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Cooperation

*principles
and
practices*

The Application of Cooperation to the Assembling, Processing, and Marketing of Farm Products, to the Purchase of Farm Supplies and Consumers' Goods and to Credit and Insurance.

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... the ... movement.

JOHN CALLAHAN

State Superintendent of Public Instruction

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WISCONSIN farmers have been practicing cooperation for more than a half century. Many groups have developed cooperative associations which have been successful in assembling, grading, processing, manufacturing, and marketing farm products. They have also applied extensively the principles and practices of cooperation to other activities such as the cooperative purchasing and handling of supplies, mutual insurance, and the cooperative furnishing of credit.

Cooperative success demands that the associations follow sound business practices and policies in which members, directors, and manager unite in playing their full part.

—*Chris L. Christensen*

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Cooperation

principles and practices *

I. COOPERATION DEFINED

COOPERATION came into being and has grown and developed because other recognized forms of business did not meet the needs of groups interested primarily in savings. While the Rochdale principles of 1844 have been extended and modified, the concept remains essentially as formulated at that time. The foundation is open membership, equal voting power, limited returns on capital, and the distribution of the earnings on a patronage basis. Both state and federal legislation legalizes cooperative buying and marketing.

COOPERATION is an elusive term. It has a wide variety of meanings. Broadly speaking, it signifies a working together toward a common end. But people work together toward a common end in so many different ways. In the country, neighbors cooperate by helping each other during the harvest season. Individuals cooperate by joining groups in order to maintain churches and employ ministers. Laborers, as a class, cooperate through unions to protect their interests. Our city, county, state, and national governments are huge cooperative undertakings within the general meaning of the term. In democratic governments, the people collectively work together for such purposes as maintaining schools and roads, furnishing protection to life and property, and for administering justice. In fact, the advancement of civilization has been pretty much a cooperative undertaking.

Rochdale Principles—This discussion is concerned with a specialized type of cooperation; one that differentiates it from the general field. It deals with the working together in an organized way for the transaction of business in accordance with well defined principles. These principles were first put into practice in a systematic fashion in 1844 by 28 flannel weavers of Rochdale,

* This publication has been prepared by the following members of the staff of the Department of Agricultural Economics: Chris L. Christensen, Asher Hobson, Henry H. Bakken, R. K. Froker and Marvin A. Schaars.

England. Although the cooperative movement has undergone marked developments since that time, its ten commandments are still the six fundamental rules adopted by the Rochdale pioneers. These are:

1. Membership fee, or value of stock, low in price, and within the reach of all. No prospective member is debarred from participation because of his financial status.
2. Limitation of the number of shares of capital held by any one member. Capital shall be widely distributed among the members and not concentrated in the hands of a few.
3. One-man—one-vote regardless of the number of shares owned. This provision insures the equal rights and voting powers of members.
4. Sales at regular prices rather than at reduced rates. This practice does not invite ruinous price cutting wars with competitors.
5. Sales for cash, thus eliminating inevitable losses connected with the granting of credit.
6. Payment of a low rate of dividend on capital stock and the distribution of savings on the basis of the volume of patronage contributed by each member. Capital is hired. Patronage is rewarded.

It is evident that these principles were intended to apply to consumers in the operation of a cooperative store. Not all of them apply with equal force to farmers' cooperative marketing associations which operate so extensively in the United States. The late Sir Horace Plunkett, a great Irish cooperative leader, once complained that in England farmers knew little about cooperation, and that cooperators knew little about farming. Because of this situation, he expressed the wish that the Rochdale weavers had begun by cutting up a pig instead of dividing a case of tea.

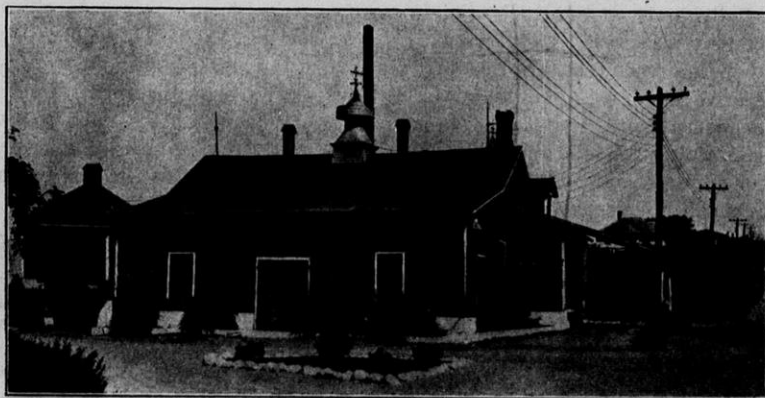


FIG. 1.—TYPICAL CHEESE FACTORY IN WISCONSIN

Forty per cent of all cheese factories in Wisconsin are owned cooperatively. Cooperation in the manufacture of cheese began as early as 1841.

Heather G. Did This

Even though the Rochdale principles were designated for the distribution of merchandise and services to the ultimate consumer, they have been widely adopted by producers as well as consumers. In fact, most of the state legislation in this country defining the legal status of cooperative associations has embodied in law a number of the principles adopted by the little group in 1844. The Wisconsin law governing the organization of cooperative associations provides, among other things, that each member shall have one, and only one vote; that the rate of dividend upon stock shall be limited to eight per cent; and that the net proceeds shall be distributed on the basis of patronage.

Outstanding Forms of Business Organizations—A knowledge of the evolution of the legal status of cooperatives in the United States conveys an accurate idea of their outstanding characteristics which differentiate them from the usual types of business enterprises. In general there are three distinct forms of business adapted to group undertakings:

1. **Partnership**—Two or more persons may join in the operation of a commercial enterprise. Their contributions of capital and services, the allocation of control, and their division of profits are matters of agreement. But under the law, except in the case of limited partnerships formed as prescribed by law, each partner is liable for all the obligations of the firm. Unlimited liability is the outstanding characteristic of a partnership, other than a limited partnership.
2. **Corporation**—There are many types of corporations. The distinguishing characteristic of most corporations is that, the liability of each stockholder for the obligations of the corporation is limited to the amount of his subscription to or for capital stock, and when this is fully paid to the corporation he is under no liability to the creditors of the corporation. The number of votes and hence the amount of control exercised is governed by the number of shares of stock owned. Profits are distributed on the basis of shares of capital stock or capital contributed to the enterprise.
3. **Cooperative**¹—The cooperative corporation differs from the usual corporation in that each member or stockholder has one vote regardless of the number of shares of stock he may hold, and earnings are distributed not on the basis of stock owned, but on the basis of patronage transactions conducted with the organization. The rate of dividend on share capital is generally limited by law.

Why is it that consumers and producers have in many cases chosen to group themselves into cooperatives rather than utilizing one of the other types of business organizations? Obviously, a general partnership with its unlimited liability feature does not meet the needs of large groups for most business purposes. Many cooperatives did operate as corporations of the usual type before the state and federal governments enacted legislation suited to the needs of cooperative business undertakings. It requires no lengthy explanation

¹ The cooperative is one form of corporation. But in this discussion the term corporation is used to indicate the usual concept, and the term cooperative refers to those corporations designated as cooperatives under law.

to point out that the usual form of corporation does not fill the needs of producers or consumers who are banded together for the purpose of conducting a business, the success of which is dependent largely upon their own patronage. An example will suffice. Two farmers belong to an organization which converts butterfat into butter. One farmer has 100 shares of stock in the organization, and one cow; the other has one share of stock and 100 cows. If this organization be a corporation of the usual type the first farmer has 100 times as much control and will secure 100 times as many returns in the form of profits as will the second farmer. But if the organization be a cooperative, both farmers will have the same number of votes, but the second will receive around 100 times as many benefits as will the first.

This illustration emphasizes the essential difference between the two forms of organization. In the corporation, capital is the all essential; control and benefits are dependent upon its ownership. In the cooperative, patronage is the important consideration; control is equal, but benefits are upon a patronage basis. Which is the more important to the success of the undertaking, capital or patronage? If patronage is assured, the capital can be secured. If patronage is lacking, no amount of capital can make the business a success. While capital is required in practically all forms of business undertakings, cooperation emphasizes the necessity of patronage because it has been found by experience that capital can be secured on the basis of assured patronage. In fact, many cooperatives doing a large volume of business annually are organized without capital stock. The financing of cooperatives is discussed on pages 75 to 86.

The business undertakings of a cooperative are designed first of all to serve its member-patrons. Hence, it is logical that benefits should be distributed in accordance with the use made of the organization. Patronage is the index to this use.

It is clear that one of the main reasons why cooperative business undertakings have continued to develop and expand is because the other forms governing the conduct of business did not meet the needs of those wishing to serve themselves. They had patronage to contribute to the undertaking, and desired to be rewarded on the basis of that contribution. The usual legal business structures did not provide for distribution of benefits in this fashion. Hence, a new form has been created during the past 100 years. It has only been during the past 25 years that this new creation—the cooperative—has been recognized legally in anything approaching an adequate manner.

Legislation—The development of legislation permitting and facilitating the operation of cooperatives according to accepted standards of membership, has been a slow and painful process in the United States. The Wisconsin Cooperative Law of 1911 was widely copied by other states as a model.² Although it has been amended on a number of occasions since its first enactment, it marks the first substantial legislative development in the promotion of cooperation in this state. Many states, however, were ahead of the federal government in recognizing the need for legislation differentiating cooperatives from other forms of business organizations. All states but one now have laws

²This law has been amended many times. It was completely revised in 1921.

designed to facilitate and promote the formation of cooperative associations. Before 1922, one of the difficulties faced by cooperatives was the uncertainty of their activities with respect to provisions of the Sherman Anti-Trust Law of 1890. Competitors threatened to sue cooperators on the grounds that the mere act of combining to conduct business was in restraint of trade and illegal under the anti-trust laws. Congress, by the adoption in 1914 of Section 6 of the Clayton Amendment to the federal anti-trust laws, attempted to confer upon farmers' cooperatives a somewhat distinct position in their relation to the anti-trust laws. This amendment reads:

"That the labor of the human being is not a commodity or article of commerce. Nothing contained in the anti-trust laws shall be construed to forbid the existence and operation of labor, agricultural, or horticultural organizations, instituted for the purposes of mutual help, and not having capital stock or conducted for profit, or to forbid or restrain individual members of such organizations from lawfully carrying out the legitimate objects thereof; nor shall such organizations, or the members thereof, be held or construed to be illegal combinations or conspiracies in restraint of trade, under the anti-trust laws."

Congress undoubtedly intended by the above provisions to permit farmers' companies to operate without regard to federal legislation prohibiting "monopolies" and without regard to the committing of acts in "restraint of trade" providing such companies were (a) composed entirely of farmers, (b) organized without capital stock, and (c) operated for the mutual benefit of their members and not for profit.

Regardless of the intent there is grave question as to whether the amendment gives cooperative associations any considerable privileges not already enjoyed before its passage. It was held by competent legal authorities that under the amendment the mere act of organizing for purposes of collective bargaining shall not be construed to be in violation of the federal anti-trust laws; but should such an organization restrain trade through subsequent action, it is liable to prosecution under the provisions of the anti-trust laws. In accordance with this interpretation, the farmers are free to organize for collective bargaining. The mere act of organizing shall not be construed to be in restraint of trade. But the actions of such an organization are in no wise immune from the provisions of the anti-trust law. Furthermore, the amendment applied only to non-stock associations. There were few of these, and few states with legislation facilitating their organization. Hence, the application of the amendment was extremely limited as far as existing cooperatives were concerned.

This important question was not cleared up until the passage by Congress of the Capper-Volstead Act in 1922 which provides:

"That persons engaged in the production of agricultural products as farmers, planters, ranchmen, dairymen, nut or fruit growers may act together in associations, corporate or otherwise, with or without capital stock, in collectively processing, preparing for market, handling, and marketing in inter-state and foreign commerce, such products of persons so engaged. Such associations may have marketing agencies in common; and such associations and their members may make the necessary contracts and agreements to effect such purposes; **Provided, however,** That such associations are operated for the mutual benefit of the members thereof, as such producers, and conform to one or both of the following requirements:

"First. That no member of the association is allowed more than one vote because of the amount of stock or membership capital he may own therein, or,

"Second. That the association does not pay dividends on stock or membership capital in excess of 8 per centum per annum.

"And in any case to the following:

"Third. That the association shall not deal in the products of non-members to an amount greater in value than such as are handled by it for members."

By this act, the federal government made a marked advance in defining the legal position of farmers' cooperative business enterprises. To be considered cooperative, under this law, associations must be operated for the mutual benefit of their members. They must be owned and controlled by farmers. No members shall be allowed more than one vote because of the amount of stock or membership capital owned, or if voting is on the basis of stock or membership capital owned, the rate of dividend shall not be in excess of eight per cent per year on such capital. In either case, the value of the products handled for members by the association must be equal to, or greater than, that handled for non-members.

Producers of agricultural products "may act together in associations" providing they comply with the above provisions of the Capper-Volstead Act. This act removed the restraint of trade threat that hung over cooperatives from 1890 to 1922. The act, in addition, set up standards by which cooperatives could be tested by governmental agencies in their dealings with them. The Farm Credit Administration, for instance, uses the Capper-Volstead provisions as a guide in determining whether associations are entitled to consideration for a federal loan by the Bank for Cooperatives.

Cooperation Further Defined—An executive order of the Secretary of the United States Department of Agriculture, dated December 31, 1934 elaborates further upon the principles which must be followed by farmers' and consumers' cooperatives in the conduct of their activities. This order was issued with a view to clarifying the status of cooperative associations with respect to the Codes of Fair Competition set up under the National Industrial Recovery Act. According to the Secretary;

" . . . a bona fide and legitimate cooperative organization, must comply with the following conditions, limitations and restrictions:

1. Be duly organized under the laws of any state, territory or the District of Columbia.

2. Allow to each member owning one fully paid share or membership one vote and only one in the determination of matters affecting the management of the organization, except as otherwise provided by the law under which such organization is incorporated; provided that a central or regional cooperative association, the membership of which is composed of cooperative associations, may provide in its by-laws for voting based upon the volume of business done by the members with the central or regional cooperative, or on the number of members in the member association.

3. Operate on a cooperative basis for the mutual benefit of its members, and all income, after providing for reasonable and adequate surplus and reserves, as determined by its Board of Directors, and payment of

dividends on stock or membership capital of not to exceed eight (8) per centum per annum, cumulative, shall be distributed to members or shareholders on the basis of patronage at stated periods but not more frequently than semi-annually.

4. Transact business with and for and on behalf of, non-members to an amount not greater in value, during any fiscal year, than the business transacted with and for and on behalf of, members during the same period.

5. Permit all members and stockholders to have access to the records for the purpose of determining the salary and compensation paid officers and employees, and that no salaries or commissions are paid except for services actually rendered.

6. Distribute patronage dividends equally to all members, and / or stockholders, who have complied with membership requirements, in proportion to their purchases, and / or sales; may permit accumulation of patronage dividends on non-member business until it equals the value of a share of stock when same shall be issued; does not distribute such dividend in the form of a refund at the time of purchase; and does not evidence any such dividends by any agreement or representation to distribute any definite or specified dividend.

7. Refuse to allow or permit any organizer or organizers to take more than 3 per cent of the capital raised as compensation for their organization services.

8. Conduct its affairs in the interests of the members, and no cooperative shall be controlled or managed by any non-cooperative organization or organizations, person or persons to whom any surplus savings or profits or any excessive or unreasonable compensation for services, are paid; and shall not by contracts, agreements, provisions or by-laws or articles of incorporation or otherwise be required to buy commodities from a specified non-cooperative concern."

✶ While the rules above were issued in connection with a law no longer on the statute books, it is quite likely that they will become permanently incorporated in the body of principles governing the conduct of cooperative associations in this country.

It is reasonable to assume that most state and federal cooperative laws are a sincere, if belated, attempt to make legal the policies, philosophies, and practices developed by cooperators. Hence, this brief survey of the evolution of the legal concepts as embodied in law contributes to an understanding of the economic and social philosophy upon which cooperation is based.

Supplementary Readings

The Cooperative Marketing of Agricultural Products. Bulletin No. 3. Cooperative Division, Farm Credit Administration, Washington, D. C.

Hulbert, L. S. Legal Phases of Cooperative Associations. Department Bulletin No. 1106. United States Department of Agriculture, Washington, D. C. Revised, 1929. Pages 78-92.

Warbasse, J. P. What is Consumers' Cooperation? The Cooperative League, 167 West 12th Street, New York City.

II. POSSIBILITIES AND LIMITATIONS

COOPERATIVE marketing associations have performed outstanding services. Some of their successful accomplishments are:

Making of adjustments in production, standardizing the quality, grade and pack of products, feeding the market in an orderly manner, extending the market, improving the farmers' bargaining power, assisting them in their financing problems, and acting as a spokesman for organized agriculture.

In many instances cooperative associations are expected to perform tasks which they are not fitted to undertake. They are not in a position to fix prices arbitrarily, obtain cost of production at all times, or eliminate the middleman's services.

Purchasing associations are often able to lower the cost of the service to their members, eliminate wastes of competition, and assure members of quality products.

Credit unions and mutual insurance companies also make material savings possible.

COOPERATION is continually struggling against handicaps created by the promised miracles of some of its enthusiastic supporters. The benefits advertised in the name of cooperation are without end. For example, many people interpreted the Agricultural Marketing Act of 1929, creating the Federal Farm Board, as a method of administering farm relief through cooperation. They advocated that cooperative organizations be used as shock troops against the agricultural depression. Cooperation can deal only with a few of the causes of the depression in agriculture. It does not offer a cure for all the ills of agriculture. To demand of it such performances is to doom it to failure. Cooperation has its limitations as well as its possibilities. There are certain things which a cooperative marketing organization, for instance, may be expected to do well, under good management. There are many tasks assigned to it, which it is not fitted to undertake. It is essential that the membership have a thorough understanding of the things the association can and cannot do.

Possibilities of Agricultural Marketing Associations

The most important services which cooperatives are best equipped to perform in the agricultural marketing field are:

Adjustments in Production—Production may be adjusted to market requirements from the standpoint of both (a) quantity of goods offered for sale, and (b) kinds, types, and quality of products placed on the market. The latter phase is dealt with under this heading. The adjusting of quantities offered for sale is discussed under the topic, "Feeding the Market," page 13.

Agricultural marketing begins when the farmer plans his sowing and breeding programs. His success in marketing depends in a large measure upon his ability to produce the kind of things consumers want. In order to do this best he must know the nature of those wants. As an individual his contact with the market is too limited to furnish a reliable guide for a production program. But as a member of a marketing association, he is in position to employ competent assistance to advise him.

For example, before the organization of cooperative apple shipping associations in the Pacific northwest, it was not unusual for a commercial producing district to grow more than 100 varieties of apples. But when the farmers came in touch with the market through their own shipping organizations they found that the market agencies preferred to handle only a few of the standard varieties and cared little about the others. If these others were to be sold they had to go at reduced prices or much energy and expense be given to making them favorably known. As a result, the associations limited their packs to a few well known market varieties, and the grower in turn limited his new plantings to those same varieties.

Another example is that of the members of some of the large Pacific coast egg producing associations who have standardized on one breed of poultry.

The outstanding example in history, perhaps, of farmers adjusting to market preferences is that of the Danes in importing English bred boars to cross with native sows in order to produce a type of bacon in favor on the English market. Cooperation helped to bring this about.

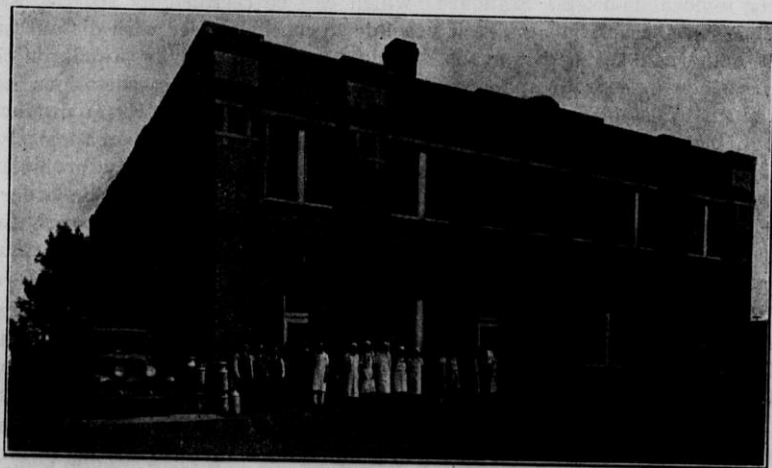


FIG. 2.—A MODERN COOPERATIVE CREAMERY

Approximately two-thirds of the creamery butter made in Wisconsin and 35% of the total in the United States is manufactured in cooperative plants. The first cooperative creamery in the United States was started in New York in 1851.

Before the advent of cooperative creameries, the Danish farmers observed that the large estate owners who kept enough cows to employ a buttermaker were able to sell their butter in England because of volume and uniformity. The individual farmer was unable to sell his home made product on that market. Hence, he joined with his neighbors in setting up cooperative creameries. This put him in position to employ a buttermaker. In this manner he was able to reach the English market by producing sizeable quantities of the kind of butter demanded.

Cooperative groups of creameries in Wisconsin and Minnesota employ field men to work with the member creameries and their farm patrons to assist them in producing a quality of cream that will make a uniformly high grade butter. This effort is directed toward greater marketing efficiency.

The increased returns through cooperation resulting from supplying consumers with the kinds and qualities they like best, are likely to be greater than the savings which the association can make in the reduction of marketing costs. Farmers learn what the market wants through their marketing organizations. This knowledge places the grower in position to adjust his production plans in the light of market needs.

