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ANNUAL MEETING, CENTRAL CAROLINA FARMERS
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FARM COOPERATIVES IN THE
U. S. ECONOMY

It is a special privilege for me to be with you
here today for the 50th anniversary of your cooperative,
Central Carolina Farmers.

It is a privilege for me to be here because I
am a farmer and a co-op member; also, it is a privilege
because this meeting coincides with an important
milestone in CCF's history, the reaching of \$100 million

in annual sales. That is an achievement you all should take great pride in accomplishing.

Not only have you reached an important landmark in terms of sheer volume of dollars, but in quality. I note that your country-cured hams were recently rated the nation's best, which is what a North Carolina product should be.

None of this has come easily. All of your accomplishments have taken work and dedicated leadership. Central Carolina has been blessed with an able Board of Directors. Most importantly, your co-op has thrived

under the guiding hands of men of foresight like C.W. Tilson and your current General Manager, Brantley DeLoatche.

You all are familiar with the principles and functions of farmer cooperatives in our state and nation. Rural citizens in general and farmers specifically know what cooperatives mean to our way of life. Unfortunately, not everyone shares the knowledge of and respect for cooperatives that you and I share. As a consequence, we have a communications problem that threatens the very existence of cooperatives.

Since I arrived in Washington in early 1975, I have witnessed firsthand the ignorance that many people have about farming and farmers cooperatives.

CHALLENGE TO CO-OPS

This lack of knowledge troubles me because we have a political system that tends to respond to perceptions of facts rather than facts. Given this reality, it becomes important that both sides try to present their point of view. Too often, though, I am afraid that truth is the loser. We certainly want to do our utmost to assure that this is not the fate of

cooperatives or agriculture.

My time can best be spent here today by discussing what I see as the role of farmer cooperatives in the U.S. economy. I think that this would be a useful exercise because of the political challenges that cooperatives face and the need to place these challenges in a proper perspective.

Before I begin, I would like to note that I have spent considerable time on cooperative issues since I came to the Senate. I have introduced a resolution that encourages the Secretary of Agriculture to

establish an Office of Farmer Cooperatives. I have sponsored legislation to amend the Farm Credit Act in a manner to give cooperatives an opportunity to compete in international markets. Finally, I have served as a member of the National Commission for the Review of Antitrust Laws and Procedures, a body that reviewed the enforcement of certain bodies of law including the Capper-Volstead Act.

My experience on this Commission was most interesting and revealing. My service demonstrated to me the hostility that many organizations and individuals

have toward cooperatives. Frankly, I think that much of this hostility is misinformed and out of perspective.

Some people, including, I am afraid, members of the U.S. government, have painted a picture of cooperatives as anti-competitive institutions that have outlived their usefulness.

ECONOMIC POWER

Many critics talk about the economic power of co-ops in a manner that suggests monopoly and other economic evils. A superficial review of the facts might

tend to support such an assertion. In 1977, the five largest agricultural co-ops have combined sales of \$6.5 billion, an amount that seems staggering.

How much is \$6.5 billion in perspective? That amount is somewhat less than the one-third of the \$22.7 billion sales during the same year by the five largest food companies. Put another way, it is about one-tenth of one percent of our nation's gross national product or about one-fifth of the federal government's deficit for the current fiscal year.

The most revealing comparison is the one that

involves the food companies. Frankly, it is becoming very difficult to determine who the food companies are these days. This is true because they are merging with other conglomerates. For example, RCA now produces turkeys, Southern Pacific Railroad grapes, and Boeing Aircraft tomatoes. No one in the federal government has questioned these mergers and acquisitions, yet the Federal Trade Commission has moved against one 6,800-member California agricultural marketing cooperative on the grounds that it threatens market domination of six other farmer cooperatives. This misguided sense of priority causes me great concern.

During my service on the Antitrust Commission, we heard a lot of discussion about the concept of monopoly power. Let us examine for a moment what economists say about this concept, because it provides a useful perspective for evaluating the role of farmer cooperatives.

Today, just two-tenths of one percent of all industrial corporations--just 440 in number--control 73 percent of all manufacturing assets. This number is up a startling 49 percent since 1950. The costs to the public and private sectors of this economic power are enormous. In fact, the most widely accepted estimate

of the cost of this monopoly power in the economy is nine percent of our GNP or about \$180 billion annually.

MARKET POWER

Market power in food manufacturing and processing, where concentration and entrenchment of leading corporations has reached an all-time high, imposes huge costs to consumers and you, the raw material suppliers for such corporations. Using a number of separate analytical procedures to assure maximum reliability, Dr. John Connor of the U.S. Department of Agriculture estimates that the monopoly loss in food

manufacturing industries to be about \$12 billion a year, an amount that is equal to about seven percent of sales and about 20 percent of value added in these industries.

Recently, we have seen the impact of this monopoly power in the most startling way. In the past six months, food at the farm gate showed price stability. Yet, the price of food to consumers continued to rise at a rate of ten percent. Economists at the Council of Wage and Price Stability conducted various studies to determine if such increases were economically justifiable. The conclusion was that the price increases were greater

than the increases in the component costs of food at the retail level. That is precisely the reason why President Carter called the food chains to the White House, not the farmers or their cooperatives.

I find it useful to compare this \$12 billion loss figure with the Justice Department staff's estimate of the monopoly costs of dairy cooperatives. The Justice Department estimate of losses amounts to about \$200 million a year or about two percent of farm sales--and many people question the accuracy of these figures.

