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Cooperative organizations as an engine of equitable rural economic development

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ABSTRACT

Cooperatives represent an alternative to large-scale corporate farms as well as to independent unaffiliated small private farms. This article presents a comparative modeling narrative on cooperative organizational forms' potential impact on equitable rural development. This speaks to issues of both increasing the size of the economic pie and how this income is distributed. The case is made that cooperatives can potentially generate higher rates of growth and more equitable growth, even in competitive economic environments. An important type of cooperative that is focused upon is one based on the linking of smaller farms into a cooperative. Economies of scale and scope as well in transaction costs can be captured by the cooperatives. Given cooperative governance, one would also expect higher levels of x-efficiency. Overall, cooperatives can generate relative high incomes to cooperative members, whilst remaining competitive with the traditional privately owned large farms. Critical to the success of the cooperative is a set rules and regulation that place them on a level playing field with the privately owned farm. In addition, the implementation and practice of cooperative principles are key to the success of the cooperative farm.

1. Introduction

Co-operative organizational forms represent an alternative to large-scale corporate farms and plantations as well as to independent unaffiliated small private farms. Co-operatives also represent an alternative to farmers as independent marketers of their products and purchasers of their inputs. This is analogous to the alternative provided by co-operatives, more generally, to traditional investor owned corporations. But what is unique to agriculture, especially in less developed economies, but also still somewhat the case in the more developed economies, is that small farms are of critical importance in agriculture whilst larger farm units often represent a competitive threat to relatively small independent family owned farms. Co-operatives represent a means to maintain the independence of these farms. At the same time, co-operatives provide the means for small farms to remain or become competitive through producing relatively efficiently in terms of high levels of productivity per unit of input and higher levels of quality per unit of output. An alternative means of remaining competitive is for small farmers to cut their real income to keep costs and thereby prices down to competitive levels. But this would reduce the farm family's standard of living and potentially push the family into poverty.

An important issue raised in this article is to what extent are co-operatives substitutes for traditional investor-owned farms as productive and competitive economic entities? Related to this, can co-operatives provide an alternative to the larger investor-owned farms? Can agricultural co-operatives replicate or better the assumed competitive attributes of the larger investor-owned farms? Moreover, can agricultural co-operatives deliver on economic performance whilst generating higher levels of economic wellbeing to its members as compared to what's typically on offer in the larger investor owned farm in terms income and working conditions to employees. This would be apart from higher levels of social wellbeing that some might derive from being a member/owner of an economically productive and sustainable co-operative (IFAD, 2011).

It is also important to note the significance of cooperatives in agricultural sectors throughout the world in both developed and less developed economies (Altman, 2009a; ICA, 2014; United Nations, 2014). This speaks to the relative success of agriculture cooperatives, which requires explanation in face of the negative modeling scenarios and predictions flowing from standard economic theory. Estimates on the importance of agriculture cooperatives aren't

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unambiguously rigorous, but the available evidence suggests that such cooperatives are of importance to various economies' agricultural sectors. In many countries, including the United States, a large majority of farmers are members of agricultural cooperatives (ICA, 2014).

This article presents a comparative modeling narrative on the co-operative's organizational form compared to the investor-owned firm's (IOF) potential impact on equitable and sustainable rural development. This speaks to issues of both increasing the size of the economic pie and how this income is distributed. The focus here is on issues most pertinent to the agricultural sector and the co-operative farm in particular, but can be extended to supply and value added co-operatives and agricultural mutuals or credit unions, for example. These arguments build upon Altman (2001, 2002, 2006, 2009a, 2014), Ben-Ner and Jones (1995), Bonin, Jones, and Putterman (1993), Bowles and Gintis (2011), Chayanov (1991), Ellis and Biggs (2001), Gordon (1998), Leibenstein (1966), McCain (2008), Novkovic (2006, 2007), Schultz (1964), Sexton and Iskow (1993), and Williamson (2010).