Uniformity in Quality, Grade, and Pack—Standardization—The development and wide adoption of standards for farm products is the most important single step in the improvement of marketing methods in their application to agricultural commodities. Standardization has made it possible to place farm products upon a basis of sale by description rather than sale by inspection. The buyer insists upon seeing an ungraded and unstandardized product before purchase. Price is undetermined until quality is established. This means that the sale is not concluded until the buyer has determined for himself the quality of the product offered for sale. Under this system, farmers were limited largely to local markets. Standards which can be certified by federal, state or cooperative associations make it possible to conclude sales with distant buyers without their seeing the goods. Quality is represented by standards that are described in definite and accepted terms. Cooperative associations have done much to establish standards and to promote their use. Farm producers through their cooperatives have imposed rigid grading rules upon themselves. The apple growers of a western state secured the passage of a law prohibiting the transportation out of the state of wormy and defective apples in order to protect the state's reputation for quality apples. The growers through their selling organizations had learned the necessity for protecting the reputation of their product and made it a part of their marketing program.

"Sunkist" oranges, "Diamond" walnuts, "Eat-Mor" cranberries, "Land O'Lakes" butter, and "Co-op" products could never have been made household words unless they applied to products of uniformly high quality. The brand names, based upon recognized standards, materially lessen marketing friction and create wider outlets. Cooperation has done, and is doing much to promote the use of grades and standards. Cooperatives have led in the formulation and adoption of standards for farm commodities. It is by this means that agricultural marketing cooperatives are bestowing great benefits upon their members, and the agricultural industry in general.

Feeding the Market—Many farm products are harvested during a relatively short period but are consumed throughout the entire year. One of the functions of marketing is to carry these products from the time they are harvested until they are needed for consumption. Cooperative associations are much better able to do this than is the individual producer. The farmer is seldom in position to finance storage or to secure credit on favorable terms for this purpose. Some associations, such as the Canadian Wheat Pool, and the Northern Wisconsin Cooperative Tobacco Pool were organized with a view to storing the crop and releasing it when demand seemed most favorable.

The cherry growers of Door County, Wisconsin, organized an association to market their fresh fruit. As the volume of cherries increased, it became apparent that the market could not absorb them during the short harvesting period at prices profitable to the grower. In order to overcome this difficulty the growers acquired a canning plant to enable their product to be marketed throughout the year. Now the operation of the canning plant is the main activity of the association.

In carrying out orderly marketing practices some of the city milk marketing associations have found it advisable to convert a portion of the milk supply into butter, cheese, ice cream, and other dairy products, in order to keep surplus supplies from disorganizing the market for fluid milk.

The California Fruit Growers Association has for many years diverted the lower grades of lemons into by-product channels in order to protect the market for fresh lemons from ruinous over-supplies.

If the cooperatives were in position to control production, surpluses could be dealt with by their elimination at the source. But united voluntary action on the part of growers has never been an effective influence upon the quantity produced. Hence, the associations have turned their attention to overcoming the difficulties imposed by generous supplies, to the regulation of the flow to market. In this many farm organizations have been of great service, not only to their members, but to agriculture as a whole.

Feeding the market implies an even distribution throughout one season as compared to another in order to avoid an over-supply on the market at one time and an under-supply at another time. It also implies an effort to secure favorable distribution between markets at the same time; to avoid gluts in one market and scarcity in another. It is obvious that individual growers cannot undertake this task alone. It is only when they combine into a large group which controls a considerable volume of the product that they can take advantage of those economies resulting from orderly marketing operations.

Many cooperative marketing associations expend large sums in telegraph fees in order to keep in touch with supply and demand conditions in the large markets throughout the country. Some maintain representatives in central markets who act not only as salesmen but who keep headquarters informed at all times upon the state of the market in their locality. This information permits the association to regulate its shipments in a manner most advantageous to its grower members. It is only through a cooperative organization that individual growers can join in setting up this sort of a service.

Extending the Market—This is closely associated with orderly marketing and has reference to finding new markets and to inducing consumers to use more of the product. In doing this the association may be engaged in orderly marketing also. It may by these means work off what would otherwise be burdening supplies. Extending the market often is a distinct part of an orderly marketing program. The Danish farmers through their cooperatives went to England for buyers for their butter, bacon, and eggs. The Swiss dairymen through their export association have gone to foreign lands for outlets for their cheese. From a domestic standpoint, extending the use of a product generally involves the generous use of printers' ink. Effective advertising on a nation wide scale involves large expenditures. This requires a volume of business sufficiently large to permit the raising of considerable sums by a small deduction on each unit of the commodity sold or by devoting a small percentage of sales receipts to advertising purposes. Another prerequisite to successful advertising is a standardized commodity so marketed as to make its identity known to the consumer. It is obvious that these requirements place this activity beyond the realm of the individual grower. It calls for joint action on the part of large numbers of growers through their marketing associations.

The American Cranberry Exchange has accomplished outstanding results in extending its market by inducing people to eat cranberries at times other than Thanksgiving, and with foods other than turkey. The Exchange has made cranberries other than a holiday dish. It has prolonged the period of consumption of fresh cranberries to all the winter months, and has brought about the use of canned cranberries throughout the year. The almond growers and the walnut growers have accomplished similar results through their cooperative marketing associations.

Cooperation Improves Farmers' Bargaining Power—The farmer, ordinarily, is not in position to know the value of his products. He does not have time to study closely and appraise price making forces. Often he does not know the grade of his commodity, and seldom does he know the relative values of different grades. It is the business of the farmers' selling agent—his cooperative—to keep informed on such matters.

While ordinarily an association cannot secure higher prices because of monopoly control, it is, however, in position to keep informed in such a manner as to be able to secure the best prices available. It is in much better position than is the grower to take advantage of the "swings" of the market. One of the most effective ways of influencing price by cooperation is through the stimulation of competition. Often complaint is made that the cooperative does not pay more than the private dealer. The real question is whether the private dealer would pay as much as he does if it were not for the existence of the cooperative. An illustration of the case in point is contained in the following extract from a speech by Mr. C. B. Dennon, delivered when a member of the Federal Farm Board.

"I have in my possession at the present time, and would be pleased to show anyone of my audience, a facsimile of two checks issued by a certain creamery company within 100 miles of St. Louis on October 20, 1931, where 27 cents a pound for butterfat in cream was paid at one town, and 36 cents a pound by the same concern in a near-by town in the same

community. It so happens, however, that a cooperative creamery is located in the last-named town, and I will leave it for my audience to judge whether or not it pays to cooperate in marketing your cream. Here's 9 cents a pound difference in butterfat on the same day by the same concern, and yet some people question the advisability of farmers cooperating to sell their cream. . . ."

A cooperative may not always pay more, but in many cases, at least, the farmers receive a higher price than they would have received had there been no concerted action on their part.

Volume alone attracts buyers. Add to this a reputation for reliability in business dealings, throw in a good record for the maintenance of quality as measured by recognized standards, these make for increased bargaining power. This power is attainable by farmers through a cooperative marketing association.

Financing—Lack of credit has always been a handicap to the individual farmer as a class in attempting to hold his products for a more favorable market. He seldom has the necessary funds, nor has he access, ordinarily, to credit at favorable rates. The marketing association with its warehouse facilities and marketing machinery is in a position to tap credit sources not available to the farmer as an individual producer. Through the establishment by the federal government of the Intermediate Credit Banks, the Reconstruction Finance Corporation, and the Federal Farm Board and its successor, the Bank for Cooperatives, the agricultural marketing association is in a favored position to borrow money at interest rates well below those of commercial banks for similar loans.

Cooperation—A Spokesman for Organized Agriculture—Cooperative marketing associations and their close allies, the general farm organizations such as the Grange, the Farm Bureau Federation, and the Farmers' Union furnish a sounding board for reflecting farm opinion. They crystallize the thoughts of the farmers on public questions affecting agricultural interests. They make known to the public the views of their members. They act as a spokesman for agriculture.

The National Cooperative Council with headquarters in Washington, D. C. is supported and controlled by farmers' marketing and purchasing associations. This organization places before Congress, officials of the administration, and the public, its views on questions of national policy. The Wisconsin Council of Agriculture composed of representatives of leading farm organizations and cooperative associations in the state, performs similar services for Wisconsin agriculture by presenting its views to the legislature, the state officers, and the public.

Limitations of Agricultural Marketing Associations

In all too many instances farmers are asked to support a cooperative movement on the grounds that the association will be able to do such things as "control price," secure "cost of production," or "eliminate the middleman." These aims attract the support of large numbers of farmers. Yet experience demonstrates conclusively that successful cooperation is not founded on these accomplishments. Those members who join with such objects in view are likely to

become dissatisfied and lose faith in the enterprise. In organizing an association, it is better to promise too little rather than too much. An informed membership, as a general rule, is modest in its demands upon the association. An uninformed membership is likely to expect the impossible. An analysis of the nature of these promises explains the reasons why cooperative marketing efforts are not designed to fulfill them.

Price Fixing—The power to fix prices is based upon two assumptions: (1) a control of the greater portion of the supply, and (2) ability to induce the consumer to buy at the price set. Only in exceptional instances has the cooperative command over either of these requirements. Few associations have a monopoly control over the supply of the products which they handle. The supply of farm products from the standpoint of its influence upon prices, consists of (1) the amount offered for sale at a given time at a given price, (2) the amount existing and available for sale at some price, and (3) the estimated amount that may be produced in the relatively near future. It is difficult, indeed, to control all the elements of supply. Even though a cooperative association were in position to command a controlling portion of the available supply of a product, and set the price at levels satisfactory to the producers, these attractive prices would induce members to increase their production. They would create an incentive to non-members of the area to go into the production of that commodity, and would encourage its production in non-established areas. In this manner, price setting often creates the elements of its own defeat. The cranberry growers, the walnut growers, and the almond growers handle a major portion of the supplies of their product through their own associations. In each case production is restricted to a limited area because of climatic and physical conditions. Yet if these associations were to fix prices out of line with other agricultural commodities, and sell their outputs at these higher prices, it is safe to say that the production areas would expand, beyond the control of the associations.

Let it be assumed for the sake of argument that an association has a monopoly control over supply. How far can it go in setting prices? It may of course, set any price it chooses, but there is no assurance that consumers will buy at the price fixed. The prices at which consumers will buy are dependent upon a number of things such as, purchasing power which may depend upon payrolls, which in turn may depend upon national prosperity; prices of competing commodities; and the ease of substitution. The cooperative has little or no control over any of these forces.

Some 15 years ago a campaign of national proportions was conducted in organizing cooperative associations for the purpose of controlling sufficient volume to dictate price. Below are extracts from a speech given by the leading exponent of this philosophy.

“. . . Our Association sells prunes. Last July we made our so-called opening price on prunes. There was a meeting there and fifteen people present; thirteen of them were directors of the association, and the two others were a stenographer and myself. I just sort of butted in because I like to be there when they do exciting things. They were met to fix the price of prunes. Did you notice what I said? I didn't say they were together to accept the price which the Chicago Board of Trade or anybody else in the world put on prunes. They were met there to fix the price of

prunes. They knew they could do it, because they had absolute contracts covering the better part, by far the greater part, of the prune crop of the United States. . . .

"You get the picture, now of the thirteen directors sitting at that table advising with their advertising experts, their sales experts and even with a lawyer there, to be sure they are dead right, fixing a price on production and handling it in just the same way the United States Steel Corporation handles steel rails. . . ."

Large associations were formed among wheat, cotton, and tobacco growers with price fixing as one of the major ends in view. It is sufficient to observe that all these associations have failed, reorganized, or abandoned their policies designed to control price.

Those who advocate that associations become price fixers overlook four important essentials:

1. The difficulty of securing control through voluntary associations of the bulk of the supply of any agricultural commodity.
2. The near impossibility of maintaining such control, because favorable prices encourage new supplies in new areas.
3. The power of the consumer over prices. The horse may be led to water, but he cannot always be induced to drink.
4. The ease of substituting food products. No successful method has been devised for restraining the consumer from shifting her purchases from one commodity to another.

The organized producer has seldom been successful in setting price through monopoly control, but he has made marked advances in stabilizing prices through the regulation of the flow of commodities to market.

Cost of Production—Farmers for generations have demanded that they receive prices sufficient to cover the cost of production. This is a legitimate demand. Yet the nature of the problem is not one that can be solved successfully by cooperative marketing organizations. They may assist in securing greater returns to the farmers but they cannot guarantee that these returns will equal production costs of all their members for these vary. The cost of producing milk in Wisconsin may easily range from \$1.00 to \$4.00 per hundred pounds. If the price were set on the basis of the average (\$2.00) then goodly numbers would lose money. If it were set higher, say \$3.50 per hundred-weight in order to cover the costs of most producers, it is likely that production would increase to such an extent that milk would become a drug on the market. Hence, a cost of production price like any other price set above supply and demand levels cannot be maintained without machinery for the control of production.

A fixed cost-of-production price, like any other fixed price, must take into account the willingness of the consumer to buy. It may be accurately established, for instance, that it costs a majority of Wisconsin dairymen \$3.00 per

* Sapiro, Aaron. Address given before Cooperative Grain Marketing Conference of all Farm Organizations, Chicago, July 23 and 24, 1920. Printed by Illinois Agricultural Association, Grain Marketing Department.

hundred pounds to produce milk. But the consumer may not be willing to pay this price for enough milk to keep all the Wisconsin dairymen in the business. Hence the price would have to be lowered or less milk marketed.

Cost of production is not an infallible index to value. The value of an article or commodity is dependent quite as much upon the amount the consumer is willing to pay for it as it is upon the sum required to produce the article. One may manufacture jumping-jacks at the cost of \$1.00, but if buyers are not willing to purchase at any price, their value is zero.

The ability to secure a cost-of-production price is dependent upon the ability to regulate production, and to induce consumers to buy at the price set. The cooperative marketing association does not have control over either of these essentials.

Eliminate the Middleman—This plea is generally based upon the assumption that the profits of private dealers and handlers of farm products are sufficient to support and justify an association. While the margin of profit realized by private traders may contribute toward the savings of an association, most successful marketing associations owe their success to their ability to perform services more efficiently than the private dealer and to induce the members to do for themselves things which others could not induce them to do.

The marketing of farm products requires the performance of certain functions regardless of the one who performs them—a private agency or a cooperative one. The most important of these are:

1. Assembling
2. Manufacturing and processing
3. Grading and standardizing
4. Transporting
5. Storing
6. Financing
7. Selling
8. Bearing Risk

Associations may eliminate some middlemen by combining two or more of these steps under its control. It does not eliminate the steps. Private business also eliminates middlemen by integration. The retail chain store organization often buys direct from producers and manufactures and sells to the final consumer, thus performing the services of the broker, commission merchant, wholesaler, and retailer.

The cooperative marketing associations must not only discharge these functions at costs which compare favorably with the charges of others for the same service, but must do them better and supply them in more heaping measure. The elimination of the middleman is not the important consideration. Matters of real consequence are that the job be done better than it was being done formerly. The cooperative must do for its members all that private initiative did for them, plus. Emphasis should be placed on the plus.

Purchasing Associations

Consumer cooperation among urban buyers started as a means of acquiring control of production. The Rochdale weavers looked upon their store as a mere beginning in a movement to give to workers the ownership and control of the factories in which they worked. It was only by chance that they dis-

covered a successful technique for a gigantic merchandising movement. Many look upon cooperation among consumers as a basis for an economic state. They see in it a national substitute for the profit system. It is to some a self-contained economic philosophy.

The economic depression has given rise to increased interest in cooperation on the part of consumer-buyers. Savings have assumed greater significance. People seem to be more willing to do for themselves some of the things they formerly were willing to pay others to do. This changed attitude promotes cooperative purchasing, whether it be on the part of city consumers or farm producers. There is little difference in the nature of the cooperative purchasing activities of these two groups or the principles underlying them.

"Consumer cooperation" to many includes only the activities of the city consumer. Yet fully three-fourths of all cooperative purchasing in the United States is done by farmers as consumers. The farmer is not attempting by this means to gain control of the processes of production. His aim is directed toward exercising a voice in controlling, or at least influencing the process of market distribution.

The more outstanding advantages resulting from the activities of cooperative purchasing associations are:

Self-Service at Lower Cost—The one who sells is employed by the member-purchasers. They have a common interest—that of the buyer. Net savings are returned to members in proportion to their purchases. Hence, the member-purchaser is interested in returns in the form of savings, quite as much as he is interested in the services which he may exact from the association. In order to increase these savings, he is often willing, for example, to do his own delivering and pay cash at the time of purchase, thus eliminating two considerable items of costs.

Elimination of Waste—Competition may promote efficiency, but at the same time, it often involves expensive practices, such as two stores, the patronage of which might well be handled with but small increases in overhead costs by one. Other examples of duplication of effort could be cited in large number: several milk wagons traveling the same street at about the same time; trucks hauling partial loads of milk over the same rural highways; several sales representatives covering the same territory selling the same commodity; and expensive advertising designed to divert trade. Cooperation, if sufficiently widespread, tends to eliminate much of the usual costs of competition. It does not need to employ costly methods to attract trade. Savings furnish much of the drawing power for the cooperative.

Reduction in Costs—Savings are returned to members. These savings are made up in part by the elimination of expensive services, by the curtailment of certain expenses inherent in competition and through the return of that portion of handling margins which ordinarily go to profits in private business.

Selling Merchandise of Known Quality—Since the buyer is selling to himself, there is no incentive whatever to conceal the true quality of the goods handled. Consumers are not in position to recognize quality value in all goods. They are often dependent for information upon the integrity of the

seller. The cooperative purchasing organization is in position to render a valuable service to its members by providing only goods of known quality and good value. One farmers' cooperative feed purchasing association in Wisconsin has employed as its manager one qualified to advise with farmer members regarding the mixed feed rations best suited to their needs. A fertilizer purchasing association maintains a soil technician to advise with farmers with respect to the fertilizers required by their soils.

Cooperative purchasing associations are in a favored position to advise their members from the standpoint of the quality and kinds of goods best suited to their needs. Above all they should protect them against the purchase of goods of doubtful value.

Credit Unions

The "Credit Union" is the application of cooperation to the task of providing short term credit at fair rates of interest. These associations are generally composed of persons who do not have established credit connections with banks. This makes them dependent, for the most part, upon credit from sources charging exorbitant rates of interest. By pooling small amounts of capital resources, and through the systematic accumulation of savings these associations are able to lend to members at much lower interest rates than are available to most of them from other sources. Furthermore, their combined resources give them a credit standing which enables them to borrow as a group from banks at commercial rates. This is a source of credit not ordinarily open to the members as individuals.

The important services rendered by these cooperative banks are:

Furnishes Short-Term Credit—It is estimated that at least four-fifths of the adult population is without connections with banks of credit. These people are largely dependent for short term credit upon private lending agencies, which may legally charge from 18 to 42 per cent per year on unpaid balances. The rates charged by unlicensed agencies may run much higher. The Credit Union is able to loan to its members at a rate of around 12 per cent per year—one per cent per month—on unpaid balances. Furthermore, net earnings of the association revert to the members in the form of dividends on their savings which furnish funds for lending.

Promotes Thrift—The Credit Union provides machinery for employing savings in small amounts for useful and remunerative purposes. This process has a double beneficial effect. Remuneration for savings in small lots encourages savings on the part of those who are most in need of saving, and find it most difficult to practice. Savings in turn provide money to loan at lower interest rates to those who ordinarily are forced to pay an exorbitant interest charge. This lower rate makes possible increased savings on the part of the borrower-member.

Educates Members in the Handling of their Own Financial Affairs—The pressing need for this type of cooperation is credit, its outstanding virtue is thrift, and its greatest function is education. It is not enough to say that one learns by doing. It is important that one be in a position to do. The Credit

Union does just that for the member with respect to the use of money. It teaches the member to save. It teaches him how to spend most effectively. Loans are made for provident purposes only. The Credit Union is conducted by the members. Their savings furnish a basis for the loans to members. Earnings are returned to members. It is an organization conducted by and for members. Its activity is the handling of money. Individual members participate in this activity. This participation is an educational force.

Mutual Insurance

Cooperation among farmers for protection against loss from fire and lightning is of long standing. Some associations also insure against wind damage. Lower costs are the main incentive in this field. While it is difficult to make exact comparisons between the rates charged by private commercial companies, and farmers' mutuals, it is safe to assert that the savings made by the cooperatives are material. These savings are due, for the most part, to reduced costs of operation. Most of these companies confine their activities to a township or a county. The officers of the company know not only the property insured, but in a majority of cases, they are acquainted with the general reputation of its owner. This intimacy resulting from operations in a restricted area, tends to eliminate the moral hazards connected with fire insurance, and in addition places the cooperative companies in a favorable position to reject unusual hazards to property which might be overlooked under ordinary circumstances.

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III. THE EXTENT OF COOPERATION IN THE UNITED STATES

COOPERATIVE buying and selling is carried on extensively throughout the United States. More than 10,000 cooperative associations having $3\frac{1}{4}$ million members, transacting more than $1\frac{1}{2}$ billion dollars worth of business each year operate in the country. In Wisconsin 1,100 cooperative associations are in business. These have nearly 200,000 members and transact business in excess of 73 million dollars. Practically every conceivable agricultural commodity is marketed somewhere in the United States on a cooperative basis but the organizations of the producers of dairy products, grain, fruits and vegetables, livestock and cotton products excel the number of organizations for all other commodities. Along the Pacific coast, as well as in the middle west, the greatest amount of cooperative business is carried on.

IS COOPERATION something that exists largely in the minds of public spirited promoters or is it embodied in widespread practice? According to data published by the Farm Credit Administration there were around 10,700 farmers' cooperative buying and selling associations in the United States in 1935. These reported having approximately 3,280,000 members. The number of farms in the United States according to the federal census of 1935 was 6,812,049. Hence there was around one cooperative membership for every two farms in the United States. Wisconsin had slightly less than 200,000 farms and 1,118 associations with 192,500 cooperative memberships among farmers. The proportion of cooperative memberships for Wisconsin, nearly one cooperative membership per farm, is double that for the United States as a whole.

