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Background

All levels of government have programs and policies aimed at attracting and retaining businesses and fostering business growth. In rural areas especially, some of these programs and policies are aimed at businesses organized as cooperatives. In recent decades, the number of cooperatives has declined, and many large, well-known cooperatives have failed. Cooperatives may be struggling because they face changing business environments, management problems inherent in cooperative principles, or legal constraints that limit their business flexibility.

The economic success of individual private enterprises is generally considered a concern of the private sector. The public interest lies in the private sector's ability to create jobs, to add to local governments' tax base, and to enhance the quality of life by adding to the array of goods and services available to local residents.

The classic justification for special policies for cooperatives grew out of nineteenth century market conditions. In the farm markets of the era, many relatively poor farmers producing homogenous commodities faced relatively few buyers for their products or sellers for their inputs. Often farmers felt that the buyers to whom they sold their products and sellers from whom they bought inputs were able to exercise market power. The limited antitrust exemption for farmer-owned cooperatives enshrines this thinking and confers on farmers the ability to exercise countervailing market power by establishing cooperatives. In addition, the tax code conferred on cooperatives an exemption from the double taxation of profits--once at the firm level and once at the individual level--that was levied on most other corporations.

Part and parcel with these benefits came, however, a series of restrictions on cooperative ownership, governance, and finance. These restrictions often limit a cooperatives ability to raise equity capital and to invest or grow with market opportunities. In addition, ownership and governance restrictions can create for cooperatives a unique set of conflicts of interest that may limit their agility in the marketplace.

In recent decades the relative benefits afforded cooperatives have been eroded in several ways. First, as many markets have become both more competitive (driven, for example, by increased international trade and improvements in information and communications technologies), the countervailing market power afforded cooperatives through the limited antitrust exemption has become less valuable. In addition, the 2003 tax reform greatly reduced the value of the cooperative shelter against double taxation. As markets have become more competitive, they have also become more dynamic. This increased dynamism means that the restrictions on cooperative ownership, governance, and finance increasingly constrain the ability of cooperatives to adjust either to adverse market conditions or to new opportunities. Thus, the old quid pro quo, market power for ownership and financing restrictions may have become less attractive.

In addition, cooperatives face other challenges. The structural shift in agriculture to fewer, larger farms and less densely populated rural areas has led to a top heavy age structure of cooperative members. With a limited pool of new, younger members, cooperatives find it difficult to retire the equity of older members seeking to cash out as they retire from farming.

Brief Summary

This workshop brought together about 60 policymakers, industry representatives, lawyers, economists, and other experts from across the United States to review the determinants of the success or failure of cooperative ventures, their advantages and disadvantages relative to other businesses, and implications for national policy with respect to cooperatives and their role in rural development.

The workshop agenda was designed to focus on these issues. The first session explored the conditions under which cooperatives have been successful. In the second session, CEOs of three cooperatives discussed how their businesses have successfully responded to challenges in their markets and organizations. The third and fourth sessions focused on the challenges cooperatives are facing and on case studies of cooperatives that have failed or are struggling.

The workshop closed with a panel discussion of policy implications moderated by Thomas Dorr, Senior Advisor to the Secretary of Agriculture. Panelists included representatives from the White House's National Economic Council, CoBank (a Federally-chartered lender to farmer cooperatives), the National Federation of Farmer Cooperatives, National Rural Electric Cooperatives Association, and a nationally recognized expert in cooperative law.

In addition, two luncheon speakers addressed the broader context in which cooperatives operate and compete. The first luncheon speaker, Chad Moutray, Chief Economist for the Office of Advocacy of the U.S. Small Business Administration, noted the importance of small business and entrepreneurial activity to local growth. In addition, he noted the industries with the most promising business prospects—not ones in which cooperatives have had a strong presence. The second luncheon speaker, Steve Sonka of the University of Illinois, focused on the evolution of agriculture and its implications for collective action. This talk focused on the shift in farmer identity away from producers of commodities to consumer-oriented producers of differentiated products that provide customer value at all links in the supply chain.