Now you might be curious as to why I have made

this comparison. I have made it for the simple reason of demonstrating that the monopoly power of co-ops is trivial when compared to the cost of the market power of the rest of the economy.

Given the degree of market power in the real world, steps that would weaken the market position of cooperatives while doing nothing about market power elsewhere in the economy inevitably place farmers at a serious competitive disadvantage.

Please do not misunderstand my comments. When I was Attorney General of North Carolina, I established

the first state-level antitrust division ever created in the U.S. I am against monopoly power wherever it exists. However, I believe that we must have a proper sense of priority, in order to avoid undermining the confidence of all Americans.

CAPPER-VOLSTEAD

Critics of cooperatives often do not understand the underlying rationale for the establishment of agricultural cooperatives. First, I think it is important to point out that cooperatives were in existence before the passage of the Capper-Volstead Act in 1922, an act

which gave farmer cooperatives limited exemption from antitrust statutes. This bit of history is important because critics believe that cooperatives were created as a result of Capper-Volstead, which is simply not the case.

The rationale for the support of cooperatives can be found in the unique structure of agriculture. Farmers are the only real-world example of the economic theory of perfect competition. While farms have changed in the past 50 years, the fundamental structural characteristics remain largely the same. As a result of this structuring, the Congress saw fit to give farmers, through cooperatives,

some market power in an imperfect market.

When Capper-Volstead was passed, Congress did not assume that cooperatives would ever gain economic or market power. Just the opposite was true: Congress fully expected that cooperatives would give farmers real economic power so that income could be enhanced without destructive competition. Congress did, though, expect that cooperatives would not achieve monopoly power. If cooperatives were to threaten dominance of a market, then certain antitrust provisions of law would and should apply.

Now, we know the elementary economic concept that some growth has to occur in a firm or cooperative or else it will become stagnant. We should expect cooperatives to grow, just like other businesses. If your cooperative avoided growth, then it would not be serving you. What we have to protect against is market dominance, economic behavior that is truly abusive, and we have to preserve the right of co-op members to leave their organizations.

At this point, I think that it is important to point out that a very important difference exists between cooperatives and corporations--a difference that Congress

has often noted. The difference concerns the fact that farmers are directly involved in their cooperative, whereas stockholders generally lack such a direct form of participation in the corporation. Thus, the success of the cooperative is related to the efforts and involvement of its farmer membership, which is simply not the case with corporations.

PRICE ENHANCEMENT

Another area that the Commission examined with regard to co-ops was the so-called "undue price enhancement" provision and the enforcement of such a

provision.

As you may know, the U.S. Department of Agriculture is responsible for enforcing the undue price enhancement provision. If a cooperative acts in a noneconomic manner to enhance its prices, then the USDA is obligated to stop such acts.

Critics would like to see enforcement of this provision separated from the Department and turned over to the FTC or the Department of Justice. They argue that the Department has been lax to enforce this provision.

Secretary of Agriculture Bob Bergland provided a reasonable explanation why there had been so little action in recent years. He reported that for most periods since 1922 farm prices and incomes have been seriously depressed compared to the rest of the economy. Also, he explained that, until recently, relatively few cooperatives were powerful enough to influence markets.

Frankly, I believe that it would be premature to move enforcement of Capper-Volstead from the USDA to another agency. However, I do believe that enforcement of such a provision should be kept separate from the

parts of the USDA that are responsible for promoting farmer cooperatives.

At this point, it is too early to tell if Congress will follow up on any of these recommendations. Rumblings can be heard on occasion, but I believe that most members of the House and Senate believe that a proper sense of priority should be established before action is taken against co-ops.

CO-OP RESOLUTION

I believe that there remains considerable

anti-co-op sentiment around Washington. This may have been part of the motivation for the merging of the Farmer Cooperative Service with three other agencies into an Economics, Statistics and Cooperative Service. Whatever the motivation, the result was the same in that the importance of cooperatives has been down-graded within the U.S. government.

As a consequence, on last April 9, I offered a resolution in the Senate which would encourage the Secretary of Agriculture to establish an Office of Farmer Cooperatives. I offered this resolution, with the support

of 27 senators, because I believe cooperatives should have visibility within the USDA. I am hopeful that this resolution will be passed by the Congress next year.

Also, I am sponsoring legislation, S. 1465, a bill which will amend the Farm Credit Act of 1971. One of the provisions of this legislation will permit financing by the Bank of Cooperatives for cooperatives that want to compete in the international marketplace. The big grain companies will probably oppose this provision, fearing the competition that will result. I intend to see that this provision is made law, because I believe cooperatives

should have this type of opportunity.

In closing, I would like to share some thoughts on why I am here with you today. I am here, because as a farmer and co-op member, I share many of your values. To me, our agricultural productivity and family-farm structure are among the greatest accomplishments of western civilization. I share your high regard for independence--the person most competent to make a farmer's decision is not a bureaucrat in Washington or anywhere else but that man or woman out on the farm or ranch.

I also share your desire and need to freely associate with other farmers, to build the kind of organization necessary to compete fairly in the market place. To me, this is the spirit that makes our agriculture work. And to make it work, we need cooperatives like Central Carolina Farmers.

Congratulations on your 50th anniversary. I wish you many prosperous years ahead.

Thanks very much.