But membership alone is not an accurate index for measuring the importance of the movement. Volume of business is a more reliable guide. These 10,700 associations did a business estimated at \$1,530,000,000 or an average of \$225 for every farm in the United States. The volume of cooperative buying and selling by farmers in Wisconsin for 1935 was \$73,490,000. This is an average of \$367 per farm—no inconsiderable sum.

Cooperation in the United States and Wisconsin Compared—The figures in Table I indicate that Wisconsin has one-tenth the cooperative associations, around one-seventeenth of the membership, and transacts nearly one-twentieth of the cooperative farm business of the United States. This means that relatively

more farmers in Wisconsin belong to business cooperatives than is the case, on an average, throughout the United States, and that their associations although more numerous are smaller both from the standpoint of number of members and business transacted. The large number of relatively small

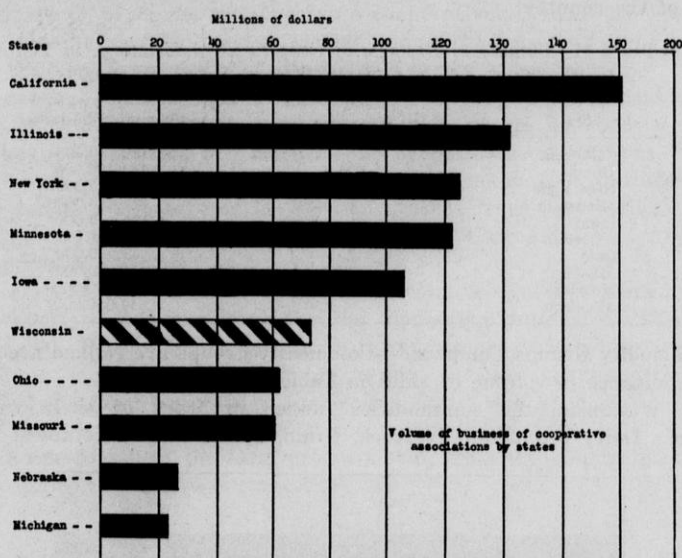


FIG. 3.—VOLUME OF BUSINESS OF COOPERATIVE ASSOCIATIONS IN TEN LEADING STATES, UNITED STATES, MARKETING SEASON, 1934-1935

cheese factories, creameries, and supply purchasing associations explains the situation. The comparatively large average amount of cooperative business per farm in Wisconsin is significant.

TABLE I.—Number, Membership, and Volume of Business of Cooperative Associations, United States and Wisconsin, Marketing Season, 1934-35

		United States	Wisconsin
Number of Associations	number	10,700	1,118
Membership			
Total	number	3,280,000	192,500
Average per association	number	306	172
Volume of business			
Total	dollars	1,530,000,000	73,490,000
Average per association	dollars	143,000	65,700
Average per farm	dollars	225	367

Extent of Cooperation in Certain States—The first ten states ranked in the order of the amount of business transacted cooperatively with farmers during the marketing season, 1934-35 are given in Table II.

One of the explanations for the widespread practice of cooperation among farmers in Wisconsin is that the manufacture and sale of dairy products, especially cheese and butter, seem to be peculiarly well adapted to the cooperative form of enterprise. In volume of business, dairy products lead all other

groups of commodities both in Wisconsin and in the United States. Grains, fruits and vegetables, and livestock also stand high among the commodities handled cooperatively. It is interesting to note, however, that practically every important agricultural commodity is handled cooperatively in some section of the country.

TABLE II—*Volume of Business of Cooperative Associations in Ten Leading States, United States, Marketing Season, 1934-35*

State	Volume of business
California	\$180,910,000
Illinois	141,700,000
New York	124,520,000
Minnesota	122,450,000
Iowa	106,830,000
Wisconsin	73,490,000
Ohio	63,980,000
Missouri	61,930,000
Nebraska	46,100,000
Michigan	42,050,000

Commodity Groups Compared—Commodity groups are ranked according to their importance in volume of sales in Table III.

For Wisconsin, the commodities ranked in order of their volume of sales are: Dairy products, Livestock, Grain, Fruits and Vegetables, Tobacco,

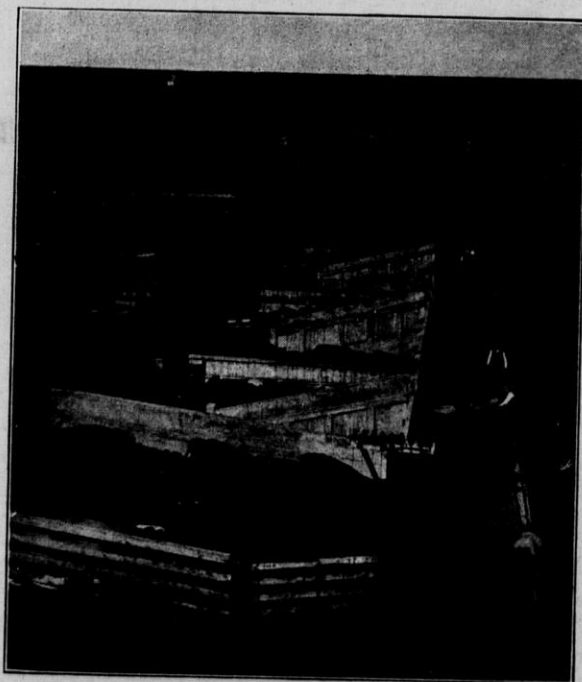


FIG. 4.—COOPERATIVE SALE OF LIVESTOCK AT A CENTRAL MARKET.
At all of the leading livestock markets of the country, cooperative selling plays an important part. From 5 to 35% of the market receipts at leading markets are sold cooperatively.

Wool and Mohair, and Poultry and Poultry Products. The value of dairy products sold cooperatively in Wisconsin was three times the combined value of the other six commodity groups listed.

Farmers in the United States during this period sold cooperatively \$1,343,000,000 worth of products, and purchased cooperatively \$187,000,000 worth of supplies. In other words, farmers market cooperatively about seven times as much as they buy cooperatively, measured in terms of value.

The average tends to minimize the extent of cooperation in the handling of some commodities. For example, around 90% of the lemons and 84% of the oranges in California are marketed by cooperative associations. Eighty-seven per cent of the walnuts are handled in this manner. Two-thirds of the creamery butter manufactured in Wisconsin comes from cooperative creameries, and two-thirds of the cranberries grown in the United States are marketed by a cooperative agency.

The cash income received by farmers from the sale of principal farm products (94% of all products) for the marketing season of 1934-35 was \$5,864,460,000. During this same period, farmers marketed cooperatively, products valued at \$1,343,000,000. These figures indicate that something like one-fifth of the farm products of the United States are handled during some stage of their marketing journey by cooperative associations. In Wisconsin more than one-fourth of the farm products sold, from the standpoint of value, pass through a cooperative organization.

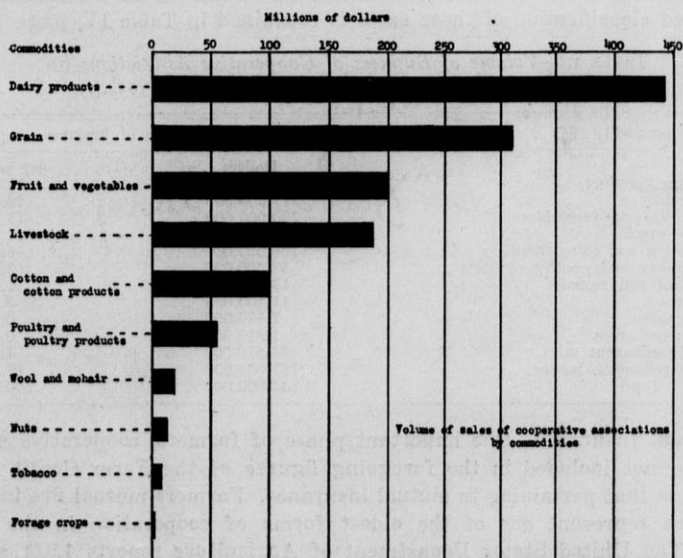


FIG. 5.—VOLUME OF SALES OF COOPERATIVE ASSOCIATIONS, BY COMMODITIES UNITED STATES, MARKETNG SEASON, 1934-1935

Cooperative Purchasing of Farm and Household Supplies—Urban cooperation extends to other varied enterprises such as stores, cafeterias, apartment houses and manufacturing undertakings owned and operated by groups of

workers. These movements in the United States are not so impressive as they are in many foreign countries. The cooperative purchasing of household supplies is most significant. When farm supplies are added and rural districts are included, this phase of cooperation assumes healthy proportions.

There were 25 cooperative associations in the United States in 1934 which sold farm and household supplies at wholesale and retail in amounts exceeding \$1,000,000 each. The largest of these is the Cooperative Grange League Federation Exchange, Inc., which had farm supply sales totaling over \$24,000,000 at wholesale and over \$16,000,000 at retail. It operates in New York, New Jersey, and northern Pennsylvania. The Eastern States Farmers' Exchange is the second largest with a total sales of more than \$12,000,000. This organization operates in the New England States, Delaware, parts of Pennsylvania, and Maryland. The National Cooperative, Inc. serves as a bargaining agency for seven regional wholesale associations which operate in 20 midwest and western states. The combined purchases through this one agency of its member associations totaled somewhat over \$19,000,000. The Fruit Growers Supply Company of Los Angeles, California had farm supply sales at wholesale in excess of \$7,500,000.

Cooperative Purchasing in Wisconsin—A recent survey conducted by the College of Agriculture of the University of Wisconsin and the Federal Farm Credit Administration shows that cooperative purchasing associations sold at retail in Wisconsin in 1934 nearly \$14,000,000 worth of goods and merchandise. A detailed classification of these sales is contained in Table IV, page 33.

TABLE III—*Volume of Business of Cooperative Associations by Commodities, United States, Marketing Season, 1934-35*

Commodity	Volume of business	
	Dollars	per cent
Dairy products	440,000,000	28.8
Grain	315,000,000	20.6
Fruits and vegetables	200,000,000	13.1
Livestock	175,000,000	11.4
Cotton and cotton products	100,000,000	6.5
Poultry and poultry products	53,000,000	3.5
Wool and mohair	15,700,000	1.0
Nuts	11,300,000	0.7
Tobacco	7,500,000	0.5
Forage crops	1,830,000	0.1
Miscellaneous sales	23,670,000	1.6
Miscellaneous buying	187,000,000	12.2
Total	1,530,000,000	100.0

Mutual Insurance—One important phase of farmers' cooperative business activities, not included in the foregoing figures of the Farm Credit Administration is that pertaining to mutual insurance. Farmers mutual fire insurance companies represent one of the oldest forms of cooperation in the United States. The United States Department of Agriculture reports 1,911 of these companies in operation at the close of the year 1926. They had 3,240,000 members or policy holders and \$9,989,000,000 of insurance in force, which increased to over \$11,000,000,000 in 1935. The value of the property insured was \$12,040,000,000. At the present time—1935—it is estimated that around 55% of the insurable farm property in the United States is insured by farmers' mutuals.

Within recent years farm organizations have branched out in an extensive manner in the field of automobile insurance.

Credit Unions—Cooperative credit as exemplified by the "credit union" movement is of comparatively recent origin in the United States. Its growth at the present time is so rapid as to make it difficult to give an accurate statistical picture. The United States Department of Labor made a rather exhaustive survey in 1933 and at that time there were something over 2,000 of these unions with nearly 360,000 members. The rate of growth is shown by the announcement of the Credit Union National Association (CUNA) that there were 4,300 associations with over a million members at the beginning of 1936. During 1933, these 2,000 societies loaned in excess of \$28,000,000 to 207,000 borrowers. In Wisconsin at the beginning of 1936 there were approximately 400 of these associations.

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IV. COOPERATIVE PURCHASING, INSURANCE AND CREDIT ASSOCIATIONS

SOME of the earliest cooperative effort among farmers in this country was for the purpose of buying farm supplies. Farm organizations for many years have fostered this type of cooperative activity. In recent years cooperative oil associations have sprung up in large numbers in rural areas so that today there are probably more than 1,000 associations engaged in this type of business in the United States. Cooperative grocery stores, of which there are probably 500 in the United States, are also found principally in the rural areas in the Great Lakes region. Wholesale purchasing associations that supply local cooperatives with farm supplies, groceries and petroleum products, also operate in several sections of the country. It is estimated that about 55% of farm property is insured by farmers' mutual fire insurance companies. More than 5,000 credit unions are serving members at the present time. The national farm loan associations and production credit associations are also aiding farmers in their financing problems.

The earliest cooperative purchasing in the United States was probably carried on by neighbors without any formal organization. Buying clubs, however, soon developed, but even these were usually loosely organized with little or no capital stock, no buildings, and no equipment. Sometimes farmers' clubs served both as social and educational associations, and as buying clubs.

These buying clubs either developed into business organizations with capital and facilities, employing personnel, giving regular service, or they tended to fade out of the picture. Usually the clubs attempted to operate on a very narrow gross margin. They made no provision for handling credit or for taking care of unclaimed orders. All too often the local leaders in these buying clubs furnished the money for the group purchases, and served with little or no pay. It is natural that they sooner or later became discouraged. The system demanded too great a sacrifice on the part of a few individuals.

Early general farm organizations in Wisconsin set up a number of buying clubs, practically all of which have gone out of existence. Many of these clubs purchased car loads of sugar, flour or feed, but when prices dropped, after orders were placed and before deliveries could be made, the patrons

frequently refused to accept their orders, except at the lower current market prices. This was a common occurrence following the world war. With little or no capital or reserves these buying clubs were, of course, not able to meet such financial distress. In fact, the losses on a single car load of flour or sugar sometimes amounted to several hundred dollars.

General Farm Supply Associations—Most of the general farm supply associations in the midwest were organized during 1910-1920. Some have had outstanding successes, while probably one-third have failed. The extent to which purchasing associations have developed in the United States and in Wisconsin is presented in Chapter III. These data do not include the supplies purchased by several thousand processing and marketing associations for their own use.

Farm supply associations usually handle feeds, fertilizers, seeds, twine, flour, salt, and sometimes hardware, machinery, and allied products. There were in 1934 about 70 of these specialized associations in Wisconsin and about an equal number of purchasing associations which handled, in addition to the above items, substantial quantities of general store merchandise or petroleum products. About 25 associations in the state, mostly creameries, handled farm supplies as a side line.

Most of the local feed associations in Wisconsin in 1934 operated on a margin of from 4 to 16 per cent of sales. This means that for each \$1.00 a patron pays for feed, the association has paid 84 to 96 cents for the product and has taken 4 to 16 cents with which to pay operating expenses, interest on stock and from which to set aside some reserve funds. Very few of the local feed associations in the state have paid any patronage dividends. The more efficient ones usually charge lower prices than the others and in that way pass on the benefits of their efficiency to their patrons.

Many local feed associations have installed grinding and mixing machines so that farmers can bring their home grown grains to the supply association to be ground or mixed with other feeds for dairy cattle or poultry. A small charge is generally made for grinding and mixing. In some associations the supply business grew from a side line to the major business of the associations. This development has been common among grain elevator associations in those states where the farming has changed from grain production to a more diversified agriculture.

Cooperative Gasoline and Oil Associations—The midwest probably developed the first cooperative gasoline and oil distributing associations. Local oil cooperatives were started in both Minnesota and in Wisconsin in 1921, but the movement did not have much growth until about 1926. There are now probably a thousand or more associations distributing petroleum products cooperatively in the United States. They are located mainly in the midwest and far western states. The Cooperative Division of the Farm Credit Administration reported that 644 associations handling petroleum products had total sales at retail of nearly \$32,000,000 in 1934, but these figures are admittedly incomplete.

Cooperative oil associations in 1934 handled approximately 5% of the total in shipments of gasoline into Wisconsin, 7% into Minnesota and 12%

in North Dakota. In several counties within these three states the proportion handled by cooperatives ranged from 20 to 50% of the total. Fifty-eight county associations in Illinois made retail sales totaling over \$8,000,000 in 1935.

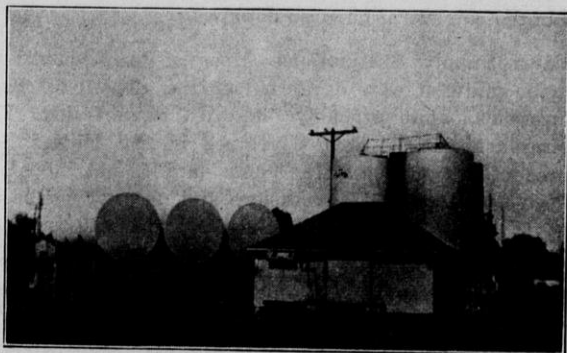


FIG. 6—THE BULK PLANT OF A LOCAL COOPERATIVE ASSOCIATION
Approximately a thousand local cooperative oil associations are operating in the United States, primarily in rural communities. Wisconsin has about 100 local oil associations.

Cooperative oil associations are primarily farmers' organizations with only a few serving urban centers. This is natural for farmers use large quantities of petroleum products for tractors and trucks in addition to that used in automobiles. A large proportion of the sales are delivered direct to the farms in tank trucks. Many of these associations operate both bulk and service stations. Some of them make deliveries to independent curb pump and service stations whose operators either retail for the association on a commission basis or purchase the products outright. The tank truck operators usually make deliveries on a commission basis and furnish their own trucks, the association furnishing the truck tanks. The capital requirements of a typical retail oil cooperative are therefore much less than if complete retail service were provided and all plant and equipment were owned by the association.

Local price wars are sometimes a disturbing factor to oil cooperatives, as well as to private oil companies. The oil cooperatives seldom lead in price wars, since they generally have a policy of selling at prevailing or most common prices. Net savings after allowing for all operating expenses, including reserves and interest on capital stock, are distributed on a patronage basis. This leaves little incentive for the cooperative to cut prices since the wider the margins, the larger will be the patronage dividends and the better will be the showing of the cooperative. Retail prices are less uniform for lubricating oil than for gasoline and particularly when oil is sold in larger than quart or gallon lots.

The patronage dividends of local oil cooperatives frequently range from 6 to 12 per cent of total sales. A few are above this and a few have operating losses. The percentage of failures has probably not been over 5 per cent of the total engaged in business operations. Cooperative oil associations have made their chief bid for patronage on their savings rather than on the basis

of either superior service or quality of products, although quality is stressed by many.

Cooperative Grocery Stores—These have not developed to anything like the extent they have in some foreign countries. Only a few hundred stores, probably about 500, are owned and operated cooperatively in the United States. They are most numerous in the midwest, and principally in the Great Lakes region of Minnesota, Wisconsin, and Michigan. They are found primarily in rural communities. A large percentage of their members and patrons are farmers. In this respect the development is similar to that in Denmark where over 90 per cent of the 1,800 cooperative stores are located in rural communities. This is in contrast with the cooperative store movement in England, which has been largely an urban development among organized laborers.

The cooperative store movement in the United States dates back almost a century, but the early associations are no longer operating. Even associations organized much later have had a high percentage of failures. For example, two-thirds of the stores, for which information is available in Wisconsin, have discontinued operations. The majority of the stores now operating in the midwest were apparently organized during the decade 1910 to 1920.

Many of these stores limit their business to staple goods. They do not regularly carry fresh fruits and vegetables and many of them do not handle fresh meats. On the other hand, a number of them handle substantial lines of farm supplies, principally feeds, seeds, twine and miscellaneous hardware products. Some do a small amount of retailing of gasoline, lubricating oil and fuel. The Cloquet Cooperative Society with its main store at Cloquet, Minnesota; and with three branch stores in neighboring towns, is probably the largest association of its kind in the United States, having had total sales of over \$750,000 in 1934. The oldest and the largest cooperative retail store in Wisconsin is the Patrons' Mercantile Company of Black Earth. It was organized in 1886 and reorganized in 1893. Its total sales were approximately \$200,000 in 1934. Another large local cooperative store association is the Waukegan Trading Company at Waukegan, Illinois.

No doubt the extensive development of the chain store system has been an important reason why the cooperative store system has not developed extensively in this country. Chain stores have brought about efficiency in distribution and a collective buying power which has been difficult for the individual store to meet. In England the uniting of cooperative stores came first and they have very largely duplicated the chain store system of this country.

But the development of chain stores does not completely explain the slow growth of cooperative stores in the United States. After all, chain grocery stores have been developed mainly since 1920 and, therefore, cannot be blamed for the cooperative store system not developing prior to that date, or even for several years following it. Both farmers and laborers, as individuals, have been interested more in earning a living than in effective buying. Incomes and alternative opportunities have been sufficiently large so that it was not necessary for the individual to buy as carefully in this country as in some others. Possibly the lack of a definite consciousness of the similarity of in-

terest among people living in a given neighborhood has made such organization difficult and frequently impossible.

The development of mail order stores and the parcel post system have probably also been factors in the slow development of cooperative stores. The cooperative store associations themselves furnish in part an explanation for their failure to develop extensively. Many have been loosely organized, not well financed, poorly managed, and lacking distinctly in the operating and business technique necessary for successful retail merchandising. The same criticism may properly be applied to the great bulk of small private stores and probably explains in part why there has been a large number of failures among both cooperative and private retail establishments.

Regional and Wholesale Purchasing Associations—A number of regional purchasing and marketing associations have developed sizeable businesses in farm and household supplies during the past few years, mainly since 1920. Some of these are mentioned in Chapter III, together with their approximate annual volume of supply sales. The extent of large scale activities in cooperative purchasing in the United States in selected areas is further indicated by the fact that 92 associations did a combined supply business at wholesale or re-

TABLE IV—Value of Supplies Handled at Retail by 271 Local Cooperative Associations in Wisconsin, 1934*.

