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## Corruption and Cooperative Organizations

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# Cornhusker Economics

## Corruption and Cooperative Organizations

Market Report	Year Ago	4 Wks Ago	10-9-20
<b>Livestock and Products,</b>			
<b>Weekly Average</b>			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight. . . . .	110.00	*	*
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb. . . . .	159.39	162.21	161.11
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb. . . . .	152.82	150.60	149.66
Choice Boxed Beef, 600-750 lb. Carcass. . . . .	214.12	222.12	216.04
Western Corn Belt Base Hog Price Carcass, Negotiated . . . . .	*	*	*
Pork Carcass Cutout, 185 lb. Carcass 51-52% Lean. . . . .	76.74	79.83	93.27
Slaughter Lambs, woolled and shorn, 135-165 lb. National. . . . .	141.10	136.31	162.88
National Carcass Lamb Cutout FOB. . . . .	396.39	424.93	437.30
<b>Crops,</b>			
<b>Daily Spot Prices</b>			
Wheat, No. 1, H.W.			
<b>Southwest NE</b> , bu. . . . .	3.68	NA	4.84
Corn, No. 2, Yellow <b>Central NE</b> , bu. . . . .	3.83	NA	3.67
Soybeans, No. 1, Yellow <b>Central NE</b> , bu. . . . .	8.41	NA	10.00
Grain Sorghum, No.2, Yellow <b>Southeast NE</b> , cwt. . . . .	6.13	NA	4.55
Oats, No. 2, Heavy <b>Minneapolis, Mn</b> , bu. . . . .	3.21	NA	2.96
<b>Feed</b>			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton. . . . .	*	155.00	155.00
Alfalfa, Large Rounds, Good Platte Valley, ton. . . . .	107.50	*	*
Grass Hay, Large Rounds, Good Nebraska, ton. . . . .	100.00	100.00	100.00
Dried Distillers Grains, 10% Moisture Nebraska Average. . . . .	147.00	151.00	165.00
Wet Distillers Grains, 65-70% Moisture Nebraska Average. . . . .	50.00	44.08	49.58
* No Market			

Cooperatives, like other forms of business firms, operate within the prevailing economic environment. Corruption — which involves “... some aspect of transaction for personal gain, ignoring of community trust, misuse of authority and responsibility to the social system, and/or sacrifice of group for private gain” (Hamer, 1981, p. 202) — is an important part of this environment.

Although the literature is limited, there is evidence that corruption in cooperatives and investor-owned firms (IOF) is widespread in developing and transition economies where corruption generally is common. Cooperative corruption is also found closer to home. Two recent examples from the United States include the Ashby Farmers’ Cooperative Elevator in Minnesota where the general manager stole from the cooperative and the Tri-County Electric Cooperative in South Carolina where board members enriched themselves with perks and benefits. In Canada, the PACE Credit Union was placed under the regulator’s control in 2018 after two senior executives were discovered to have received secret loans and payments from the credit union.

Despite its prevalence, corruption has been largely ignored in the economic literature. The result is that little is known about its impact on the output and prices generated by firms and the benefits that firms create for society. Since a common *raison d’être* for cooperatives is their ability to provide better returns for their members, corrupt behavior in these organizations could jeopardize

the achievement of this objective. In particular, one of the recurring themes in the economic literature on agricultural cooperatives is that they are pro-competitive — i.e., because of their ownership structure, they are assumed to operate at cost, thus forcing monopsonistic or oligopsonistic processing firms to increase prices and, at least partially, offset the market power these firms exert.

This result, however, typically rests on the assumption that cooperatives and IOFs share a common cost and revenue structure. If cooperatives face higher costs or lower revenues than IOFs because of greater managerial corruption, the pro-competitive effect could be jeopardized. It is expected that cooperative managers might engage in more corruption because it is believed that managerial corruption is positively linked to economic activity; the intuition is that greater activity offers more incentive for corrupt activities such as bribes. Since cooperatives are generally expected to produce more output than their investor-owned counterparts, the question that arises is whether the competition effect could be offset by the corruption effect.

A key objective of a research paper we published in the latest issue of the *Canadian Journal of Agricultural Economics* was to determine if the presence of corruption in cooperative organizations can jeopardize their pro-competitive impact.

Our results reveal that, although it is welfare reducing, corruption does not reverse/outweigh the competitive effect of cooperatives. Importantly, this result holds regardless of the functional form of the production function or of the farm input supply curve, and regardless of whether the organization (cooperative or IOF) is a price taker or has market power in the downstream market for the product. In short, the pro-competitive effect dominates under almost all market conditions.

While the results presented in this paper provide support for the pro-competitive effect of cooperatives, they also suggest that this effect can be expected to be greater when it is costly to engage in corruption. However, when the cost of corruption is low, the likelihood is greater of a convergence in the corruption level chosen by cooperatives and IOFs, and in a convergence of their performance (prices paid, benefits created). In such situations, it is expected that cooperatives are less able to provide a competitive benefit

and would be more difficult to introduce and/or maintain.

One of the key factors determining corruption costs is the economic environment in which firms operate. Although cooperatives are found in countries with widely different corruption levels, the vast majority of the 300 largest cooperatives in the world are found in Organisation for Economic Co-operation and Development (OECD) countries where corruption is relatively low. This concentration is consistent with our finding that cooperatives enjoy an advantage in environments where corruption is costly. However, other factors, some of them firm-specific — such as the nature of the governance structure — can also be at work. Indeed, further research is required to understand the reasons for the corruption found in U.S. and Canadian cooperatives which, while low, is nevertheless of concern.

Cited study:

Hamer J.H. “Self-Interest and Corruption in Bukusu Cooperatives.” *Human Organization* 40, 3(1981): 202-210.

This article is based on:

Fulton M., K. Giannakas. “Corruption in Agricultural Processing Firms: A Comparison of Cooperatives and Investor-Owned Firms.” *Canadian Journal of Agricultural Economics* (2020), <https://doi.org/10.1111/cjag.12254>.

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