

Cooperatives Need To Make Fundamental Changes

BY SALLY BAIR

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HARRISBURG — In a speech which contained elements which he admitted sounded like "heresy," Dr. Ron Knutson, professor and extension economist in agricultural policy and marketing at Texas A and M University, said that cooperatives must make some fundamental changes in the way they operate to meet the future.

Knutson said, "You have to change to survive." Speaking to participants in the 1986 PAFC Annual Meeting, Knutson admitted, "Not much of anything I've got to say is favorable. There are real challenges."

One of his most controversial suggestions is that cooperatives look at their long-standing tradition of one member, one vote. Knutson said this may have to be changed to meet the challenge of getting large farms to become supporters of cooperatives. He said research shows that there will be the development of a bimodal farm structure, with an increase in small farms, with income being derived from off-the-farm sources, and an increase in large farms, with a large reduction in moderate size farms.

He called moderate size farms the backbone of the co-op system, and stated, "A major challenge facing cooperatives is to maintain the competitiveness of the moderate size farm." Moderate farms, he said, "Must have the same access to lower input costs and high prices that larger farms have."

He reminded his audience that large farms traditionally have tended not to belong to cooperatives, but stated, "You

have to develop a large farm strategy. The only way to have progressiveness is to attract large farmers."

Knutson gave a wide variety of reasons for the increase in large farms, including the fact that they have substantially lower costs of production, up to 5 to 10 percent average lower input costs. Furthermore, he said research shows that larger farms market products at a higher price, again 5 to 10 percent higher than smaller farms.

Large farms can also adopt new technologies more readily, a fact that will become increasingly more important in the future. Knutson said the accelerating technological changes will be a "big issue in the last half of the decade of the 80s." He added, "It will be a nightmare to keep up with the technological changes and they will have a tremendous impact."

Such innovations as Bovine Growth Hormones and embryo transfer technology will have a great impact on the dairy industry. He said it is generally agreed that BGH will increase production about 10 to 15 percent and has the potential to reduce the cost of producing milk by 10 percent.

Further advances in grain varieties which are resistant to herbicides can eliminate a lot of competitive weeds and engineering varieties for resistance to specific diseases or pests contribute to the technological advances which benefit large farms.

Knutson pointed out that large farms can adopt new technologies more readily and are better able to manage risk by knowing futures and options markets and understanding arrangements such as

delayed pricing and crop contracts. Put simply, he says, "Large farms pay more attention to outlook and management information."

Calling the state of agriculture a "very shocking situation," Knutson said that agriculture is in danger of becoming a welfare state. The average payment from the government to the farmer is now \$62,000 per year. He noted, "The government is now paying more of farm product cost than consumers." He said for years the government has been spending between \$5 to 7 billion, and in 1986 is spending over \$30 billion on farm programs.

One of the most important forces affecting agriculture is the world food supply and demand balance. Knutson said, "There is a long term trend to declining real farm prices and declining real importance of agriculture to the total economy." He added that all studies suggest that the higher prices of the 70s were an aberration, and that the situation so far in the 80s is more typical of the future trend.

A major force affecting agriculture is that of changing demand, both foreign and domestic. Knutson said, "Lights in, cookings out." With more working wives and single parent families, food consumption away from home is going to increase dramatically. He said, "It is not unrealistic to think that in the year 2000 more than 50 percent of the meals will be eaten away from home."

The aging population affects what is being eaten, and the

concern for diet and health has increased the production of poultry and decreased that of red meat.

There is now stiffer competition in the world marketplace. He said with the United States holding 50 percent of all the stocks in the world, prices are being set by stocks held, not by production. The United States is at a disadvantage because of the number of countries that have prices set by national boards.

Knutson pointed out that there will need to be a realignment of agribusiness to serve the new agriculture. They will need to locate to serve farms that produce the majority of production. He added that a changing rural community structure will also be a strong force in the changing agriculture.

Because certain cities may develop into major rural agribusiness centers, there may be a gradual deterioration in smaller rural communities.

Knutson called on the cooperatives to stop competing against one another. He said, "You have to get ride of an awful lot of local and regional co-ops." He added that in his opinion centralized co-ops are the only ones that will survive in the long run.

In another statement which generated comments in a reaction panel, Knutson said, "Survival is more critical than principles." In addition to having them think about the one man/one vote principle, he said there may be other longstanding principles which may have to be gotten rid of, and which will require changes in the law in the process.

Knutson commented, "More than anything cooperatives are about ownership proportional to use and service at cost." He noted that cooperatives will have to show more commitment than in the past.

"Investment in public policy issues becomes an important role," he said.

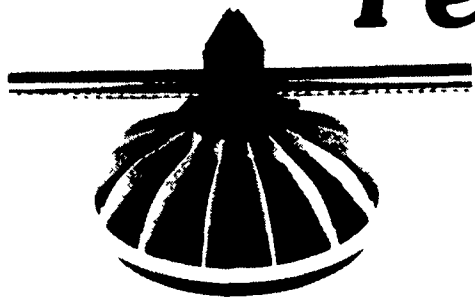
Dairying will be one of the hardest hit segments of the economy, and Knutson said dairy cooperatives should give serious thought to the marketing of bovine growth hormones, and how they will advise members on using that technology.

He urged cooperatives to develop national cooperative research agencies and to develop exclusive distributorships for the new technologies. He suggested that co-ops can work with drug companies to become distributors of their products. This would require additional training of staff. Knutson said, "It would go beyond the traditional function of co-op field men."

He said dairy co-ops of the future will be full line co-ops, not just milk marketing, but also processing and providing inputs which are unique to the dairy industry. He said that land-grant institutions will not be able to deliver the necessary information in the future, and cooperatives will have to.

Knutson reminded the co-op leaders that the keys to success in the future include adopting state-of-the-art technology and a "mean and lean investment strategy." Good management and conservative financial management will also help assure success in a future which is filled with uncertainties.

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