Associations		Total supply sales	Petroleum products	General farm supplies	Hdwe., mach. & bldg. supplies	Household supplies	Miscellaneous
Type	No.	thousand dollars	thousand dollars	thousand dollars	thousand dollars	thousand dollars	thousand dollars
Petroleum	69	2,931	2,880	37	.....	.....	14
Gen. Warehouse	71	4,249	152	3,472	276	51	298
Gen. Store	36	1,786	54	262	120	1,350	.....
Combination	70	4,521	1,393	2,559	351	28	190
Marketing	25	427	52	281	60	11	23
All Types	271	13,914	4,531	6,611	807	1,440	525
Percentage of total		100	33	47	6	10	4

* From a study of cooperative purchasing associations in Wisconsin by the Department of Agricultural Economics, University of Wisconsin and the Cooperative Division, Farm Credit Administration, Washington, D. C.

TABLE V—Annual Sales of Supplies by Four Regional Cooperative Associations Which Operated in Wisconsin, 1926-1935

Year	Central Cooperative Wholesale	Farmers' Union Central Exchange	Land O'Lakes Creameries Inc.*	Midland Wholesale Cooperative
1926	\$1,048,293	\$	\$1,671,000	\$
1927	1,255,676	.....	1,520,000	269,862
1928	1,517,813	.....	1,921,050	417,956
1929	1,755,627	.....	2,175,440	448,012
1930	1,767,760	.....	2,416,816	598,750
1931	1,509,752	906,272	2,019,760	615,387
1932	1,309,698	1,678,345	1,629,842	883,736
1933	1,383,290	1,549,223	1,682,115	1,073,566
1934	1,787,556	2,615,519	2,060,027	1,751,006
1935	2,185,245	4,028,086	2,235,185	2,394,772

* Includes sales of the creamery supply department and the feed department.



FIG. 7—COOPERATIVE MERCANTILE STORE AT BRULE, WISCONSIN.

Cooperative stores are numerous in rural communities in northern Wisconsin, northeastern Minnesota, and upper Michigan.

tail of \$131,719,000 in 1934. Of this amount, over 98% was classed as farm supplies and less than 2% as household supplies. Forty-six of these associations marketed \$99,517,000 of farm products in addition to their supply business.

Some of the regional supply associations are strictly wholesale agencies, while others do a substantial retail business as well. Some associations have been organized primarily to handle a single line of products, such as petroleum products including gasoline, kerosene, distillate, lubricating oils and greases. The Midland Wholesale Cooperative and the Farmers Union Central Exchange, located at Minneapolis and St. Paul, Minnesota, respectively, are examples of this type. The Midland, which was organized in 1926, is the oldest cooperative wholesale petroleum association in the United States. It serves local gasoline and oil associations located primarily in Minnesota and Wisconsin. The Central Exchange likewise serves a number of locals in these two states, but in addition has a large number of Farmers Union locals in North Dakota and some in Montana. The Central Cooperative Wholesale of Superior, Wisconsin is a federated organization of approximately 100 cooperative stores. It handles a variety of products and is the largest cooperative wholesale association in the United States which serves principally local cooperative stores. The size and development of these three wholesale associations is indicated by their annual sales in Table V. Their net earnings have usually ranged from one to three per cent of their sales.

Several large regional marketing associations have established supply departments. One of these is the Land O'Lakes Creameries, Inc., Minneapolis, Minnesota. This association did a jobbing business in feeds totaling approximately \$630,000 in 1934. In addition, it handled \$1,430,000 of creamery equipment and supplies.

The development of cooperative wholesale purchasing associations is natural in regions where there are many local cooperative purchasing associations. If the local associations are to meet the competition of large scale private distributing agencies they need to combine their bargaining strength and gain the advantages of large scale wholesale operations. Some of these wholesale agencies not only purchase for local associations, but aid them in their organization, management, and operating problems. It is a common practice for these wholesale agencies to set up accounting systems and to provide auditing services for the use of the locals at nominal fees. Assistance is also rendered in selecting and training employees for positions in local associations. Most of the goods are handled on a brokerage or jobbing basis by these wholesale cooperatives. Two of them, however, operate their own blending plants for lubricating oil. A small amount of manufacturing is done for cooperatives under contract. Much of the merchandise when retailed is sold under cooperative brands. The Central Cooperative Wholesale is reported to be distributing over 200 products under the "Co-op" brand.

Mutual Fire Insurance

Mutual associations in the field of insurance date back well over a century in the United States. It is both an urban and rural development. Farmers' mutual fire insurance associations are, however, the most outstanding example of cooperative effort in the field of insurance. Of all the farm property in the United States that is insurable against fire it is estimated that about 55 per cent is covered by farmers' mutual fire insurance company associations, the percentage being particularly high in the northeastern and mid-western states. A considerable amount of farm property is also insured in general mutual fire insurance companies that do both an urban and rural business. Of the 1,900 farm fire insurance mutuals in operation in 1935, about half had been in business for over a half century. Their total insurance in force amounts to approximately twelve billion dollars.

There are several reasons for this extensive development. One is that these associations were among the first insurance agencies in the field. Another is that it is not necessary for a rural fire insurance association to cover a large territory in order to operate efficiently or to spread its risks. In general, the most efficient of the associations, both in terms of expenses and fire losses per dollar of insurance, have been those covering a territory of six to ten townships. Adequate distribution of risks is possible over a comparatively small area since there is ordinarily little danger of fire spreading from one farmstead to another. Even though most farmsteads do not have protection from modern fire equipment, the fact that the buildings are usually a considerable distance apart tends to diminish the danger of heavy losses, even on a single farmstead.

These associations have usually had a low operating cost since the appraising and adjusting of losses are conveniently and successfully handled by farmers who have personal knowledge of farm property values in the particular territory in which they are operating. Large numbers of these associations have operated for a total annual charge of from 10 to 20 cents per \$100 of insurance in force. The average in the north central states has been approximately

23 cents. Moreover, these associations are directed by farmers whose primary interest is in keeping the premium charges at a minimum. Sometimes this desire for low premiums has resulted in inadequate reserves, but in general the service and the savings to members have been sufficient to develop general and continued support.

Cooperative Credit

Cooperative organization in the field of credit is not a new development in the United States, being popularly considered to have started with the passage of the first state credit union act in Massachusetts in 1909. It was not until about twenty years later, however, that the cooperative credit movement gained much headway. A picture of cooperative credit in its present stage of development calls for a description of government agencies extending credit to cooperative credit associations as well as of the credit associations themselves. This is because of the close tie-up between the two.

Farm Credit Administration—This important agency was established by the federal government in 1933 to develop a comprehensive system of agricultural credit.

Twelve regions or districts covering the United States have been set up. One district covers the states of Wisconsin, Michigan, Minnesota and North Dakota, and the banks serving that district are located in St. Paul, Minnesota. Each district has four credit units or banks extending credit as follows:

1. A Federal Land Bank which makes long term first mortgage loans on farm real estate. Loans are made through national farm loan associations or direct to farmers.

2. A Production Credit Corporation which extends credit, ordinarily for 3 to 12 months, for farm production purposes, such as for the growing of crops and raising of livestock. Loans are made through local production credit associations.

3. A Bank for Cooperatives which makes loans to farmers' cooperative associations for plant and equipment and for general operating and marketing purposes including what are known as facility, operating and commodity loans.

4. A Federal Intermediate Credit Bank which extends credit, usually for 3 months to 1 year, principally for financing the processing, handling and marketing of farm products or for cooperative purchasing of farm supplies. Loans are made by this bank to both private and cooperative companies for marketing purposes, and to agricultural credit institutions which make loans to farmers to meet their seasonal agricultural and "intermediate" needs.

In addition to the four banks in each of the twelve districts there is a Central Bank for Cooperatives at Washington, D. C. The district Banks for Cooperatives extend loans primarily to local cooperative associations, while the Central Bank for Cooperatives makes loans to regional or national associations which are of such size and character as to make it impossible or undesirable that they be financed by district banks.

National Farm Loan Associations—These have probably extended much more cooperative credit than any other type of credit associations in the United

States. In January, 1934 there were nearly 5,000 farm loan associations in operation. Loans are made for the purchase of land for agricultural use, for refinancing farm mortgages and for general agricultural purposes. Loans are made on the basis of 50 per cent or less of the normal appraisal value of land, plus 20 per cent of the value of the permanent insurable improvements thereon. All loans are repaid on an amortized or gradual repayment plan extending to a maximum of forty years. The usual term runs from 20 to 36 years. The interest rates early in 1936 were 4 per cent per annum on the unpaid part of the loan.

If a farm loan is made through a national farm loan association the borrower must purchase stock in such association equal to 5 per cent of the loan. This association in turn takes stock in the Federal Land Bank for an equivalent amount. The stock is retired at par upon full repayment of the loan if the capital of the association is not impaired.

The capital of many of the national farm loan associations has been impaired during the depression and the loaning status of many of these associations is not clear at present. Because of this impairment of capital, numerous loans are made direct to individual farmers by the Federal Land Bank rather than through these local associations. Stock is then taken in the Federal Land Bank.

Extensive efforts are being made to reorganize and consolidate many of the farm loan associations and to place them on a more efficient and sounder financial basis. If this plan is carried out the number will probably be reduced from 5,000 to about 2,000 associations.

Production Credit Associations—On September 30, 1935 approximately 560 production credit associations were in operation in the United States under the Federal Farm Credit Administration. Their combined membership on that date was fully 200,000 and their loans for the fiscal year totaled about \$157,000,000. These associations are mainly county units composed of farmers interested in short term credit for farm production purposes. The lending funds are obtained from discounting the farmers' notes with the Federal Intermediate Credit Banks, one of which is located in St. Paul, Minnesota.

In order to borrow a farmer must become a member and purchase stock to the extent of at least 5 per cent of his loan. The duration of a loan varies according to the production and marketing period of the product for which the loan is made, and in no case over two years. For example, crop loans are made for the crop producing season and up to the time of sale of the crop or animal products therefrom. The interest rate has been low for this type of loan—5 per cent per annum since May 1934. The minimum loan is \$50. Liens on crops, livestock, or other personal property are usually required as security.

There is some question whether these associations, supervised and administered by a government agency, should be considered strictly cooperative. They are included here because they possess important cooperative characteristics, and are operated on plans designed to develop them into member financed, controlled, and operated organizations.

Credit Unions—Of the 4,300 credit unions in operation in 41 states in the United States early in 1936, approximately three-fourths were organized under



FIG. 8—HEADQUARTERS OF THE CREDIT UNION NATIONAL ASSOCIATION—
RAIFFEISEN HOUSE—MADISON, WIS.

This is the headquarters building of more than 4,000 credit unions in the United States.

various state laws, mainly since 1929, and one-fourth under federal charters during the latter part of 1934 and during 1935. Wisconsin had a total of 400 credit unions at the beginning of 1936, over 100 of which were organized in 1935. The Federal Credit Union Act was passed in June, 1934 and the administration of the act was placed in a credit union section of the Farm Credit Administration.

Credit unions are found almost entirely—over 95 per cent—in the urban centers, although the credit union laws are designed to promote their organization in rural as well as in urban communities. At the beginning of 1936, 31 credit unions were operating in Madison, Wisconsin, a city of about 60,000, and 10 more credit unions were reported to be in process of organization in that city.

The membership of each credit union is usually confined to a limited group who have a close bond of associations, such as to the employees of a single factory, business or governmental unit, or to a professional or fraternal group. Membership requires the ownership of one or more shares of common stock usually of \$5.00 par value. Additional funds are obtained as loans from commercial banks. The credit union's principal function is to provide personal credit for its members and at the same time to provide a reasonably safe place to invest small savings. These associations are accordingly called credit and thrift associations. The loans are of a short term nature and are ordinarily amortized over a period of a few months. Loans over \$50 are generally secured. The interest charge must usually not exceed one per cent per month on unpaid balances.

The administrative cost and losses in a credit union are usually low compared with private credit agencies extending personal credit. This comes about through the very nature of the credit union. Its risks are of a preferred character, since the group from which membership is admitted has already gone through a process of selection. Personal acquaintance is also a valuable

aid in determining the character of personal loans. Moreover, credit unions find it comparatively easy to make collections, since the membership is restricted and frequently paid from a single source. Often much of the work in the operation of a credit union is carried on without pay by its officers.

Rather close governmental supervision is exercised through various state banking departments, and by the Credit Union Division of the Farm Credit Administration. These governmental agencies not only give general direction and supervision to the methods of operation, but require periodic reports for inspection and analysis—some quarterly, some semi-annually and some annually. Audits are also required. This close supervision and direction of each association's policies and activities are in contrast with the much greater freedom of action exercised by cooperative associations engaged in marketing and purchasing.

While the growth of these credit associations has been rapid and extensive, both in number of members and volume of business, yet probably only about 5 per cent of the possible membership in these associations has actually been organized. Nevertheless these credit unions are serving a general need in extending personal credit, a type of credit which private agencies frequently do not handle, or at least, not to the general satisfaction of the debtors and the public.

Savings are realized by the borrowing members in no small part because of the elimination of some special fees, and because interest is charged on only unpaid balances rather than on the entire principal of each loan until it is paid in full.

Other Cooperative Credit—Cooperative marketing and purchasing associations obtain and extend a large amount of credit, and in a sense, this may properly be classed as cooperative credit, since the members are really borrowing cooperatively through these associations. The total volume of loans made by the Central and District Banks for Cooperatives and by the Federal Intermediate Credit Banks to marketing and purchasing association totaled approximately \$125,000,000 during 1934. In addition, cooperative associations borrowed large amounts from private sources.

There are no reliable figures on the total volume of credit extended by cooperative purchasing and marketing associations to their patrons. Such credit, however, runs into many millions of dollars for the United States. It might be pointed out that if cooperative purchasing and marketing associations would be as careful in making sales on credit, and charge as high interest rates as production credit associations or credit unions for comparable loans, then no doubt their accounts receivable and their credit losses would be greatly reduced. In fact, one of the objectives sometimes advanced by credit unions is to replace installment buying.

Summary—Cooperative purchasing associations and mutual fire insurance companies have been a development primarily among farmers, but credit unions have found their main growth among urban groups. Production credit associations and farm loan associations are, of course, farmers' institutions. It is not likely that farmers are more cooperative-minded than urban people, but rather that cooperative action has been able to make for greater benefits

to the individuals in agriculture than in urban life. No doubt this is due to the fact that the farmers have cooperated more in their production and business dealings such as in selling farm products, purchasing farm supplies, developing credit for financing farm ownership and production, and providing mutual insurance to cover farm equipment, crops and buildings. On the other hand, cooperation among urban groups is more strictly for individual or family purposes.

Supplementary Readings

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V. COOPERATION IN GREAT BRITAIN

DURING the Industrial Revolution, lack of organization among the laboring classes forced workers into degrading poverty.

Robert Owen, the great social reformer, established communal societies to improve working conditions and the status of the laborer. A true philanthropist, he used his fortune to establish experimental cooperative communities.

Owenite adherents, the Rochdale pioneers, opened a store which was the model and the impetus of a consumer movement now known as one of the greatest cooperative societies of the world.

The societies turned to manufacturing as well as collective purchasing, for one of the motives for organization was to employ their own members.

Cooperatively owned and operated industries had been the objective of the English workingmen long before actual achievement. The purpose of the wholesale societies is to integrate production and distribution from the raw material stage to final sale.

Agricultural supply societies, arising mostly after 1900, purchased necessary capital goods to carry on the ordinary operations of the farm and prepare and sell products.

THE INDUSTRIAL revolution was a primary cause for the development of cooperation in Great Britain. The introduction of machines such as the spinning jenny, the steam engine, power looms and others revolutionized industry causing the handicrafts and home industries to be supplemented by a factory system centralizing production in urban areas. Capital investments in factories and machines became the possessions of a few men who either were induced or forced into a competitive race for profits on capital investments. In the absence of adequate laws protecting the rights of the laboring people, able-bodied workmen were thrown out of employment by the same machines they had helped to create. In the reorganization of society, adjustments necessary to meet new economic conditions were especially severe for that generation. Products of the new machines increased faster than markets could be developed to absorb them. Costs of production were driven down by substitut-

ing the labor of women and children for that of men. Due to lack of organization, the English workmen were powerless to prevent the machines they had perfected from being used as instruments to enslave their women and children. The intolerable working conditions of the earlier industrial factories, the long working hours, and the incredibly low wages which characterized the early industrial period resulted in forcing the laboring class down to a plane of life that has often been described as poverty stricken, miserable, and degrading.

Inspirational Leadership—Robert Owen became a dominant figure in 1825-1850. He rose from the ranks to become one of the leading industrialists of the times. The experiences of his youth convinced him that the deplorable condition of the masses need not be inevitable, but a result of the prevailing economic system. He was a man of great vision who demonstrated that his theories could be put to practical use. He resolved to improve the lot of the common people by gradually bettering their environment and making them potential partners in the business enterprise he controlled. At New Lanark he virtually established a garden city community and he developed service institutions that were the pride of every resident. Factories were improved with better lighting, sanitation and protective devices. Mr. Owen discovered that his system not only improved the condition of the working people, but that it also returned great profits to the owners of capital. Robert Owen was one of the first men of his country to suggest labor regulations for women and children and to advocate compulsory education for children under a given age. His success as a manufacturer and organizer of industry attracted international attention. Capitalists, tradesmen, and royalty paid him their respects, and in many instances rival industrialists attempted to imitate his methods.

The First Communal Societies—His sincere efforts for the promotion of social reform was beyond reproach. The best proof is the fact that he willingly used his fortune to establish experimental cooperative communities designed to rehabilitate humanity. Owen decided to effect his ideas on virgin soil; accordingly he chose America and the first Owenite Communal Society was established at New Harmony, Indiana under Owen's personal supervision. The land in this community was to be held in common, the membership was open to all who were willing to work; with their own hands the laborers were to create the capital necessary to sustain and establish the community on a self-sufficing basis. Their industries were patterned and adjusted to the type of society they were forming. The products were to be shared among members in proportion to the services rendered, skill of employment being considered. The New Harmony experiment succeeded while Owen remained in the community, but it failed shortly after his departure. A number of similar communities were organized throughout England but none of them resulted in success.

Labor Exchanges—After these attempts, Owen made other plans of a less ambitious character. He believed that the status of the working people might be improved by eliminating profits in business. Accordingly he evolved a new institution known as a labor exchange. The central idea was to make it possible for laborers to barter among themselves for articles they made. No

money was required, for labor hours were to be classified and evaluated by the extent of skill required to produce the article. Making allowances for these differences, goods exchanged on an equal ratio. The labor exchanges failed because the workers neglected to ascertain the exact character of demand. The products which had a ready demand were drained out of the exchange while goods possessing a doubtful use and exchange value cluttered their warehouses.

The Rochdale Pioneers—In these various attempts at social reform Owen attracted a great number of loyal followers and admirers throughout England, Scotland, and the Continent. Some of the 28 original Rochdale pioneers identified themselves as his followers. Owen, however, was not sympathetic toward the organization of societies where the objectives were primarily limited to business. When his followers met to consider the organization of the Equitable Pioneers of Rochdale, they were guided by his philosophy of reform rather than his methods of attaining an objective. The pioneers opened a store on Toad Lane after nearly a year's planning and self-denial in order to raise the £28 of original capital. Their avowed purpose was:

"The objects of this society are to form arrangements for the pecuniary benefit and improvement of the social and domestic conditions of its members, by raising a sufficient amount of capital, in shares of one pound each, to bring into operation the following plans and arrangements.

"The establishment of a store for the sale of provisions, clothing, etc.

"The building, purchasing, or erecting of a number of houses in which those members desiring to assist each other in improving their social and domestic condition may reside.

"To commence the manufacture of such articles as the society may determine upon, for the employment of such members as may be without employment, or who may be suffering in consequence of repeated reductions in their wages.

"As a further benefit and security to the members of this society the society shall purchase or rent an estate or estates of land, which shall be cultivated by the members who may be out of employment or whose labour may be badly remunerated.

"That as soon as practicable this society shall proceed to arrange the powers of production, distribution, education, and government; or in other words, to establish a self-supporting home colony of united interests, or assist other societies in establishing such colonies.

"That for the promotion of sobriety a temperance hotel be opened in one of the society's houses as soon as convenient."⁴

Their modest enterprise was started on a December evening with a small quantity of flour, sugar, butter, and oatmeal. Each of the 28 pioneers accepted their responsibilities according to their fitness and training, some acted as clerks, others as buyers of provisions, some as bookkeepers, and two or three leaders assumed the general supervision. After some months of precarious operations it appeared that their scheme as a distributive system was practical and workable. They evolved definite principles of operation which later became the model for similar societies throughout England. When a sufficient number of stores had been set up by workers in various parts of England they were federated into a wholesale organization to obtain the apparent ad-

⁴Twigg, H. J. *The Economic Advance of British Cooperation, 1913 to 1926.* Cooperative Union Ltd., Holyoake House, Hanover Street, Manchester, England, Page 8.

vantages of collective buying. The Consumer Wholesale Society of England has grown from a little shop on Toad Lane into one of the greatest cooperative societies in the world. The success of the English consumers' movement has spread its fame to all corners of the earth.

The flannel weavers of Rochdale and a number of similar groups of industrial workers in England had successfully worked together for eight years before Parliament passed measures giving them protection under the law. In the decade 1852-62 a considerable number of societies were formed in different parts of England, Wales, and Scotland. About this time the leaders of the consumers' cooperative movement recognized the advantages that might be gained by making large purchases and otherwise coordinating the local societies in the interests of their members.

After some years of deliberation, Parliament again favored the mutual aid societies by giving them the right to federate the locals into larger organizations. In the same year, 1862, the famous Cooperative Wholesale Society Ltd. was formed. It began actual operations in March, 1863 in Manchester. In the years to follow the local societies formed federations in different parts of the country. Notable among these were: the Cooperative Wholesale Society of Scotland organized at Glasgow (1869), the Wholesale Society at Newcastle (1862), and the Central Cooperative Agency, West End, London (1874). The last two became important branches of the Cooperative Wholesale Society at Manchester shortly after their organization. In 1876 the Cooperative Wholesale Society Bank was organized as a "Loan and Deposit Department" to accommodate the members of the Society who wished to make or place loans.

