their successors seem to be the most influential within the "American School" of cooperative theory. Their basic insights are: (1) the social preferability of co-ops relative to other corporations varies with the structure of the co-op, its objective(s), and the structure of the market in which it works; (2) given that the objective of the co-op is to maximize the price it pays to the members (applies to a marketing co-op), and the co-op does not restrict membership, the performance of the co-op could be socially preferable to that of a profit-maximizing company. This relates to certain market structure, especially when there is little competition in the buying market and high competition in the selling market.

While this is an incomplete description of the results of the Helmberger and Hoos model, the description corresponds closely to how politicians may perceive co-op performance. More specifically, politicians might conclude that co-ops should be given legislative protection if they have the objective and the structure described above. But financial aid should not be necessary.

Another basic argument in favor of political support for co-ops is related to their social performance. Through much of the history of co-ops, it has been argued that these organizations, by the way they are

organized, have a desirable impact on society; an impact that stands in addition to the pure economic results yielded by the same organizations. These desirable social results are specific to co-ops; co-ops perform in a socially preferable manner to capital-oriented corporations.<sup>3</sup>

Social effects refer to the impact on the political system, on the social relations between those participating in the co-ops and on the goals and values of members. The most powerful argument related to social effects used in favor of co-ops is that co-ops are democratic, and thus support democracy.

The problem with this argument is that it can have many different meanings--sometimes even contradicting ones--in different settings. It is therefore hard to determine how important this argument has been for the political support of co-ops. An example: In the 1930's co-ops were said to be an alternative to the capitalistic way of organizing. Competition among farmers, and among different other groups, proved to have socially very negative results. By cooperation, built on the right for everybody to participate in decisions and in ownership, a new system superior to capitalism would develop. (see Bakken and Schaars, 1937)

Today the argument sounds like this: "Agricultural cooperatives should be farmer owned and controlled and should be based upon the principles of our private competitive enterprise system. They can be a dynamic force in the preservation of our capitalistic system." (Farm Bureau 1982, see also Abrahamsen 1976)

Leaving aside the question on what kind of political system co-ops support, it seems that it has always been important that farmers be capable of controlling their co-ops. Democracy within the organization has been an objective in itself. It is a serious charge to say that co-ops are no longer controlled by their members even if the effects of

such lack of control are not specified. And member relations within co-ops has attracted more interest in the 1970's than has the economic performance of co-ops.

Future Directions for Farm Cooperatives: A Summary and Conclusion

Justification for political support of co-ops has clearly changed with the problems confronting the political system and also with the goals and the perspectives of those in political power.

Farmer co-ops were supported from 1915-1920 because they were thought to make marketing more effective. From 1920-29 the prevailing notion was that co-ops could be helpful in controlling the amount marketed. From 1929-1932 the government actively supported co-ops in the hope and belief that they could help in restricting production. And from 1933 on, the rationale for political support seems to have returned to that for the first period.

Regardless of changing bases for political support, there has been an overriding and consistent political concern for the family farm. Co-ops were not supported per se, but as a means to increase farmers' income and thus maintain rural settlement.

Today, politicians seem far more indifferent to co-ops than they were in the 1920's and 30's. There are at least three possible explanations for this attitude: (1) the political support for co-ops today is lower because politicians no longer subscribe to the goal of increasing farmers' income.

The farm sector grew in numbers of farmers until 1935, and has since then declined. Relative to other sectors, the farm sector has declined since 1880. This fact alone may explain why there is less political concern about farmers and their organizations today than

before. Remaining farmers have incomes approximating those in the non-farm sector, suggesting that government income support is no longer necessary.

In 1930, co-ops were said to be able to add to society's welfare by restricting negative competition among farmers, and thus add to farmers' income. Based on more recent cooperative theory, co-ops are claimed to be socially preferable because they add to the competition in the market, and yield a higher output at a lower price than profit-maximizing corporations. Apparently, the center of attention has shifted from the farmer to the consumer.

(2) Politicians still want to increase the income of farmers and strengthen rural America, but there is no place for co-ops in their program."

This argument can be related partly to the performance of co-ops, and partly to the political philosophy of the present time, as well as to the scale of the problems. In 1929, and again in 1933, there was little discussion on the need for government intervention in agriculture. The economic problems facing agriculture and the rest of the nation were grave, and politicians were prepared to support any organizations that demonstrated promise in solving these problems. Today's economic problems are not of the same nature or magnitude and the prevailing political philosophy is to let the market solve the problems.

