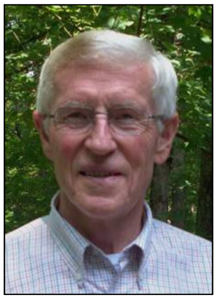
Journal of Agriculture, Food Systems, and Community Development
ISSN: 2152-0801 online
www.AgDevJournal.com



THE ECONOMIC PAMPHLETEER
JOHN IKERD

Cooperation: The key to sustainable livelihoods in food systems

Published online 18 October 2012

Citation: Ikerd, J. (2012). Cooperation: The key to sustainable livelihoods in food systems. *Journal of Agriculture, Food Systems, and Community Development, 3*(1), 9–11. http://dx.doi.org/10.5304/jafscd.2012.031.005

Profits are not sustainable in today's food systems, and most certainly not for farmers. The more efficient producers may be able to survive financially, but their potential to do more beyond survival is inherently limited. The economic livelihoods necessary to incentivize the needed transition to a sustainable food system will require fundamental change in today's food economy.

Historically, market economies have been characterized by competition. We typically think of horizontal competition within food retailing, processing, and farming sectors, but competition also occurs vertically throughout the different sectors of the food economy. Such markets are coordinated vertically, from consumers down to farmers, through vertical competition. For example, when consumers demand more of

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Why did I name my column "__The Economic Pamphleteer__"? Pamphlets historically were short, thoughtfully written opinion pieces and were at the center of every revolution in western history. Current ways of economic thinking aren't working and aren't going to work in the future. Nowhere are the negative consequences more apparent than in foods, farms, and communities. I know where today's economists are coming from; I have been there. I spent the first half of my 30-year academic career as a very conventional free-market, bottom-line agricultural economist. I eventually became convinced that the economics I had been taught and was teaching wasn't good for farmers, wasn't good for rural communities, and didn't even produce food that was good for people. I have spent the 25 years since learning and teaching the principles of a new economics of sustainability. Hopefully my "pamphlets" will help spark a revolution in economic thinking.

something, prices are raised by retailers to ration the available supplies. Higher retail prices provide profit incentives for retailers to offer higher prices to processors, who then offer higher prices to producers, providing incentives to produce more of the higher-priced products. This process is reversed by weaker consumer demand. Vertical competition reallocates productive resources to accommodate changing consumer demand.

These are basically the conditions under which markets for organic, local, and other sustainably produced foods have grown over the past few decades. For example, as consumers' preferences shifted away from industrially produced foods and toward organic foods, price premiums for organic foods provided both the economic incentives and financial means for organic farmers to expand production. However, market growth does not ensure profitability in market economies, as many organic farmers have discovered.

Competition among enterprises within and among the various sectors of the food system has limited the potential for profits from sales of organic foods. If such markets had been "purely competitive," any excess profits would have been passed on to consumers in the form of larger quantities, lower prices, or higher qualities of organic foods. As long as organic markets grow, profits would be possible for at least some participants. Once organic markets stabilize, any further potential for "excess profits" would be gone. The remaining "normal profits" would be just enough to keep enough organic farmers and others in business and keep producing, processing, and distributing a stable supply of organic foods. The economic benefits under pure competition accrue to people as consumers, not as retailers, processors, or producers.

That said, the reality of today's American food system is very different from the purely competitive model of free-market economies. Today, large-scale corporate food processors, distributors, and retailers dominate their respective sectors of the food marketing system. Only the farming sector retains any element of true economic competition. Today, a few large corporate processors and retailers dominate their particular sector of the food market, and in many cases, dominate their entire vertical food supply chains, from retailing to agricultural production. These dominant corporations are in a position to retain all excess profits for their stockholders. Consumers' food choices are limited to those products the corporations find most profitable, and farmers are left with even less profit than they would have had under pure competition. The economic power has shifted from consumers to corporate stockholders.

The last vestiges of vertical competition are rapidly giving way to vertical integration. Under vertical integration, large corporate food retailers essentially control the other levels in the vertical food supply chain, through outright ownership, formal contractual arrangements, strategic alliances, or through sheer market power, as in the case of Walmart. Whole Foods is gaining a similar position in the organic food system. In such cases, the dominant corporations decide what is to be produced, when it is to be produced, how it will be produced, and who will produce it. Vertical integration is a corporate version of "central planning." Lack of economic power forces farmers to accept corporate business strategies that deplete the productivity of their soil, pollute the air and water, exploit their workers, and force their neighbors out of farming — just to survive economically. Such systems simply are not sustainable — ecologically, socially, or economically.

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All economic value is derived from nature and society. These are the only possible sources of anything of use to people. However, there are no economic incentives to invest in maintaining the

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fertility of the land or the productivity of people, unless something of greater economic value is expected in return. Thus, there are no economic incentives to invest in anything for the sole benefit of a community, society, or the future of humanity. Most humans don't make purely economic decisions; they respond to non-economic social pressures and ethical values. However, the large publicly owned, for-profit corporations are not humans. They have no human capacity for social or ethical responsibility. As a result, such corporations feel no guilt or regret when farmers are put under relentless economic pressures to exploit their land, their workers, and their neighbors. This is the natural consequence of corporate vertical integration.

The only sustainable alternative to vertical integration and vertical competition is vertical cooperation.

The only sustainable alternative to vertical integration and vertical competition is vertical cooperation. Cooperative relationships are neither competitive nor exploitative; instead, they are mutually beneficial. Within a vertically cooperative food chain, economic benefits would be shared fairly and equitably among consumers, retailers, processors, and farmers. The vertical system would be coordinated through cooperation rather than competition or integration. The participants together would decide what to produce, where and when it would be available, how it would be produced and processed, and who would produce and process it. They also would agree on pricing arrangements to ensure that consumers get the products they need and want at prices they are willing and able to pay.

Everyone in a sustainable vertical cooperative would receive an economic return adequate for a sustainable livelihood, without exploiting the natural and human resources that must sustain the economic viability of the system over the long run. Fair and equitable economic returns would be sustainable for all participants. The legal organizational structure for vertical cooperation can be a cooperative, a collaborative, or an informal alliance. Members of such organizations will always have economic incentives to pursue their individual self-interests rather than to cooperate for economic sustainability. Thus, sustainable profits will depend on cooperative members consistently expressing their shared social and ethical commitments to the long-term sustainability of their common venture. The key to sustainable livelihoods in food systems is for farmers, processors, retailers, and consumers to form vertical cooperatives with like-minded friends or make friends of like-minded people with whom they choose to cooperate.