The original intent in organizing the C.W.S. (a universally accepted abbreviation of the name Cooperative Wholesale Society, Ltd.) was for the purpose of buying groceries for local cooperative societies. The savings made in groceries, however, were so impressive that the local societies demanded collective purchases of other necessities. "They had to turn to boots and shoes, to draperies, and to furniture. There was no stopping. Boots somehow led to blankets and blankets to bedsteads and bedsteads to brushes." In time the economies of making collective purchases were rather fully exploited and attention was turned to the possibilities of manufacturing. This, at least, in the minds of the members was not a difficult step to take as one of the primary motives for organizing the original local societies was that of employing its own members in the production of workers' necessities. The C. W. S. has steadily gained ground since 1862 as shown in Table VI.

Cooperation in Great Britain has influenced the development of the movement in other countries, but more particularly in continental Europe. The extent to which the cooperative scheme of organization has been adapted and orderly arranged for industries is best shown by an outline description.

Fields of Cooperative Specialization

1. Consumers' Retail Stores—The expansion beginning with one store on Toad Lane in Rochdale (1844) and growing to more than 1,200 retail distributive outlets and depots represents the phenomenal rise of the consumer movement throughout England, Wales and Scotland (1935). These stores are fed-

TABLE VI—Progress of the C.W.S. 1865-1933¹

Year	Number of members belonging to shareholding societies	Total capital	Sales (wholesale)	Net surplus	Number of workers
		(pounds)	(pounds)	(pounds)	
1865	24,005	7,182	120,754	1,858	.....
1875	198,608	263,282	1,964,829	20,684	.....
1885	507,772	841,175	4,793,151	77,630	1,731
1895**	930,985	2,093,578	10,141,917	192,766	6,390
1905	1,635,527	4,398,933	20,785,469	304,568	14,156
1914	2,336,460	9,902,447	34,910,813	840,069	23,211
1915	2,535,972	11,075,199	43,101,747	1,086,962	25,066
1920	3,341,411	27,844,322	105,439,628	64,210*	36,391
1925	3,778,659	45,369,050	76,585,764	1,053,504	34,908
1926	3,876,695	45,552,080	75,292,233	1,094,288	35,367
1927	4,020,332	47,890,633	86,894,379	1,530,969	37,142
1928***	4,454,793	53,431,067	87,294,025	1,379,672	39,392
1929	4,565,372	59,229,542	89,288,125	1,396,974	40,485
1930	4,884,090	66,517,146	85,313,018	1,344,218	41,205
1931	5,138,124	72,366,833	81,498,234	1,692,157	41,433
1932**	5,352,310	76,467,379	82,769,119	1,729,223	41,958
1933	5,488,364	84,019,417	82,120,864	1,473,838	44,191

* Loss ** 53 weeks *** 55 weeks

In 1933, out of the 1,473,838 pounds surplus, 1,411,922 pounds were distributed as dividend on the purchases of retail societies from the C.W.S., members receiving 4d. in the pound and non-members 2d. in the pound, and an additional dividend at half those rates on purchases of C.W.S. productions during the latter half of the year.

The total sales of the C.W.S. from the commencement of its operations to the end of 1933 amounted to 1,980,777,296 pounds.

The total surplus accruing in these years was 22,363,902 pounds.

¹ Darling, George "Told in Brief—The History and Purpose of the Cooperative Wholesale Society, Ltd." Publicity Dept., C.W.S., Manchester, England. Page 33.

erated into the Cooperative Wholesale Society of England and Wales (C.W.S.) and the Scottish Cooperative Wholesale Society of Scotland (S.C.W.S.). Local stores supplied by the two great wholesale organizations can provide everything needed in the home. About 130,000 workers are employed in the retail division of the society. In 1934 the total membership in the C.W.S. and S.C.W.S. exceeded seven million. Total retail sales approached the 500 million dollar mark. The combined capital investment exceeds 400 million dollars and the net surplus is about seven million dollars. During the past five years there has been a trend toward consolidation of the smaller retail outlets into larger and more efficient stores. This accounts for a decrease of 100 stores since 1930.

2. Industrial Cooperative Production—Cooperatively owned and operated industries had been the objective of the English workmen for a century before it was definitely achieved. The gradual expansion of the C.W.S. in the retail distributive field and finally into manufacturing rescued the idea and made it a reality only after many unsuccessful isolated attempts. The purpose of the C.W.S. and the S.C.W.S. is to integrate production and distribution through the various stages from raw material to the final sale of the finished goods. To this end they have established about 150 factories throughout England, Scotland and Wales. More than 70 thousand workers are engaged in manufacturing or providing services to the members of the society.

"The varied character of the factories is astonishing. Biscuits and cakes are produced at Crumpsall and Cardiff; preserves of all kinds at Middleton, Clayton, Reading and Acton; margarine at Higher Irlam;

butter and cheese at Brislington, London, and Cardiff; lard at West Hartlepool and Higher Irlam; tobacco at Manchester; soap and candles at Irlam, Dunston, and Silvertown; flour at Manchester, Oldham, Sowerby Bridge, Hull, Avonmouth, Dunston, Silvertown; provender and cattle cakes at Slaithwaite and Liverpool.

"In addition to food and groceries, the C.W.S. has several factories for drapery goods. There are woolen mills in Yorkshire and Devonshire and cotton mills in Lancashire. Clothing is made at Manchester, Pelaw, Bristol, Leeds, London, and other centers; hosiery is manufactured at Huthwaite; corsets at Desborough and Kettering; underclothing and shirts are made at Manchester, Sheffield, Pelaw, and Cardiff."⁵

In addition to these items the C.W.S. operates 10 boot and shoe factories making nearly four million pairs annually. There are other factories making furniture, aluminum ware, cutlery, cycles, ropes, twine, saddlery, soap, candles, starch, umbrellas, vehicles and many other things.

Sales of the C.W.S. are restricted to cooperative societies. Consequently its factories are operated for the exclusive trade of its members. About 37% of the merchandise handled by the C.W.S. originates in its own factories. It buys from and sells to cooperative societies in 28 countries. This trade requires large departments specialized in trading on an import and export basis with countries in all parts of the world.

3. Cooperative Insurance at an Early Date—The English cooperatives recognized the economies of spreading their risks in business. The local cooperative stores formed their own insurance society in 1867. The cooperative insurance society continued an independent existence for 47 years but in 1913 the society was more closely coordinated with the activities of the C.W.S. and the S.C.W.S. by beginning operations as a joint insurance cooperative for the two large wholesale organizations. The cooperative insurance society has been eminently successful, especially during the past 15 or 20 years. Practically every risk in the conduct of business through the cooperative distributive society is centralized in the insurance department. The assets of the department exceed \$90,000,000 and a staff of 12,000 employees is engaged in administering and caring for the details of the business.

4. Cooperative Banking—Due to the policy of maintaining prices and paying dividends periodically the C.W.S. was obliged to provide the services of a bank because many of its patrons entrusted to the Society for security the care of their savings and accumulated interest on investments. The bank opened as a loan and deposit department until the statutes permitted its organization as a bank under the direction of the C.W.S. administration. Today the English Cooperative Wholesale Society, Ltd. Banking Department has over 65,000 accounts and about \$350,000,000 in total assets.

5. Cooperative Services—The C.W.S. is devoted to the principle of rendering efficient service to its members and maintains many departments to render competent services to the organization and to its members. Chief among the departments are:

- a. Architect's department which designs and prepares plans for stores, warehouses and administrative offices.

⁵ Darling, George. "The C.W.S. of Today." Published by the C.W.S., Manchester, England. Pages 8, 9.

- b. Building department carries through the construction of offices, shops, factories, warehouses, dairies, bakeries and other buildings.
- c. The legal department maintains a staff of solicitors and clerks to adequately protect the interests of the society.
- d. Chemical research department examines the quality of consumer wholesale society factory products and gives considerable assistance to the purchasing department in buying merchandise not manufactured by the society.
- e. Additional services are performed for members in some localities by a dental association which offers excellent services from a group of qualified dentists in the employment of the C.W.S.
- f. Federated laundries. Under the inspiration of the C.W.S. a number of local organizations have sprung up for the purpose of doing the laundering for members.
- g. Funeral furnishing federations. Members of the C.W.S. may conduct their funerals on a cooperative basis.

A number of other services are available for the purpose of distributing coal, transporting and shipping, printing, engineering, travel and excursions, garage service, and entertainment.

In different parts of England the C.W.S. maintains several farms and estates totaling 26,000 acres. These farms provide labor for employees who might otherwise be retired without adequate means of support, a place of rest and recreation for workers on leave, and convalescing stations for those disabled in service.

It is of interest to note that over 35 million gallons of milk are received at 18 depots and distributed by the C.W.S. to its members in different urban areas.

These two great societies (C.W.S. and S.C.W.S.) jointly own tea plantations in Ceylon and India aggregating 3,000 acres.

Agricultural Supply Societies—In Great Britain cooperation in agriculture was tardy in its development and few organizations existed before 1900. Farmers, small holders and others engaged in general agricultural production formed innumerable cooperatives. The main purposes of their organization are to purchase necessary capital goods to carry on the ordinary operations of the farm and to prepare and sell products.

The autonomous production societies sell about \$25,000,000 to \$30,000,000 of produce annually to the consumer wholesale societies. This constitutes a large proportion of that sold through the agricultural societies. It is to be noted that the relationship between the agricultural organizations and the consumer societies is a reciprocal arrangement in that a large percentage of the farmers are members of the consumer stores through which they buy their home necessities and sell their surplus agricultural products.

The whole cooperative structure of Great Britain is highly integrated and recently the main emphasis has been on the expansion of trade in all avenues of commerce essential to English life.

Cooperation in Ireland—No treatment of cooperation in Great Britain would be complete without some mention of its development in Ireland. Cooperation developed much later in Ireland than in England. It emerged through a peaceful agrarian revolution in which the main objective was that of gaining ownership of the agricultural lands and improving the status of the peasant tenants. Sir Horace Plunkett, R. A. Anderson, and George W. Russell (A.E.) assumed the leadership in establishing cooperative production societies in Ireland. In the early twenties there were as many as 1,100 cooperative societies in Ireland of which 350 were cooperative creameries. In addition to the creameries, there were some egg gathering societies, flax societies, bacon plants, general agricultural supply organizations and rural credit associations. The larger portion of the agricultural societies are federated into the Irish Agricultural Organization Societies (I.A.O.S.). This overhead organization attempts to coordinate the efforts of the various local associations in the dissemination of information, directing legislation and otherwise aiding and fostering the development of the movement.

Supplementary Readings

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VI. COOPERATION IN DENMARK

THE DANISH FARMER is cooperatively minded. He not only sells his farm produce cooperatively but he buys much of his farm supplies and household needs in the same manner. The outstanding success which the Danes have had in placing their butter, bacon and eggs on the highly competitive markets of the world is testimony of the soundness of the cooperative business methods which have been followed. The spirit of cooperation is promoted by the Danish folk schools which are a strong educational force throughout the country. Scientific methods together with good organization in agriculture have been fostered by farmers so that a high degree of standardization as well as efficiency in the production and marketing of dairy products, bacon and eggs has been achieved.

DENMARK has been an agricultural country since early days. Even in the Viking period the Dane was a farmer. Here is an old civilization whose people have wrestled with the soil for centuries. Industrial development has been restricted by absence of coal, iron and other mineral resources.

One hundred years ago Denmark was a country devastated by war and handicapped by her unscientific agricultural production. The big banks and business houses of Copenhagen were bankrupt in 1813. Agriculture had fallen to a low ebb. The lack of improved methods in agriculture because of the lack of human interest, and the time-worn custom of grain production virtually exhausted the soil. Farming was unprofitable and national prosperity was declining.

Fortunately, at this point Denmark took stock of her social and economic problems. She set herself to regenerate her land and her people.

Rising from a depressed state of peasant agriculture, a condition of poverty and chaos that threatened the national welfare and prosperity, Denmark today stands as one of the foremost agricultural nations of the world.

Today Denmark is a country of landowning farmers. While there are about 205,000 farmers in Denmark, the middle-sized family type farms which number nearly 100,000 range in size from 25 to 148 acres, and constitute about 66% of the total agricultural area. The average is 35 to 50 acres per farm. Large sized farms are continually decreasing in number while small farms are increasing both in number and size.

Danish Folk Schools—The Danish system of rural education, particularly the rural Folk Schools, have contributed richly to Denmark's agricultural progress and the successful development of the cooperative movement. Education and a distinct rural culture are the foundation on which Denmark's agricultural efficiency and its highly developed cooperative organization rests. The Folk Schools have provided the background for an intelligent and enlightened farm population.

Education has almost become a passion with the rural people of Denmark. It is this eagerness among the masses of farm people to understand the technical, economic and social problems of farming and rural living and to make use of scientific knowledge that has made Danish butter, bacon and eggs famous.

The rural people in Denmark possess an admirable outlook on rural life. They have learned that the farm furnishes a basis for a satisfying life. They have learned to rely on their own strength. Farming is a profession with the citizens of the land in which the farmer himself takes a real pride.

It was not until the practical philosopher Nikolai Frederik Severin Grundtvig (1783-1872), who worked in the middle of the last century, aroused the farm people of Denmark to a frame of mind which started them to make agricultural life, in its truest sense, profitable in Denmark. Moreover, his work did not bring forth fruit in a day or a year but only after many years of education, cultivation and inspiration of the minds of rural people.

The schools have pointed the way. The Folk Schools have furnished rural Denmark with a home-grown trained leadership of open minded disciples who have dared to try new methods. Rural people have discovered and developed their own capacities and strength.

This education among the young people has helped farm people to recognize the opportunities before them. It has helped them to realize that they must help themselves, that they must trust each other and work together. It has helped them to realize that only a high grade product will continuously command a good market.

The Folk Schools brought the suspicious, individualistic country people together in a homelike atmosphere where they came to know each other and trustfully to work together. It opened their minds to new worlds outside their experience. There developed a mutual sentiment, which is nothing more nor less than a willingness to think together, work together, play together—in short, to cooperate. This philosophy toward rural life and the educational process has been the greatest single factor in the development of the cooperative movement in Denmark.

Danish Farmers Use Cooperation in Many Ways—Danish farmers are undoubtedly the most highly organized group of agricultural producers in the world. They have organized their agriculture as thoroughly as businessmen have organized industry and commerce. In their cooperative creameries, live-stock packing plants, and egg assembling and packing plants they have put their products in the finished form for distribution to consumers. The Danish farmer is no longer isolated. Organization permeates rural life in Denmark and it is not uncommon for a farmer to belong to eight or ten cooperative organizations. The farmer on a 40 or 50 acre farm may belong to a cooper-

ative creamery, a cooperative bacon factory (packing plant), a cooperative egg marketing association, a cooperative buying association for the purchasing of his feeds and fertilizers, a cooperative credit association, a cooperative store, a cooperative fire insurance society, and he will likely be a member of a cooperative bull club and stallion club and a cow testing association. In fact, he uses the cooperative form of organization in working with his neighboring farmers in many if not most of his farm activities.

Cooperation Started in 1851—The earliest form of cooperation among farmers in Denmark dates back to 1851, with the formation of the first credit associations which lent money on farm mortgages. Since the abolition of serfdom in Denmark at the close of the eighteenth century the national policy has been to make the farmers proprietors of the soil. The intent of the government has been to develop a farm population of land-owners. The Danish system of long term mortgage credit supplied through credit associations, has aided greatly in making Denmark a nation of farm proprietors.

The Danish credit associations are a modified type of the Prussian "Landschaften." They are not regular banking institutions, nor do they supply members with personal credit. The association is non-profit and voluntary, and the membership consists of borrowers seeking individual loans against first mortgages on their real estate. The association brings together the borrower with real property as security, who seeks a long-term loan at low rates of interest, and the lender who seeks a safe investment yielding a fair return. As regards the creditors, risk is greatly reduced, because of the principle of joint liability.

No person becomes a member in a credit association until he has received a loan from an association against the first mortgage of his real property. According to the Danish law of 1850, the farm-land loans granted by a credit association can not exceed 60 per cent of the amount at which the property is valued. The loans usually do not exceed 50 per cent of the value.

The loans granted by the credit associations bear a low rate of interest and run for a term of 45 to 60 years. The borrower pays the association a fixed semi-yearly installment and this covers the interest and repays the principal, on the amortization plan, during the term of the loan.

The Federal Land Banks in the United States with their Farm Loan associations are patterned on this cooperative credit system which has been so extensively and successfully developed among Danish farmers.

The cooperative principle is also used by farmers in the establishment and operation of savings institutions and cooperative rural banks which supply farmers with their short time credit needed for production purposes.

Cooperative Stores—In the early fifties several attempts at cooperative buying and distribution of household goods were launched at different times among the laboring people in Copenhagen. It remained, however, for rural people to establish the present cooperative consumers' store movement in Denmark which dates back to 1866 when the first cooperative consumers' store was established in a small rural community in Thisted. The cooperative consumers' store movement in Denmark is unique in that it is a rural movement and at the same time has effected a larger proportional development than similar

movements in any other country. According to statistics for 1921, 11.17 per cent of the population in Denmark held membership in the cooperative stores as against 9.86 per cent in Finland and 9.48 in England and Scotland, the birth place of the cooperative stores.

In 1932 there were 1,815 cooperative consumers' societies with 320,000 members. Of this number 1,722 societies, with 294,000 members, or 92 per cent of the total membership, was in the rural communities. These 1,815 cooperative consumers' store societies embrace approximately 42 per cent of Denmark's households.

Cooperation Among Dairy Farmers—The present system of cooperative marketing among farmers in Denmark started in 1882. Before the adoption of cooperative marketing, Danish butter was sent to Great Britain, the principal market, in lots in which were hundreds of batches of ungraded butter. The Danish farmer found that to place a product successfully on a large market the product should appear in large quantities and be of uniform grade and quality.

The marketing problem confronting the average Danish farmer in the seventies and early eighties is well illustrated by the experience of a small farmer on the Jutland Peninsula with a herd of six cows. He sent his butter to a large Butter Exposition in London and won the first prize. But this recognition on the world butter market did not give him a higher price for his small weekly butter production. Like many other individual farmers who sent only small amounts, he did not receive the top price, regardless of the fact that he was selling a premium quality butter. His butter was bought by the local storekeeper and later sent to Great Britain by the exporter in large lots in which there were hundreds of batches of ungraded butter, with the result that the farmer who produced a premium quality butter was not paid a premium price but a flat price based on the average market price for these lots of ungraded batches of good and poor butter.

While it is true that many farmers then produced a high grade butter, it is equally true that it was not practical for them to attempt to market individually their small lots on the British markets. The English trade not only wanted shipments of butter in large quantities, but they offered higher prices for shipments that were graded.

This was a marketing situation that no one but the producer could properly correct. Its solution involved changes in production, assembling and manufacturing practices.

The problem of supplying a lot of quality butter of a standard grade had to be solved by beginning at the point of production. This the Danish farmers did by the establishment of the cooperative creameries through the agricultural districts, where the entire milk production of the community is assembled and manufactured into a standardized quality product so it can be properly merchandised.

The first cooperative creamery in Denmark was founded in 1882. It was established on a sound economic basis and effected some distinct improvements, such as the assembling and manufacturing of a quality product standardized as to grade and pack at the point of production. This made it possi-

ble not only to carry the butter to the consumer at lower cost, but in meeting market requirements it brought the farmer a higher price.

The first cooperative creameries met with great success. They were organized on sound principles of cooperation and were well financed and efficiently operated. News of the success and popularity of the first cooperative creamery soon spread to all the rural sections of Denmark. Its economic benefits were realized immediately by farmers. Many new cooperative creameries were built. The movement enjoyed a spontaneous and most remarkable growth the first ten years. The local cooperative creamery is an established part of every rural community. In 1932 there were 1,402 cooperative creameries in Denmark and it is estimated that about 90 per cent of all of the dairy farmers in Denmark were delivering their milk to cooperative creameries. The average cooperative creamery has a membership of about 150 farmers and receives the milk from about 1,200 cows.

Dairymen belonging to these cooperative creameries early recognized the importance of extending their cooperative effort to the manufacture of a quality butter of uniform grade. They were not satisfied to have quality butter in one cooperative creamery but they also recognized the desirability of having all the cooperative creameries manufacture a quality butter of uniform grade. This made possible the merchandising of the butter from all of the cooperative plants under one label or trade mark known as the "Lur Brand." As early as the nineties, Danish farmers began a voluntary movement to have the Danish creameries use this common trade mark, and by legislation enacted in 1906 and amended in 1911 "Lur Brand" has become the national trade mark on all export Danish butter.

When each creamery registers with the government for the use of this common trade mark, it is given a number which is a part of its "Lur Brand" mark. With the registered number of the creamery that manufactured and packed the butter stamped on each cask, the Danish butter on the retailer's counter in England can be traced back to its producer. According to Danish law, the "Lur Brand" guarantees the butter to be manufactured from cream or milk of a certain standard and handled according to certain specifications. The creameries using the "Lur Brand" are supervised by government dairy experts. Upon the request from the experiment laboratory authorities, either by letter or telegram, without any advance notice, a creamery is obliged to forward immediately a cask of the day's butter production. If at any time, the official judgments show that the butter manufactured in a certain creamery is below the standard requirements, that creamery loses the "Lur Brand" privilege. This restricts its butter to home consumption until the standard has been raised to satisfy the requirements.