It is critical to develop a modeling framework wherein one can articulate and specify the conditions under which different types of agricultural co-operatives can be sustainable in the economic realm, whilst meeting the social-economic objectives of members—where a key goal is often maintaining the economic viability and thereby the independence of the smallholder farmstead. A crucial point made in this article is that under reasonable assumptions and conditions agricultural co-operatives should be able to match the investor-owned firm in the economic domain. A co-operative also provides individuals with the opportunity to remain independent players (owners and core decision-makers) as opposed to being forced into becoming employees, often with little bargaining-power, in the investor owned farm. Related to this, co-operatives also provide smallholders with the opportunity to improve their level of material wellbeing by increasing their productivity and increasing their share of income from what it would be under traditional organizational forms.

2. What is a co-operative and co-operative governance?

Prior to a formal discussion of the potential role of agricultural co-operatives, it is important to briefly define what is a co-operative and what types of co-operatives tend to characterize the agricultural landscape. A co-operative organizational form has been defined, in its modern and operational form, flowing from the Rochdale Principles, articulated in 1844 by the Rochdale Society of Equitable Pioneers (a consumer co-operative) in Rochdale, England. This definition has been since modified by the International Co-operative Alliance, the international governing body of co-operatives. The original principles state (Rochdale Pioneers Museum, 2014):

- That capital should be of their own providing and bear a fixed rate of interest.
- That only the purest provisions procurable should be supplied to members.
- That full weight and measure should be given.
- That market prices should be charged and no credit given nor asked.
- That profits should be divided pro rata upon the amount of purchases made by each member.
- That the principle of 'one member one vote' should obtain in government and the equality of the sexes in membership.
- That the management should be in the hands of officers and committee elected periodically.
- That a definite percentage of profits should be allotted to education.
- That frequent statements and balance sheets should be presented to members.

The key point here is that the co-operative should be democratically governed and this should be translated into the economic realm. Revisions have been made to the principles, making the rules more flexible where the Rochdale rules were seen as potentially hindering economic performance. Even with the original principles, democratic governance is vested in a somewhat hierarchical structure that in effect reduces the transaction costs of governance—day-to-day decisions are not made by the collective, which would be a highly time-consuming and potentially economically inefficient process. Still, too often, the Rochdale rules of governance have been taken as the existing rules when co-operatives' governance structures are critiqued as being incompatible with both economic efficiency and economic effectiveness, especially when co-operatives are immersed in highly competitive environments.

The following summarizes the key revised co-operative principles most relevant to governance and therefore to the sustainability of co-operative organizational forms (ICA, 2008):

- *Democratic control by members*: One person, one vote, active membership participation, and elected officials responsible to membership. This incorporates a certain degree of hierarchical leadership since members need not and typically do not engage in day-to-day decision-making (reducing transaction costs). A key point here is that members have the last say on key decisions and are well informed of elected or appointed leadership decisions (transparency).
- *Democratic control of capital*: Based on member contributions to co-operative's capital (could be an equitable contribution). Part of capital is usually the common property of the co-operative. Surplus can be used for a variety of purposes as determined by co-operative members. Only part of the surplus is usually distributed to members. Surpluses can be used to build up reserves, to invest in the co-operative, and in the larger community. There is nothing stipulated in the rules pertinent to co-operative governance that surplus cannot be entirely invested to further develop or grow the co-operative. This would be similar to the investor owned corporation where the surplus can be invested or dispersed to shareholders as dividends or to management as bonuses. Except in the co-operative, surplus allocation decisions must be made in a democratic and transparent manner.
- *Autonomy and independence*: To maintain co-operatives as autonomous self-help organizations ultimately controlled by members, the terms by which co-operatives enter into agreements with other organizations, inclusive or private or public organizations, or raise capital externally (as opposed from members or surpluses) must ensure continued democratic control by members. Thus, co-operatives can link-up with non-co-operative organizations and even raise capital external to the co-operative, thereby relaxing or even removing constraints that are often assumed married to the co-operative organizational form.
- *Education*: Co-operative members, elected representatives, managers and employees are supposed to be educated and trained so they contribute to the development of their co-operatives.

3. Different types of co-operatives

Co-operatives can take many forms. Most pertinent to this article relates to co-operatives that represent a formal linkage or confederation of smaller farms. This allows farm families to