

PROCESS INNOVATION ACTIVITY IN A MIXED OLIGOPSONY: THE ROLE OF MARKETING COOPERATIVES

by

Kyriakos Drivas
University of California, Berkeley, U.S.A.

and

Konstantinos Giannakas
University of Nebraska-Lincoln, U.S.A.

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Abstract

This paper examines the market and welfare effects of cooperative involvement in cost-reducing process innovation activity in the context of a mixed oligopsony where an open-membership marketing co-op competes with an investor-owned firm. The presence of the marketing co-op is shown to result in increased producer prices and welfare gains for all farmers, members and non-members of the co-op. The effect of the marketing co-op on process innovation activity depends on the relative quality of its final products, the degree of producer heterogeneity, and the size of innovation costs. A comparison of our findings with those of Giannakas and Fulton (2005) on the impacts of input-supplying co-ops, reveals that, regardless of whether they are a backward or a forward integration of their members, parts of an oligopolistic or an oligopsonistic market structure, the involvement of cooperatives in process innovation *can* increase the innovation activity in the market, is welfare enhancing and, thus, socially desirable.

Key words: marketing cooperatives, process innovation, mixed oligopsony, retained earnings.