The dairy farmers and their cooperative creameries further recognized that they would have to take the responsibility in marketing their products if they were to get the benefits of a quality product of a uniform grade which could be merchandised under the common trade mark "Lur Brand", which would regularly assure consumers of a quality product. Consequently the Danish farmers took a second step in cooperation. They organized their local cooperative creameries into federations, or central selling organizations, for the purpose of shipping and merchandising their butter to the retail stores

in England and other countries. The first federated selling agency of these cooperative creameries was organized in 1889 but it failed in 1909 through inefficient management and an organization plan that was not truly cooperative. But this did not deter the Danish farmers from again organizing a federation for the cooperative selling of their butter; and this time they saw that it was organized on a truly cooperative basis and secured competent management. Today a large part of the butter from the 1,402 cooperative creameries in Denmark is marketed cooperatively through federations owned and controlled by farmers through their cooperative creameries. The cooperative assembling, manufacturing and merchandising of dairy products in Denmark has not only resulted in the dairymen becoming acquainted with the particular tastes and demands of the distant consumer, but Danish farmers have also adjusted their supply as well as grade and quality to meet consumer demands. For instance, after cooperative marketing had won the interest of dairy farmers in the eighties, they soon recognized the future economies that might be realized by having a steady flow of dairy products go to market the year round. This may sound academic to American farmers, but nevertheless cooperation has influenced Danish farmers to adjust production to meet consumer demands as to regularity of supply throughout the year. They did this by developing winter dairying. To do this meant a radical change in the management of their crops as well as of the dairy herd. More attention was given to the production of roots, such as mangels and swedes and the importation of grains and oil cake for winter feeding.

Cooperative Swine Packing Plants—The swine industry ranks next in importance to the dairy industry in Danish agriculture. Hog production has become an important part of Danish agriculture as a result of the development of dairying which makes available large quantities of skim milk for feeding pigs. This is supplemented by the importation of some grains for feeding.

The supply of skim milk returned to the farm is uniform throughout the year because of uniform milk production and this in turn has resulted in uniform bacon production. In order to provide the greatest economy in the utilization of this skim milk the farmer has adjusted his pig breeding with the same regulation as is found in the dairy industry. This dependability in the regularity of supply of Danish bacon in the British markets, as well as standardization and quality, is fundamental in the explanation of the premium prices for Danish bacon and the enviable position Danish products enjoy with British consumers.

One of the outstanding features in the cooperative development in Danish agriculture is the close hook-up between marketing and production of farm products. There is perhaps no phase of Danish cooperative agriculture where this relationship between marketing and production is clearer than in the swine industry.

Danish farmers have found that in order to put the best bacon on the world's markets and get premium prices, they must have something more than scientific treatment in the packing plants. Consequently, Danish farmers proceed on the theory that to produce and put into the market good bacon they must go back to the pig and induce the farmer to breed and feed a pig that

will produce bacon and pork products of a quality and type preferred by the British consumer.

Until the eighties Germany had provided a market for the lard type of hog but the protective tariff policies of Germany, begun in 1879, closed this outlet. At about the same time an urgent demand for a high grade bacon developed in England. The Danes set about to meet this demand. Now, to get on the English market, the Danes were forced to take their pigs to Hamburg and the pigs were slaughtered there and the bacon shipped to England. The shipping of pigs, sometimes great distances to the packing plants in Hamburg, was not satisfactory. Transportation costs were high together with wide margins asked by local buyers. At the same time, the private packing plants experienced great difficulty in getting a sufficient number of pigs of the bacon type to operate with a satisfactory degree of economy to produce the products efficiently.

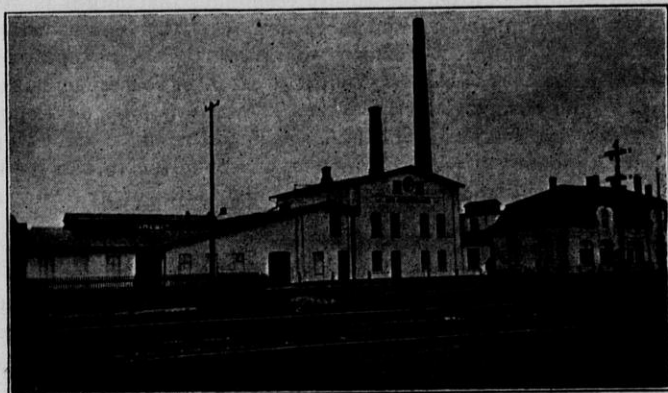


FIG. 9—COOPERATIVE HOG SLAUGHTERING AND BACON PACKING PLANT
AT KJOGE, DENMARK

"Lur" brand bacon prepared in cooperative plants such as the above is known particularly well in Danish and English markets. About 85% of Danish hogs are slaughtered in cooperative plants.

In meeting this problem the Danish farmer again relied upon the principle of cooperative organization. In 1887, twelve hundred and eighteen farmers in the vicinity of Horsens, Denmark, organized the first cooperative swine packing plant association. Twenty-four thousand pigs were slaughtered in the first year. In 1916, after 28 years of successful operation, the plant was rebuilt and now has a capacity of 3,000 pigs per week, slaughtering between 80,000 and 90,000 annually. The members are under a contract agreement which includes two essential features: (1) The members are bound to deliver their pigs to the plant for seven years and (2) they are jointly liable for loans made by the association to provide for the plant and operating capital.

In 1890 there were ten cooperative swine packing plants. Several of these early plants experienced considerable difficulty, largely because of the lack of sufficient pigs to operate economically and because of the scarcity of qualified men for managers. There were few leaders who understood the practical as well as the technical side of the packing plant industry.

Since the beginning of the 20th century many more cooperative swine packing plants have been established and operated on a sound basis. They increased steadily up to the World war, when there were 46 cooperative swine packing plants slaughtering about 85% of the total pigs slaughtered in Denmark.

In 1933 there were 61 cooperative swine packing plants in Denmark annually slaughtering between six and seven million pigs. These cooperative packing plants are distributed throughout the entire country and serve the farmers in the areas in which they are located. On an average each cooperative swine packing plant has a membership of about 3,600 farmers and slaughters annually about 107,000 pigs.

Here again, as in the case of the cooperative creameries, the farmers did not stop with the first step in cooperation—the assembling, slaughtering and preparation of the product for market. They soon saw the advantage to be gained by uniting these local cooperative swine packing plants into federations for shipping and merchandising their products in the markets where they are consumed.

In 1902, three cooperative swine packing plants established their own cooperative sales agency in England. This sales organization has since been reorganized and now is known as the Danish Cooperative Bacon Trading Co. (Ltd.) London. It is owned cooperatively by 18 Danish cooperative swine packing plants.

All the cooperative swine packing plants are federated for educational and service purposes into one national service federation known as The National Federation of the Danish Cooperative Bacon Factories (De Samvirkende Danske Andels Swineslagerier). The federation maintains offices, with a secretary, in Copenhagen. It serves the common interests of the cooperative plants and the swine industry and represents the industry in other joint cooperative activities, which aid agriculture and the nation in general. Its activities embrace legislative matters affecting the swine industry, transportation, market and labor problems. The federation has taken an active part in promoting improved pig breeding and has given financial aid to such experimental projects. Its activities are financed jointly by the cooperative plants which constitute its membership.

The farmers through their cooperative swine packing plants have also entered upon a program of quality and uniform grade which has made it possible to merchandise their quality products under a common trade mark "Lur Brand." The carcass and offal are inspected by a government veterinarian in each factory and the edible meats stamped with the official classification mark. Only the highest class bacon, from sound, healthy animals, free from tuberculosis or other diseases, can be stamped with the common trade mark, "Lur Brand", in red, and only products bearing the red stamp can be exported. The official registered trade mark number of each cooperative factory must also be stamped on the product.

Cooperative Assembling and Marketing of Eggs—Eggs now form the third side of the triangle of Denmark's important agricultural exports. The medium size flocks of 40 to 150 hens on the usual Danish farm gives the industry its national importance. Especially of late years, poultry keeping has

won favor with the smaller farmers and now constitutes an important part of the farm income in Denmark.

Since the beginning of the egg export, the marketing problem has been a live one. The early export trade with Great Britain in the last half of the nineteenth century was not a success. The eggs were of uncertain quality, not dependably graded, and the supply was irregular, all of which resulted in low prices to the producers. To place a dependable supply of fresh eggs on the British markets was the problem which constantly confronted merchants and exporters. In 1895 the idea of marketing eggs through cooperative channels began to arouse interest among farmers and the development of this method of marketing has had a tremendously beneficial influence upon Danish egg production and trade during the last quarter century.

The three common channels through which Danish eggs are now marketed are (1) the Danish Cooperative Egg Export Association, (2) the cooperative bacon factories, and (3) private merchants.

The Danish Cooperative Egg Export Association (Dansk Andels Aeg-export) began its activities in 1895, with 25 local egg collecting associations, with a membership of about 800 egg producers. The second year, its membership comprised over 200 local associations. At the end of 25 years' operation, the central association had 540 local associations with approximately 50,000 members. In 1922, the membership reached 550 associations and the central association handled 13,510,869 pounds (approximately 275,000 cases⁶) of eggs at a value amounting to 14,701,500 kroner.⁷ Between 15 and 20 per cent of its eggs handled annually are sold on the home market, largely to the wholesale trade. In 1922 the central association exported 11,362,998 pounds (approximately 230,000 cases) of eggs and this represented 11.2 per cent of the total export of Danish eggs.

From a small beginning 28 years ago, this association has gradually developed to be a most powerful and influential enterprise in the Danish egg trade. With its rigid control in collecting eggs from the producers and guaranteeing the consumers fresh, high quality eggs, the Danish Export Association soon created a favorable market demand for its eggs, both at home and in Great Britain, which eventually resulted in better prices. Its standardized products marketed through efficient distributive channels, return a larger share of the consumer's price to the producer than before the days of cooperation. Cooperative marketing has revolutionized the whole Danish egg trade and changed egg production in Denmark from a precarious, unprofitable business to a prosperous industry possessing a fair degree of stability.

All cooperative efforts in Denmark are strongly rooted in the local communities. In the case of the cooperative marketing of eggs the system begins with the local cooperative egg collecting association. Through the local association the members' eggs are gathered at a local station where they are shipped to one of the warehouses operated by the central association.

Besides the Danish Cooperative Egg Export Association, several of the cooperative swine packing plants also handle eggs along cooperative lines. The egg producers within the territory of the cooperative swine packing plant organize into a cooperative egg association which functions through the man-

⁶ Figured on the basis of 360 eggs to the case.

⁷ A kroner at par is equivalent to 26.8 cents.



FIG. 10—LOADING DANISH EGGS AT ESBJERG, DENMARK.

Eggs are marketed on a cooperative basis through cooperative egg marketing associations, cooperative bacon factories, and cooperative creameries. Each producer's eggs are identified with a number which has made it possible to check on quality very easily.

agement of the cooperative packing plant. The membership in the egg association and its financial affairs are distinctly separate from those of the cooperative packing plant, although most of the members belong to both. The eggs are packed and merchandised by the management of the cooperative packing plant.

Farmers' Cooperative Buying Activities—Cooperative buying among the rural population has been extensively developed in Denmark in the purchasing of agricultural supplies, such as feeds, fertilizers and seeds, as well as household necessities.

The livestock type of farming developed in Denmark during the last half century has meant an increased consumption of feed stuffs. In the late nineties Denmark changed from a grain exporting to a grain importing country. Home production was unable to supply the increasing consumption of feeds, especially barley and corn. The principal oil cakes fed to livestock were cotton seed cake, sunflower cake (imported chiefly from Russia), soybean cake and soybean meal, linseed cake, cocoanut and peanut cakes.

Practically every farmer buys oil cake and corn for his cows and pigs. This provides a basis for common interest among the farmers in each community, which is helpful to the cooperative purchasing association. The difficulty experienced in getting quality feeds at reasonable prices, especially imported grains and oil cake, prompted the farmers to extend the principle of cooperative buying to this part of their farm business.

Cooperative buying of feeds is done through central federations. The whole country is covered by four such associations which now purchase and distribute between 45 and 50% of Denmark's annual import of feedstuffs.

The Jutland Cooperative Association for the Purchase of Feeding Stuffs (Jydsk Andels-Foderstofforretning, Copenhagen), which operates on the Jutland Peninsula, is the first and largest of its kind in the kingdom. It was started in 1898 with 68 local associations and the first year had a turnover of 26,234,740 pounds of feeds at a value of 1,100,000 kroner. The central federation now comprises 874 local units, with 47,000 individual farmers as members. In the fiscal year 1932-33 this cooperative enterprise did a business of 56,017,586 kroner. It has built up a reserve fund of 7,109,611 kroner plus a special protection fund in case of falling prices of 1,700,000 kroner.

The central association engages chiefly in purchasing feedstuffs (grains and oil cakes) which its members need for home consumption. In some instances the association sells home-grown grains and home-manufactured oil cakes for its members. Branch offices and warehouses are established at several important seaport and railway centers. This property is usually owned by the central association. The distribution to the local associations, as they order, is made from the nearest warehouse.

Again, the Danish farmers rely upon a network of local associations for the distribution of their feeds direct to the farmers.

The first cooperative effort among the farmers for buying their fertilizers was through local associations. In 1901, 22 local purchasing associations for fertilizers in Jutland formed the Danish Cooperative Fertilizer Supply Association. At first its activities were restricted largely to the Jutland Peninsula but both territory and membership were gradually enlarged and it finally became the national federation. The approaching conditions of monopoly and price fixing in the Danish fertilizer trade prompted the farmers to consolidate and rally enthusiastically around one central purchasing association. In 1916 the Danish Cooperative Fertilizer Supply Association (Dansk Andels-Gödnings Forretning, Copenhagen) was reorganized to cover the whole kingdom and is now one central association embracing all cooperative buying of fertilizers among the Danish farmers.

The central association buys all kinds of fertilizers on the open market and distributes to its members at prevailing prices. It maintains headquarters in Copenhagen and two branch offices and several warehouses in provincial towns. With the local associations, the fertilizers are distributed direct from the cars on track.

The central association's membership comprises local associations, formed for the purpose of buying and distributing its members' supply of fertilizers on a cooperative basis, which in 1922 numbered 1525 with 74,000 members.

Denmark claims the first and quite likely the only cooperative cement factory in the world. This association owns a tract of 193 acres with chalk pit and clay areas together with an up-to-date plant in Nörre Sundby in northern Jutland. This achievement on the part of cement users makes one of the most interesting accomplishments in Danish cooperation. Here the users of cement have harnessed the cooperative idea to gain their economic freedom

from trust organization. This freedom was attained through what is commonly known as the cement war in Denmark 1911-1913.

Cooperative Liming and Marling Associations—The application of lime and marl to the cultivated lands is a common practice in most sections of Denmark. Marl beds with a fairly high percentage of lime carbonate are found in many communities. The farmers surrounding the marling pit form a local cooperative association, which owns and operates the digging machine, transportation cars, and movable tracks for distributing the marl to the members' farms. There are more than 50 such cooperative liming and marling associations in Denmark.

Farmers' Cooperative for Livestock Improvement—Improvement in livestock effected through cooperative breeding associations is one of the most remarkable achievements in Danish agriculture during the last half century. Danish farmers work together in cooperative bull associations, cooperative stallion clubs and cooperative cow testing associations. The first cow testing association was formed by 13 farmers in the neighborhood of Vejen in 1895. It was probably the first cow testing association of its kind in the world.

27840
The cow testing association plan was a success from the beginning, and was a real contribution to the improvement of dairy cattle. In 1932 there were 1712 cooperative cow testing associations in Denmark. Through those associations more than 725,000 cows were on test, representing about 48 per cent of the total milk cows in Denmark. This cooperative effort has enabled farmers to lift the average production of their cows to nearly 300 pounds per cow, as contrasted with 200 pounds of butterfat per cow in the United States.

Farm Accounting Associations—The Danish farmers are also using the cooperative idea in keeping farm management records. In many communities, the farmers have organized farm record and accounting associations.

Supplementary Reading

Christensen, Chris L. Agricultural Cooperation in Denmark. Department Bulletin No. 1266. United States Department of Agriculture, Washington, D. C.

VII. AGRICULTURAL COOPERATION IN SWITZERLAND

SWITZERLAND can be considered the cradle of cooperation. Here in the Alps farmers found it expedient to cooperate in most every line of farm business endeavor. Today there are more than 12,000 local organizations in this small country with an average of about 55 members to each association. Many of the local associations are federated into cantonal groups and the latter in turn into national federations. Dairying is the keystone of the cooperative movement. In the export sale of cheese the cooperatives have worked successfully with private corporations in obtaining better distribution and in stabilizing markets. Competent leadership has been one of the outstanding reasons for the pronounced success of cooperation in this country.

THE SWISS farmer is a cooperator. Few nations except Denmark have produced his equal in that respect. There are, on the average, slightly more than nine memberships in agricultural business cooperatives and farmers' organizations for every farm in Switzerland. This large number is in part explained by the fact that many local associations and cooperatives are federated into cantonal or state groups, and the cantonal groups may in turn be united into national federations. This process multiplies the membership. The other part of the explanation is that many growers belong to a number of different organizations. There are few things which the Swiss farmer does not do cooperatively.

Extent of Cooperation in Switzerland—A survey made in 1930 showed 12,160 local organizations with a membership of 671,684, an average of 55 members to the local. In addition to these locals there were 484 cantonal and national associations. Some of these are federations of locals and others are separate organizations with which members are affiliated directly. The cantonal and national groups have 1,582,324 members. In all, there are 12,644 associations with a combined membership of 2,254,008. This membership, divided by the number of farms—236,930—is the basis for calculating the average number of memberships per farm—over nine.

The activities of these associations range all the way from local welfare groups having no financial interest to the highly capitalistic business of manufacturing, marketing, and exporting. The membership of the 12,644 associations was divided in 1930 among the following groups of organizations.

Associations	Number of members
a. General agricultural welfare	514,639
b. General cooperatives	194,007
c. Dairy marketing and processing	332,952
d. Livestock raising	163,971
e. Fruit tree culture	17,770
f. Grape growing and wine making	12,745
g. Distilleries (large industrial alcohol)	1,972
h. Promotion of improved cultural practices	3,278
i. Fruit and vegetable	13,916
j. Alpine pastures	47,130
k. Forests	10,138
l. Improvement of land and irrigation	14,351
m. Threshing and the use of farm machinery	12,671
n. Bakeries, butcheries, and mills	7,457
o. Mutual credit	137,018
p. Insurance	288,292
q. Political	90,101
r. Swiss Farmers' Union	391,600
Total	2,254,008

Only the organizations from (b) to (p) listed above are business cooperatives. It is estimated that about half of the activities of the organizations affiliated with the Swiss Farmers' Union are cooperatives engaged in commercial transactions. Out of the total of the 2,254,008 members listed above, approximately 1,453,468 are members of business cooperatives. An idea of their commercial activities may be had from Table VII. Since many associations carry on more than one line of activity listed in this classification, the totals of the itemized column are greater than the total for the group as a whole. To this list should be added the control and operation of Alpine pastures and forests.

TABLE VII—Commercial Activities of Farmers' Cooperative Associations in Switzerland, 1930*

Activities	Number of associations
Purchasing	1,561
Fertilizers, feeds, and seeds	1,467
Machinery	405
Groceries, clothing, and merchandise	389
Selling farm products	4,156
Milk, cheese, butter	3,494
Grain, potatoes	580
Fruits, wine, cider	439
Other	160
Manufacturing and processing	1,307
Cheese, butter	1,197
Wine, cider, alcohol	73
Other	66

* Many associations carry on more than one line of activity, hence the totals of the itemized column are greater than the total for the group.

Dairying is the Keystone of the Rural Cooperative Arch—Dairying is the principal branch of the country's agriculture. Hence it is not surprising that dairy organizations make up the largest and most influential group in the cooperative field. In Switzerland, dairying and cooperation are inseparable terms and kindred concepts.

Switzerland is a mountainous country and much of its farm land is suitable only for grazing and hay production. The greater portion of this forage is marketed in the form of dairy products. Three-fourths of the farm activities of the country revolve around the dairy cow.

Official estimates place the number of dairy cows in 1934 at 920,777. The annual average milk production per cow for that year was 6,724 pounds. America's annual average is around 4,000 pounds per cow.

Cooperation in the dairy industry begins with the local cheese factories and milk collecting stations. These are federated into 54 cantonal and national organizations.

Dairy Farmers are United by One Central Federation—The hub of the cooperative dairy wheel is the Central Union of Swiss Milk Producers. In 1931 this organization was composed of 20 member federations representing, 3,339 local societies with a membership of 102,423 dairy farmers. Its members controlled in that year the product of 577,684 cows or 68% of all the cows in the country.

A goodly portion of the cattle kept in the high mountain districts are used for breeding purposes only. For this reason the officials of the Central Union estimate that the organization members own over 85% of the dairy cows. This is a good index of the extent of cooperation among the milk producers. Few cooperative enterprises can hope to enroll as high a percentage of the productive units of a single industry.

For the purpose of improving the dairy industry, the Swiss Federal Government early in 1934 gave official support to the cooperative movement by issuing an order authorizing the Federal Council to compel non-affiliated milk producers to join an existing dairy cooperative, or at least to deliver their milk to a cooperative, and to require also that non-affiliated dairy cooperatives join the Central Union or to deliver their milk to one of its branches.

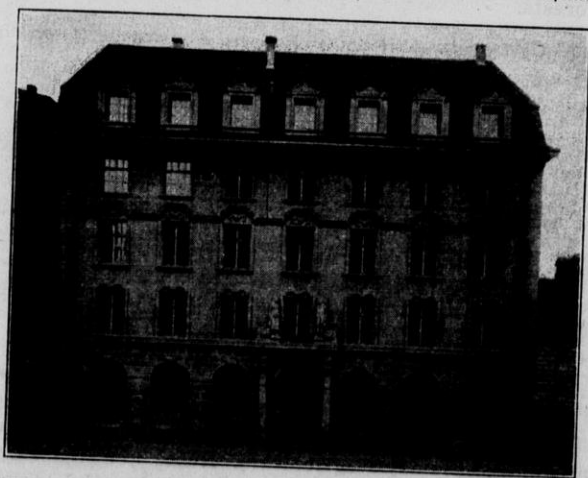


FIG. 11—HEADQUARTERS BUILDING OF A COOPERATIVE MILK PRODUCERS' FEDERATION, BERNE, SWITZERLAND.