Those who continue to favor government intervention may still not see any role for co-ops. Co-ops cannot distribute income among farmers differently from the market. To strengthen the family farm and the rural population, small farmers must receive return per unit of sale higher than, say, corporate farms. This calls for selective means that cannot be used by co-ops, but only a centralized power--the government.

(3) The kind of co-ops we have today is not worth supporting, even though we support the "cooperative idea."

There are those who believe in increasing farmers' income and who also believe that co-ops can have an important role in achieving this goal, but who do not believe that the co-ops existing within U.S. agriculture today are the right kind of co-ops to do the job. They charge them with being too big, too centralized, and too remote from their members. Linda Kravitz (1974) takes this position: "Cooperatives . . . are intended to be more than simply another American business group. They are intended to be a unique form of business, owned and controlled by the farmers who are members and patrons of the co-op. It is their difference that counts. But the difference is being obscured, and they are becoming just another agribusiness." (p. 110) This argument also applies to those who support co-ops because they feel they are adding to the democracy within society. If they perceive the democracy within the organization disappearing, the very reason for supporting it is gone.

If we relate these explanations to the model for political systems discussed at the beginning of this paper, we can say that the input from the socio-economic environment has changed. The problems within agriculture confronting the political system are not the same as earlier. Farmer co-ops are not perceived by the political system in the same way as before either. Previous actions and decisions have led to a learning process within the political system, and have changed the view on how farmer co-ops can be used to achieve political goals.

Both these changes pull in the same direction. Farm co-ops are less "interesting" for the political system than they were. Is the



future for farm co-ops, then, bound to be gloomy? Is it likely that they will wither from lack of support, and disappear from U.S. agriculture, at least as we know them today?

The disappearance of U.S. farmer co-ops is highly unlikely. Even though the political support for--and concern about--co-ops is not as strong as it has been, these organizations still have considerable support. But they need to retain this support to remain viable.

To survive in the long run, co-ops require support from three different groups. First of all, they need their members' support. Superficially, they must have farmers delivering their products to them. But even more important, the members are the main reason for having a co-op. It is therefore also necessary to have members that clearly recognize the need for their organization, and thus support it in an organizational as well as business sense.

Second, the co-ops need consumers' support, in the sense that they need buyers for their products. The most common reason for death among co-ops is lack of ability to compete in the market. If the co-op becomes an economic failure, it won't last.

Third, the co-ops need political support. This has been the topic for this paper, and does not need any further explanation.

The co-ops need to balance their activity to keep the support from all these groups. In particular, they should not develop a structure that gives them advantages in the market, but cuts off members' support and political support. This is the most serious threat against co-ops today.

Successful co-ops need not remain small and decentralized. In fact, much of the political support gained by co-ops in the 1920's and 30's was due to the belief that they could coordinate the effort of farmers throughout the country. But the success of a large, centralized co-op is contingent on its working to gain the support of its members--all of them.

## FOOTNOTES

<sup>1</sup>The view here presented by the Secretary of Agriculture is not very different from "the Sapiro model". Aaron Sapiro, a very influential person within the cooperative movement in the 1920's, wanted farmers to dominate or monopolize markets through centralized producer co-ops. The co-ops should be organized along single-products and by controlling enough volume they should be able to have a strong influence on price. There is no evidence that Sapiro believed that co-ops could or should restrict the production of their members. His point was that if a co-op had a dominant position in the market, it would be able to reach the highest possible return for the volume produced--by marketing at the right time, by grading, by advertising, and by exploring new markets. (Sapiro 1920, p. 20, 21).

<sup>2</sup>Edwin Nourse was Aaron Sapiro's strongest philosophical opponent within the cooperative movement. Nourse's ideology was, in short, that co-ops should work to keep the market effective: "The place in the nation's business logically marked out for the agricultural cooperative is primarily that of "pilot plant" and "yardstick", operation. Its objective is not to supersede other forms of business but to see that they are kept truly competitive". (Nourse 1942, p. 34)

<sup>3</sup>It is difficult to separate economic and social effects. The impacts that co-ops have on production, prices and distribution are, of course, important social effects, but are classified here as economic effects.

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