The Central Union is primarily engaged in correlating the activities of its many member branches. It is vitally concerned in keeping its members informed on all conditions affecting the status of the market for milk and its products. It is the clearing house for the arrangement of contracts between

its member associations and those with whom they deal—cheesemakers organizations and dealers in milk and dairy products.

The dairy industry in Switzerland has a pooling problem not unlike that of our own associations which supply whole milk to the city trade. In the United States whole milk for city consumption commands the highest price. Since it is easy to oversupply this market, it is highly desirable that an organization control the supply within the city's producing zone in order to divert the surplus into other channels. Since the diverted surplus brings a lower price to the producer, it is necessary to make some readjustment in his favor from the proceeds of milk sold at higher prices. The making of this readjustment on a basis which is equitable to all members is a delicate task.

In Switzerland, the barometer of the industry is the export price of Emmenthal (Swiss) cheese. Milk used for the manufacture of export cheese brings the largest returns to the producer. But this market also is capable of being overstocked. Furthermore, the leaders of the organized dairymen appreciate that their position in the world markets can only be held on a basis of quality. Hence, the central organization has the double task of diverting milk into other market channels, and discouraging the production of cheese for export except in those districts and in those factories where quality standards can be maintained. Since 1910 this task has assumed increasing importance because of the marked decrease in the exportation of cheese. All this requires careful readjustment of price differences between the various groups.

Another major task of the Central Union is to find new outlets, discover new uses, and encourage increased consumption of its commodities. Increased production continually threatens to overstock established markets. Potential surpluses can be avoided only by careful planning for the future. The decrease of cheese exports during the past few years has caused the Union to direct that more milk be used for the manufacturing of butter, which resulted in decreases in the imports of that commodity.

The Dairy Farmer Enters the Export Field—A noteworthy accomplishment of the Central Union is the initiative which it took in conjunction with the Swiss Farmers' Union in establishing a cooperative organization for the exporting of cheese. Before the war the cheese export business was in the hands of a few private dealers. The producers felt that the dealers often acted in unison to the detriment of the interests of the dairy farmer.

In 1911 the farmer definitely decided to enter the exporting field. He was determined to have a voice in the sale of his product beyond his country's borders. In 1911, the Emmenthal Cheese Exporting Company was organized with the express purpose of making sales abroad.

This action precipitated a bitter trade war between the dealers' league and the new organization. After much difficulty, the dairy farmers succeeded in gaining a foothold. Their company established a well organized system of warehouses and in a few years became an influential factor in the exporting of cheese.

Its initial capital was 700,000 francs⁸—\$135,000. This was later increased by successive steps to 5,000,000 francs—\$965,000. The entire amount was subscribed by producers' federations.

Farmers and Dealers Units—At the beginning of the World War the cheese market underwent a crisis. The export market was completely disorganized. Warehouses were filled with a semi-perishable product. Disaster threatened. This situation changed conflict into collaboration. The producers and dealers realized that they must fight for and not against each other if the industry was to be saved.

Hence the producers' and the dealers' organizations joined hands in the founding of a new company, the Swiss Union of Cheese Exporters. The cooperative company and the dealers' organization became branches of the new enterprise. Both participated in its ownership and control. The government also encouraged the movement by subscribing to its stock.

In 1916, the government granted the new company a monopoly in the exportation of hard cheese. Four years later the government withdrew as a stockholder. In 1921, the name was again changed. It is now the Swiss Union for the Sale of Cheese (Union Suisse du Commerce de Fromage). The capital stock is 11,000,000 francs—\$2,125,000. Equal amounts of stock were held by producers' organizations and by the association of private dealers. Later the cheese makers through their Union subscribed 1,000,000 francs—\$193,000 for this stock. The company now embraces the three interests of the cheese industry—producers, dealers, and cheese makers.

The government abolished the monopoly privilege on July, 1926. The company and its operation continued unchanged. The market for its products is a world market. Price-making forces are beyond local control. The industry has learned by experience that the extension or even the maintenance of its foreign outlets requires the united efforts of the entire industry.

The annals of cooperation contain few examples of such close and successful cooperation between the organized producer, the organized maker, and the organized dealer of a product.

The country has other instances of similar joint activities between farmers and dealers. In Bern, for example, the dairy producers and the city distributors operate a milk plant in common. The capital is supplied jointly by the two groups. Expenses and earnings are shared.

The consumer too, is organized to protect his interests. Furthermore, the price of milk, like that of bread, is a public question. Increases in price are apt to make them the subject of political agitation and the object of legislation. The urban Swiss consuming classes, which comprise three-fourths of the population are quite prepared to care for their own interests through concerted and directed efforts.

The Swiss Farmers' Union—This organization represents all the agricultural interests in Switzerland. It is a federation of federations which began in 1898 with a membership of 20 associations representing 74,229 farmers. In 1935, it was composed of 54 affiliated associations having 408,280 members. Hence, it

⁸ In the above figure the Swiss franc was converted at par—19.3 cents.

had in 1935 over 171,000 more members than there were farms in Switzerland in 1930. This is occasioned by the fact that many farmers belong to more than one affiliated group. Yet it is quite evident that nearly all those engaged in agricultural pursuits belong to some cooperative group, and that these groups are extensively federated with other groups operating in the different fields of agriculture.

The work of the Union is divided into two separate categories. The Union proper represents the farmer in placing his interests in a favorable light before the public and before the law makers and it is vitally interested in tariff legislation and in the formulation of commercial treaties. It is also actively concerned in promoting and strengthening the cooperative movement.

The other division of work is known as the "Secretariat." This is a service organization which conducts farm accounting schools, analyzes the data collected on hundreds of farms throughout the country by the accounting method, and makes special economic inquiries.

The Secretariat endeavors at all times to know the economic conditions of Swiss agriculture. So reliable has been its work that the government has turned over to it the task of compiling official agricultural statistical information.

There can be little doubt that the success of the propaganda division owes much to the fundamental and accurate data furnished it by the Secretariat.

Other important services maintained by the Union are the Office of Price Information, Office of Land Valuation, and a Division dealing with Farm Building Construction. See Table VIII.

TABLE VIII—*Expenditures of the Swiss Farmers' Union Classified by Activities, 1930*

Activities	Swiss francs	Dollars*
Office of		
Secretariat	66,595	21,750
Profitableness of agriculture	84,988	27,757
Price information	84,162	27,487
Appraisal and arbitration	61,502	20,087
Building construction & agricultural machinery	335,747	109,655
Livestock raising	18,378	6,002
Home industries	22,642	7,395
Hand weaving	22,245	7,265
Promotion of work in the mountains	31,801	10,386
Swiss Farmers' Union (promotion of national programs and policies)	103,107	33,675
"Payzan suisse" (a publication)	33,468	10,931
Total	864,635	282,390

* Converted at the rate of 32.66 cents to the franc. This was the average rate of exchange for January, 1936.

Swiss Cooperation has Capable Leaders—Most cooperative successes depend much upon the ability of their leaders. So it is with the Swiss Farmers' Union.

At the time of its organization in 1898, Dr. Ernest Laur was appointed Secretary, and Henry Nater was made Assistant Secretary. The efficiency of

the leadership of those two men is attested by the fact that these important administrative positions are still held by the original appointees. Dr. Laur—"King of the Swiss Peasants"—talks little but says much. On the floor he speaks with the careful accuracy of one thoroughly informed. He combines the cold analytical mind of an economist with a sympathetic heart for the welfare of agriculture. Without doubt Dr. Laur is one of the most prominent leaders of agricultural cooperation in Europe today.

Another interesting sidelight on the stability of the Swiss Farmers' Union is shown by the fact that of the 12 members of the Board of Directors in 1930, six had served 25 years, and three had served 20 years.

Supplementary Reading

Hobson, Asher. Agricultural Survey of Europe—Switzerland. Technical Bulletin No. 101. United States Department of Agriculture, Washington, D. C. Pages 29-64.

VIII. TYPES OF COOPERATIVE ASSOCIATIONS

THERE ARE numerous types of cooperative associations. A local association serves a relatively small number of producers in a local area. A federated association sells the products for a number of local associations which are its members. The centralized type of association has its members among farmers and not among local associations. During 1929 to 1932 the Federal Farm Board established national associations which brought together into nation-wide organizations cooperatives which were handling similar products. Terminal sales agencies are cooperative associations that carry on essentially a commission business. Collective bargaining associations, found primarily among fluid milk producers, serve their members chiefly by bargaining with the buyers for a price. Among farmers' purchasing associations both cooperative retail units and cooperative wholesale associations are found. There is no rule of thumb practice in selecting any particular type of association, but the nature of the commodity, the usual trade channels and the character of products must be considered.

Cooperative associations are of many different types and kinds. Some are producers' marketing associations, others are consumers' purchasing companies, while still others are laborers' cooperative companies, mutual insurance companies and credit unions. Associations can be classified, based on the territory served, the commodities handled, and the character of services rendered. In addition, the type of financing, the use or non-use of contracts, and the method of paying farmers for products may be used as other bases of classification. The first three, however, are most useful in understanding the large number of different kinds of associations existing today.

With respect to the territory served, cooperative associations may be grouped into those serving a local, a regional or a national territory. By serving is meant the handling of commodities belonging to members residing in either of these respective regions. Local associations serve a local area, and associations of either the federated, centralized, or combination of the federated and centralized types serve a regional or national territory.

Associations may be grouped into those that handle only one or a few closely allied commodities in which the interests of the producers are quite

identical and those which handle a variety of dissimilar products. Associations classified on this basis are referred to as "single commodity" and as "multiple commodity" associations.

Considering the character of service rendered, a threefold classification of farmers' associations may be mentioned: (1) marketing and purchasing associations, (2) sales agencies or associations that handle members' products on a commission basis, and (3) bargaining associations that are primarily concerned, not with the handling of products, but with the bargaining for a price. Under the first of these associations, the commodity itself is actually handled by the cooperative and the various services involved in the processing, selling, or purchasing are performed. These cooperatives assemble products from or distribute goods to their members. The cooperative cheese factory, the livestock shipping association, and the supply purchasing association are examples. In the second type of association, the number of marketing services is distinctly limited—the selling service on a commission basis being the fundamental marketing function. The terminal sales agencies (page 72) are associations of this kind. The bargaining associations oftentimes do not handle the products of their members, but serve their purpose by negotiating with the buyers of their members' products for a price at which the goods are to be sold. This type of association is described on page 72.

Local Associations—Of all the types of farmers' cooperative associations the local is the most common. These are found in large numbers among the producers of almost every type of agricultural commodity that is marketed cooperatively. A local association serves a relatively small number of producers that have similar selling and buying problems. Cooperative creameries usually have an average of 200 producers as members—cheese factories 25 to 50—and local livestock shipping associations ordinarily 100 to 200 members. Cooperative oil and other local purchasing associations have about the same number. These members usually live within a relatively restricted area. In some cases the entire membership of a cheese factory lives within a radius of two to three miles about the factory. Many local creameries and local livestock shipping associations find the most distant member living less than 10 or 15 miles from the plant or local shipping point. In some cases, however, a local association may expand beyond these ordinary limits. Thus in a large cooperative creamery in Wisconsin which obtains the cream from 500 to 1,000 producers, the members may reside as far as 25 to 35 miles away.

A local marketing association is primarily concerned with the efficient assembling, processing, grading, and shipping of farm products. In the case of creameries and cheese factories, the processing of milk and cream into marketable products such as butter and cheese is the principal function. A local association is not engaged in a comprehensive sales program, does very little advertising, if any at all, and ordinarily does not store products for its members in an attempt to secure thereby higher market prices. Usually someone from the rural community acts as manager of the association. The business is ordinarily financed by members themselves or through loans. It is strictly an autonomous organization, but it may join with other local groups to form an overhead organization such as the federated sales association.

In the case of the local, the membership control "runs" from the farmers to the local. (See Fig. 12). This control is either indicated through the purchase of a share of capital stock or a membership certificate or through the signing of a membership contract. The products are ordinarily delivered to the local plant, local warehouse or local shipping point to be received, weighed, graded, inspected and prepared for shipment by employees that have been hired by the local association. The advantages realized are given to members in the form of increased services or higher net returns. In the purchasing associations, the gains are realized through the lower net cost, higher quality of goods, or a superior service.

The Federation—One type of central marketing organization is the federation. Its purpose is to sell the products for a number of local associations. It is primarily a sales association that renders marketing services connected with the handling and selling of goods produced by the members of the local association. The membership of a federation consists of autonomous local groups. (See Fig. 12). Sometimes locals are members of district associations or exchanges, and these in turn are members of the central federation. The locals, as mentioned before, have their membership among those in the community which they serve. The products which the local association has to sell are shipped by the local to the market designated by the central sales manager. He receives his appointment from the board of directors elected by the membership of the federation. Ordinarily, local associations agree by contract to sell all of their produce through the federation, although there are many exceptions to this.

If district exchanges or warehouse groups are included, it is common to use three contracts—farmer to local, local to district, and district to central. A federation may provide physical facilities, such as processing and packing plants, warehouses, and sales rooms, in order to handle the products in a wholesale fashion. Technically the headquarters of the federation are comparable to the business agencies found in the wholesale market for agricultural commodities. The federation may perform the functions of the ordinary wholesale receiver, jobber or broker in the wholesale produce trade. It may sell directly to the retail trade through its own sales and distributing departments or it may limit its integrations by using established brokers, processors, or jobbers. It may also grade and standardize the products, establish brands, advertise and sell the same in different markets of the country in competition with other handlers of identical products. In addition to establishing a price policy and a sales program, the federation often finances local associations by permitting the local to draw sight drafts against the federation at the time of the delivery of the products.

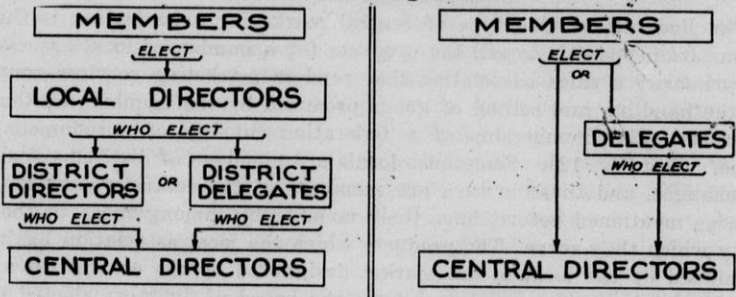
It is usually the custom for a federation to be established after a number of local associations have been in existence and have voluntarily agreed among themselves to set up a central selling agency; but there are numerous instances of successful federations that have been conceived and set up at the same time that local associations were organized in rural communities. This has been the case in several instances when the general farm organizations took an active part in setting up a cooperative marketing system which included both local and central sales organizations. After the federation has

been established it may become the organizing agency of new local associations which affiliate with it after their organization.

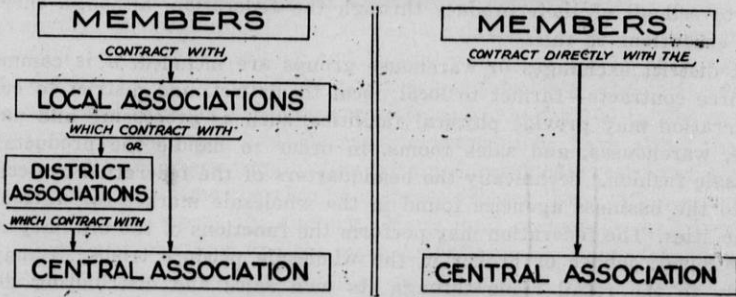
The Centralized Association—Another type of large scale marketing organization is the centralized association which is similar in many respects to the federation. The difference is mainly in form of organization and in the relationship of its members. (See Fig. 12). About 1920, the centralized type

FEDERATED TYPE || CENTRALIZED TYPE

1. Line of Voting Control:



II. Contractual Relationship with Members:



III. Line of Ownership:

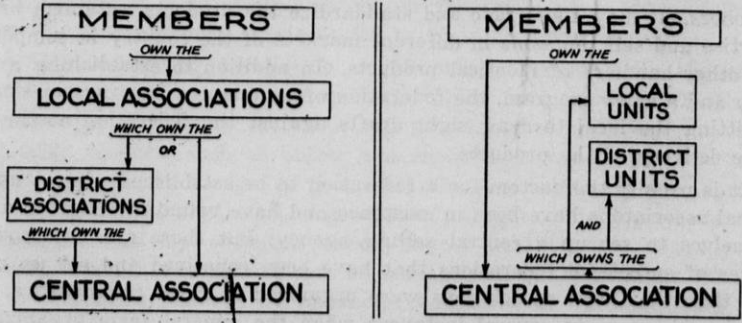


FIG. 12—VOTING CONTROL, CONTRACTUAL RELATIONSHIP AND OWNERSHIP OF MEMBERS IN TYPICAL FEDERATED AND CENTRALIZED COOPERATIVE ASSOCIATIONS.

of association was advocated strongly in the United States by certain leaders of cooperative marketing. These associations, as the name suggests, centralize the marketing activities of a large number of farmers that reside over a widespread area into one organization. The membership is directly from the farmer to the central organization which may have its headquarters at a point greatly removed from the locality in which the farmer resides. Membership contracts which are ordinarily an important part of these associations run from the farmer-producer to the central association rather than to a local association as in the case of the federated type. Only one contract is used as against the two or three of federations.

The centralized association, however, may provide physical facilities for the local assembling, grading, packing, and shipping of the members' products, but such local plants or warehouses are under the control and jurisdiction of the officers of the central headquarters rather than under the management of the farmers in the community where such a local plant is located. Products of non-members are not handled which is not always the case with federations.

The products which the farmer has to sell are delivered to a local warehouse or processing plant, selected and operated by the central organization. These products are sold through the headquarters of the centralized association. In order that the local farmers may have control and jurisdiction of the centralized cooperative, the entire membership is districted and each district elects a delegate to represent it at the annual meeting of the cooperative. From the delegates a board of directors is elected who have charge of the management. In this type of association the autonomous local association is eliminated.

Combination Form of Association—Some cooperatives combine certain features of the centralized type of association and of the federated type. In these cases it is found that the members may belong to a local association and in addition may have membership and contractual relations with the central association. The locals are autonomous and are under the control and management of the local farmers rather than the control of the central headquarters in some distant city. At the same time, however, the members are affiliated with the central association, either through the ownership of stock in the central or through the signing of membership contracts with it. Products are ordinarily delivered to the local plant, and as in the case of the federation, are sold by the central sales office. Its expenses, its problems, its earnings and losses become the concern of the local group rather than that of the overhead central organization as would be the case in the strictly centralized type of association.

National Associations—During 1929 to 1932 a definite attempt was made by the Federal Farm Board to organize national marketing associations. Each national association brought together into one nation-wide organization, cooperatives which were handling similar products, but were serving restricted areas in this country. Thus, the Texas cattleman is brought into the same organization with the Wisconsin livestock producer through the National Livestock Marketing Association. The members of the nationals were composed of either federated or centralized associations that were already set up to market the products of their respective memberships in limited producing areas. Ordinarily a contract was signed between the national association and

its members. It performed certain services for the members which related to sales policies, pricing policies, membership relations, trade relations, publicity, research, and problems of a general character. Sales departments were established by five of the six existing national associations.

Terminal Sales Agencies—In the terminal livestock, fruit and vegetable markets, cooperative terminal sales agencies handle products on a commission basis. Since there are no contracts between the local associations at country points and the terminal sales agencies, it is the practice for these agencies to handle products for members and non-members alike at the usual prevailing commission rates. The sales agency is ordinarily placed on the market by a federation of local associations and individual producers that regularly sell in the market. General farm organizations have also aided in their establishment. Only member associations are eligible to receive patronage dividends.

The terminal sales agencies differ from marketing federations in the number and types of services performed. From the standpoint of structural organization they are alike—farmers are members of locals and locals of central associations—but whereas the sales agency conducts essentially a commission business, does little or no advertising, branding of products, or storing, the marketing federation as previously described performs numerous marketing services.

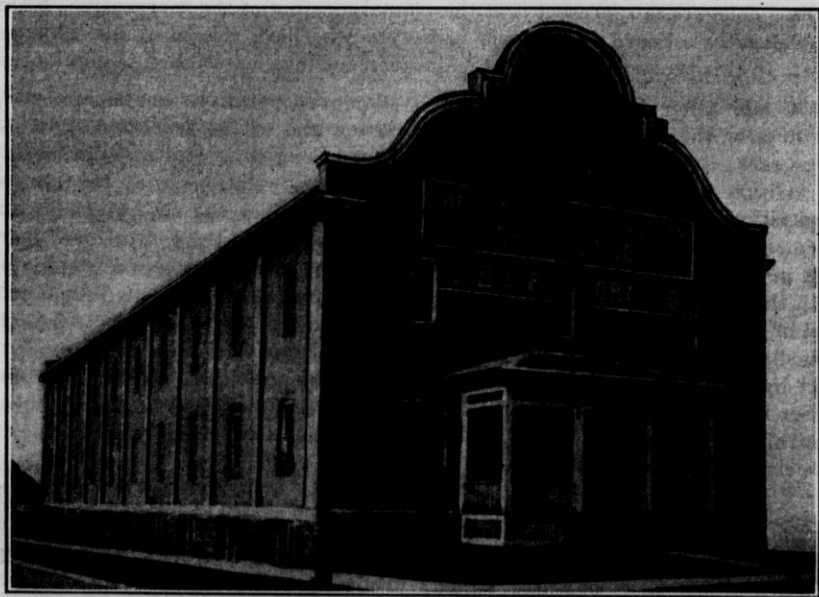


FIG. 13—COOPERATIVE WAREHOUSE OF A CENTRALIZED TYPE OF ASSOCIATION.
The above cooperatively owned warehouse is used for storing and packing cigar leaf tobacco.

Collective Bargaining Associations—In some respects the collective bargaining associations are comparable to labor unions, but whereas laborers bargain with employers over wages and laboring conditions, the farmers' col-

lective bargaining associations bargain with purchasers of farm products over the prices and conditions of sale of the farmers' products. The products are marketed, i.e., processed, packed, and distributed by the buyers, but the price at which all of the members of the association sell to the buyers is arrived at through negotiations between the farmers' bargaining associations and the buyers. This type of association is found most commonly among milk producers who supply city markets and condenseries. Sometimes additional services other than mere bargaining are performed by the association for the members, namely, checking the accuracy of weights, tests, grades and market uses of the product, improving the quality, changing trade practices, and making payment to the producers. Each farmer delivers his products to the buyer directly. The association does not handle the product. Some bargaining associations have expanded their activities to include the operation of milk processing plants for "surplus" milk, for example, in city milk markets. When this is done they are no longer strictly bargaining associations, but bargaining and marketing associations combined.

Retail and Wholesale Associations—Among consumers' associations two types may be listed: (1) local associations conducting essentially a retailing business, such as cooperative grocery stores; (2) central purchasing associations conducting primarily a wholesaling business and supplying local cooperative retail units with the supplies they handle. At the present time (1936) the number of cooperative wholesale organizations and of cooperative retail units in the country is not large. Some of the larger wholesale establishments also operate mills and engage in processing. The cooperative wholesale organizations may be of the federated type in which autonomous locals are members of the central association or they may be of the centralized type in which the membership of each individual is connected directly with the central association and in which the retailing and wholesaling operations are integrated and carried on by the central associations. In some cases a combination of the federated and centralized forms of organization is used.

Factors Affecting Choice of Type—No rule can be laid down as to which type of association should be adopted. The various types have been developed to meet particular demands resulting from the nature of the product, the usual trade channel or the character of production. It is entirely possible, for instance, for farmers to enter into the retail distribution of milk in city markets, but frequently only collective bargaining associations have been formed and the actual handling of the milk has been left to other agencies. Furthermore, tobacco farmers could organize a federation consisting of local organized groups about warehouse centers instead of a centralized type of association. Yet, the centralized control and supervision of all branch warehouses has proved to be workable and as some contend "the only thing." Therefore, in determining which type to use one must consider whether any cooperative groups are already organized in the field, what experience has been encountered in other localities, what the objective or aim is in organizing the producers, and whether or not there are certain peculiarities incident to the production and marketing of the product which demand one type in preference to another. The test of which type of organization to adopt is the effectiveness

with which the specific marketing problems can be worked out under the chosen system rather than the popularity of any particular plan.

Supplementary Readings

Cooperative Marketing of Farm Products. Bulletin No. 10. Federal Farm Board, Farm Credit Administration, Washington, D. C., 1932.

Cooperative Marketing Makes Steady Growth. Bulletin No. 8. Federal Farm Board, Farm Credit Administration, Washington, D. C., 1932.

IX. FINANCING OF COOPERATIVES

ADEQUATE FINANCING has long been held to be one of the fundamentals of sound business operation. A cooperative requires capital for organization purposes, for the purchase of facilities and for operating purposes. Such capital is obtained from members, investors, credit agencies and from the operations of the business itself. The sale of common stock and deductions from payments to producers are two means of obtaining capital from the members themselves. The sound financing of a cooperative requires the building of reserves.

Use of Capital

For Organization Purposes—The first need for money in cooperative association is usually for organization purposes. Before an association actually starts business operations money may be needed to meet expenses arising in (1) determining the need of an association, (2) developing a plan of organization papers, (5) printing of articles, by-laws and other necessary organization papers, (6) selling stock or collecting membership fees, and (7) obtaining membership contract signatures when membership contracts are to be used. Of course, if a study of a problem does not show clearly a need for organization and a general desire to organize on the part of prospective members, then there would be little purpose in carrying the organization plans further.

While adequate preparation is highly desirable preliminary to organization, nevertheless, use of money for this purpose should be looked upon as an expense and not as an investment in a tangible assets, such as buildings and equipment. It is, therefore, desirable to have as much as possible of the organization expense including the sale of stock, carried on without deductions from money invested in the association as capital stock. Organization expense can often be kept at a minimum if a number of people share in the preliminary work. If several join in the organization work the burden will not fall too heavily on a few and there is likely to be group interest and group responsibility from the start. Probably for these reasons, and possibly also to discourage "professional" organizers, the Wisconsin Cooperative Law prohibits the use of more than 5% of the money for organization purposes which is received from the sale of stock. The Wisconsin College of Agriculture and the State Department of Agriculture and Markets render valuable assistance,

and without charge to groups in the state contemplating the development of cooperative associations.

For Facilities—One of the main needs for money by a cooperative business association is for acquiring facilities such as plant, plant site, machinery and equipment. This is particularly true in local marketing associations, such as creameries and cheese factories, which engage in manufacturing or processing. These facilities are what the bookkeeper and accountant call the fixed assets of an association. Insofar as reasonably possible it is desirable to have the members furnish the money for the fixed assets as this will give the association a strong financial beginning and a good credit base. Seldom is it desirable to plan to borrow on fixed assets more than 50 or 60 per cent of their market value.

For Operating Purposes—Another major use of money is for operating purposes. This includes money for the payment of salaries and wages, insurance, taxes, purchase of goods for resale by purchasing associations, and in general, for all out-of-pocket expenses. It is a common experience to find cooperatives reasonably well financed from the standpoint of money for fixed assets, but not having enough operating capital. If the members have furnished the money for fixed assets then these facilities can be used as security for borrowing money for operating purposes. If fixed assets are also under financed then the problem is much more difficult of solution. While members should furnish a substantial part of the total capital requirements of an association, especially for fixed assets, the amount each member would be required to furnish could still be small and within his means.

Methods of financing are discussed in later sections of this chapter, but it may be well to note a few advantages which come from having adequate working capital. One of these is the opportunity it gives the management to take advantage of cash discounts in the purchase of supplies. Such discounts or reductions in price are usually one or two per cent for cash, or payment within ten days of purchase. When figured on an annual basis this amounts to an attractive rate of interest. Plenty of working capital permits buying in large lots, rather than on a hand to mouth basis. When quantity purchases are made with discretion substantial savings are frequently possible. In general, prompt payment of bills adds to the business reputation of a cooperative as well as a private business, and plant and equipment are likely to be kept in a better state of repair and efficiency when adequate working capital is available.

For Advances—Still another important use of money is for advances or part payments to farmers for commodities delivered to the association to be marketed. It is not only desirable but necessary to pay farmers something at the time or shortly after the product is delivered. Moreover, the association can generally borrow for this purpose easier and at lower rates of interest than the individual farmers.

When full payments for farm produce are made within a relatively few days, or even few weeks after delivery, such is in a local livestock shipping association, or in creameries or cheese factories engaged only in local processing, advances or partial payments are usually not made, and, therefore, capital is not required for this purpose. However, in some sales associations final

payments are delayed several weeks or even months, due to an extended storage or marketing period as in associations handling products produced seasonally but marketed over a much longer period. Expense incurred in storing and warehousing might properly be included in operating expense, but it seems desirable to distinguish that part of financing which results directly from the use of money for advances or partial payments to producers.

Source of Capital

Cooperative business associations obtain funds from (1) members; (2) investors; (3) credit agencies; and (4) business operations. The manner in which these funds are obtained, the security and the relationship of the individual or agency which furnishes the capital to the association which uses it, offer a basis of classification of such funds, somewhat as follows:

1. From members
 - a. Common stock
 - b. Membership fees
 - c. Certificates of indebtedness
2. From investors
 - a. Preferred stock
 - b. Bonds
 - c. Certificates of indebtedness
3. From Credit agencies
 - a. Organization loans
 - b. Facility loans
 - c. Operating loans
 - d. Commodity loans
4. From business operations
 - a. Deductions from payments to member and non-member patrons
 - b. Application of earnings or savings to reserves and surplus
 - c. Delayed payments to patrons for products marketed
 - d. Indirect loans resulting from delayed payment of bills or accounts payable

There is naturally some overlapping in the above classification, since a member's financial relationship with the association may be that of an investor or creditor, as well as a member. Moreover, a member is affected directly by the operating policies of the association and its method of financing business operations.

Members of an association must usually provide the initial capital for business purposes. The manner in which this is done will depend largely upon the form of organization and the nature of the business. In an association organized with capital stock the initial capital is provided through the sale of common stock, and in some associations also through the sale of preferred stock.

Common Stock—Associations are usually organized on a stock basis when large amounts of capital are needed. Members tend to look upon the purchase of stock, both as an investment and as a membership responsibility. Capital stock is issued in the form of common stock and preferred stock. Most cooperative associations limit their issue to common stock, although there

are important and frequent exceptions. Common stock is more satisfactory than preferred stock from the point of view of the cooperative itself, since the common stock carries no fixed interest rate. The board of directors determines annually what dividend rate, if any, is to be paid on common stock.

In stock associations the ownership of one or more shares of common stock is usually required for membership and voting privileges. Moreover, the ownership of common stock is often limited to producer members and restricted as to the amount each member may own at any one time. It is desirable in planning a cooperative to make adequate provisions to assure that the stock will be kept in the hands of active patron-members at all times.⁹

Preferred Stock—Preferred stock seldom carries any voting or membership privileges, but it usually specifies a fixed rate of interest. Such interest is cumulative for some associations until paid. The holders of preferred stock, regardless of its cumulative feature, have a prior claim over common stockholders upon the annual earnings of the association up to the amount of the interest, and ordinarily in case of dissolution, upon the assets of the association up to the par value of the preferred stock. Restrictions on ownership are seldom placed on preferred stock in cooperative associations.¹⁰ Thus holders of preferred stock are likely to be more interested in the association as investors than they are as members. Large issues of preferred stock will tend to place on the association an undesirable, heavy interest burden at all times and also make the common stock less attractive to members and prospective members.

Membership Fees—When the non-stock plan of organization is followed initial capital is usually provided through membership fees. This plan is less adaptable to associations requiring large amounts of capital, since it is seldom possible to raise large sums in this manner and, no doubt, for the reason that people tend to look upon membership fees as charges or donations.

The property rights in a non-stock association, naturally do not accrue in the same manner as in a stock association. An association must provide that members shall have either equal or unequal property rights. Equal property rights mean that each member has the same (equal) claim on the property of the association regardless of the amount of business he does as a patron. Because of the varying amounts of products purchased from or marketed through the association, it is usually provided that property rights shall be unequal and in proportion to the business transacted as a patron with the association. The basis upon which property rights is to be determined must be stated in the Articles of Incorporation.¹¹

⁹ An association is given broad powers with respect to the restriction of ownership, transfer, and recall of common stock, provided that such restrictions are set forth in the Articles of Incorporation of the Association and printed upon the stock subscription paper, if any, and upon the stock certificate. See Chapter 185.081, Statutes of Wisconsin relating to cooperative associations.

¹⁰ "The association, if it issues preferred stock, may provide, by contract with its members or patrons, for retaining, out of any moneys due from the association to said members or patrons, an amount sufficient to pay the dividends on and to retire such preferred stock. An amendment relating to preferred stock must be adopted by a vote of three-fourths of the holders of the preferred stock and three-fourths of the holders of the common stock." See Chapter 185.02, Section (3) Statutes of Wisconsin relating to Cooperative Associations.

¹¹ "The articles, if the association is organized without capital stock, shall state whether the property rights of members shall be equal or unequal, and if unequal, the rule by which their rights shall be determined. The provision relating to property rights shall not be amended or repealed, except by the vote of at least three-fourths of the members." See Chapter 185.02, Section (4) Statutes of Wisconsin relating to Cooperative Associations.

Certificates of Indebtedness—Certificates of indebtedness are issued by some cooperatives as evidence of investment of capital, usually through deductions from payments for products marketed through the associations or from earnings which are prorated but not distributed. The use of certificates of indebtedness as a means of raising membership capital often has two distinct limitations. One of these is that such certificates frequently carry a fixed rate of interest the same as notes or mortgages.

The second undesirable feature of some issues of certificates of indebtedness, from the standpoint of an association, is that such certificates are usually issued for a two to five year period and the association is not only obligated to pay the interest, but also the principal on a fixed date. To be sure, other certificates can probably be issued to offset them, at least in part, but should the association experience a difficult financial period or a substantial shrinkage in volume of business such a capital payment would become a serious burden.

Certificates of indebtedness, when used as evidence of investments by members in a revolving fund, do have the advantage of keeping the ownership of the association in the hands of active members, and approximately in proportion to the volume of business transacted currently with the association. Certificates of indebtedness are sometimes issued as "certificates of interest" with no definite interest rate and no due date. The board of directors then determines each year what rate of interest shall be paid and what proportion of the certificates shall be purchased and cancelled during any one year by the associations. Such certificates of interest are popular with an increasing number of associations.

Bonds—Bonds are not used extensively in financing by cooperative associations. While there are many types of bond issues in private business, none of them has found favor among cooperatives, except by a few large associations. Bonds, like preferred stock and sometimes certificates of indebtedness, are purchased as investment quite apart from membership, and the holders of such issues tend to become interested in the association as investors rather than as members—a distinction deemed important in the cooperative form of business.

Loaning Agencies—Capital supplied through the issuance of stock or certificates of indebtedness, or through the collection of membership fees must usually be supplemented with borrowed funds. Loans are obtained by cooperatives primarily from (1) local banks, (2) district banks (or the Central bank) for cooperatives, (3) Federal Intermediate Credit Banks, and occasionally from (4) individuals and from (5) other cooperative associations. General farm organizations have frequently sponsored cooperative business associations and supplied them with early finances. The banks for cooperatives and the Federal Intermediate Credit Banks are a part of the Farm Credit Administration which is described briefly in Chapter IV.

Types of Loans—Loans to cooperatives are usually classified as (1) organization loans, (2) facility loans, if the money is to be used for plant and equipment, (3) operating loans, if the money is to be used primarily for cur-

rent operating purposes, (4) commodity or warehousing loans, when the loans are secured entirely by warehouse receipts.

No sharp distinction can be made between these types of loans since they are not classified entirely on the basis of use, security, or duration. For example, both facility and operating loans are frequently obtained with fixed assets pledged as security. The use made of such money, borrowed on the security of fixed assets, might be interpreted as financing facilities or as financing operations. The duration of the loan is often used partly as a basis of classification—an operating loan being limited to a single operating season or to not over a two or three year period, while a facility loan is often made for a period of eight or ten years. Commodity or warehouse loans are really operating loans backed by a special type of security such as warehouse receipts on products in bonded warehouses.

During 1935 interest rates on loans from the St. Paul Bank for Cooperatives were one per cent lower for operating loans than for facility loans and two per cent lower for commodity loans than for facility loans. The banks for cooperatives are not authorized to make loans for organization purposes. Organization loans are sometimes made by individuals, local agencies, and occasionally by general farm organizations as part of their work in helping members with marketing problems. Each cooperative association which borrows money from a bank for cooperatives is required to own capital stock in the bank. For each \$2,000 or fraction thereof of facility loans or of operating loans (other than commodity loans) an association must own \$100 of stock in the bank. The proportion of stock ownership that is required is much lower for loans classified as commodity loans.

Capital from Business Operations—A considerable amount of financing arises out of business operations in a cooperative association. For example, deductions from payments to member and non-member patrons of a marketing association and the application of earnings or savings to reserves and surplus are important sources of capital. The application of patronage dividends to capital stock or to certificates of indebtedness is likewise a common way of building up membership and capital in cooperatives. When payments are delayed to producers for products marketed it adds to the available capital of an association, at least temporarily. Delaying payment of bills or accounts payable has the same affect as temporarily increasing the amount of available operating capital for other purposes, but, as pointed out earlier in this Chapter, such a practice frequently results in additional cost rather than in savings.

Security for Loans

Fixed assets have in the past constituted the main source of borrowing power of a local cooperative association. Lending agencies relying solely upon security did not investigate much further than to appraise the fixed assets and to check prior liens.

On the other hand, some creditors are now giving consideration to other factors than merely security of the loan, and particularly is this true for the district banks for cooperatives, which frequently assist cooperatives with their business problems, as well as loaning them money. In addition to se-

curity the banks for cooperatives are interested in the use that is to be made of the money, the ability of the association to pay the interest and principal out of earnings, and at the same time to benefit members.

With this point of view all factors relating to the association's operations have a bearing upon its credit rating. The St. Paul Bank for Cooperatives requires substantially the following information from an association prior to making a loan commitment.

1. Nature of business.
2. Evidence that the association meets the requirements of the Capper-Volstead Act, particularly with reference to member and non-member business, producer membership and basis of voting.
3. Specific use to be made of the loan.
4. Detailed description and appraisal of all fixed assets, together with blue prints and photographs, and a complete statement of all prior liens, if any.
5. Basis of repayment.
6. Description of any pending litigation.
7. Certified copy of resolution authorizing directors to make application for loan.
8. Certified copy of Articles of Incorporation and by-laws.
9. Certified copy of marketing and purchasing contracts, including membership agreements.
10. Certified list of officers and their respective addresses.
11. Volume of business in terms of value and units for the previous three years.
12. Copy of audit reports for the previous three years with detailed balance sheets, operating statements and pertinent schedules with any qualifying statements by the auditors. It is usually required that these be supplemented with monthly balance sheets and operating statements subsequent to the last audit and to close of month preceding application.

From such information together with an inquiry into the character and ability of the management, it is possible for the creditor to have a clear indication of the organization's efficiency, its general operating policies, and its ability to serve its members. Particularly is this true if the creditor also understands the competitive situation in the territory.

Associations doing a considerable amount of storing and warehousing make use of warehouse receipts as security for loans. The United States Warehouse Act was passed by Congress in 1916 for the purpose of facilitating the financing of agricultural products while in storage. The warehouse operator is bonded and licensed and the inspectors, graders and weighers are licensed under the Act. The warehouse receipts under such regulations become excellent collateral or security in obtaining loans. Some cooperative associations are making extensive use of this form of security. Moreover, the interest rates are usually 1 to 2 per cent lower for money borrowed on warehouse receipts—usually called commodity loans—than for money borrowed for general operating purposes or for facilities. Administration of the Warehouse Act is under the direction of the Secretary of Agriculture, who also has supervision of warehouse licensing.

Accounts receivable are sometimes assigned as collateral or security for loans in large associations, but this practice is not extensive.

After a loan is made some credit agencies require monthly reports on operations and on the financial condition of the association. This gives them a close check with the actual operations of the association, and, if adverse conditions develop, they have an opportunity to suggest corrective measures at any early date. While objections are sometimes raised to the detail required in such monthly reports, nevertheless, a number of associations have found that this practice of preparing monthly financial statements has definitely aided them in developing better control of their business operations and in checking the soundness of their present policies and practices.

Repayment of Loans

In the past when loans have been made to an association either on basis of notes or mortgages the entire original amount or principal usually became due at one time regardless of the amount of the loan or its duration. Interest payments were, of course, due annually. Unless adequate plans were made for the accumulation of funds over a considerable period of time with which to meet the principal when due, the association found that it was not in a position to meet its obligations. Moreover, such a credit arrangement did not take into account the conditions peculiar to the association or its business.

In recent years plans for the amortization or gradual repayment of loans have come into use. In general such plans work out to the satisfaction of those who borrow money and to those who loan it. The contrast between the old and the new methods, and differences in amortization schemes can probably best be explained if illustrated with a definite example.

A creamery manufacturing and selling 500,000 pounds of butter a year borrowed \$12,000 on a mortgage, payable in ten years with interest at 5 per cent, per annum. During the ten year period it is estimated that the creamery will manufacture and sell 5,000,000 pounds of butter at an estimated average price of 30 cents per pound, giving a total sales value of \$1,500,000. The principal might be repaid on any one of the following bases:

- Case 1. With no plan of amortization or gradual payment the entire principal of \$12,000 is due at the end of the 10 year period.
- Case 2. Amortization of principal at a fixed yearly or monthly rate somewhat as follows:
 - (a) Payment of \$1,200 on the principal on a specified date each year or
 - (b) Payment of \$100 per month on principal
- Case 3. Amortization of principal on a unit or sales basis as follows:
 - (a) Payment of principal at the rate of $\frac{1}{4}$ cent per pound on all butter, or its equivalent, manufactured and sold by the association, or
 - (b) Payment of principal at the rate of 0.8 per cent of gross sales of all products manufactured and sold by the creamery.

From the illustration given it will be noted that under Case 1. the association is required to do the entire adjusting. No arrangement is made with the creditor for meeting the operating conditions of the association. The asso-

ciation is probably permitted to make payments on the principal at the discretion of its officers, but no plan is made in the loan itself for a gradual retirement of the debt.

Under Case 2. a definite annual or monthly payment is made on principal. This method is better than Case 1, but it makes no allowance for any of the many factors which may influence volume or price.

When payments are made on a unit or volume basis, such as illustrated under Case 3. (a), payments on principal will automatically be adjusted according to volume whether such changes are due to seasonal influences or to other factors.

When the repayment of principal is made on the basis of percentage of gross sales, as in Case 3. (b), adjustments are automatically made to temporary changes in both volume and price. If the volume times the price should average higher than estimated then payments will be completed in less than ten years. If it should average lower than estimated then probably the period of payment will be extended or the rate of payment increased accordingly. But if neither of these two adjustments are made there will be an unpaid part of the principal which will be due at the end of the ten years to be paid at that time or refinanced.

If a commodity loan is obtained on the basis of warehouse receipts at the rate of 60 per cent of the market value, then the loaning agency usually requires that repayment be at a somewhat higher rate, probably 75 per cent of the sales value as the product is marketed. The loan will, therefore, be repaid in full before the last of the product is marketed unless there is, in the meantime, a sharp drop in the price of the product. When a loan is made for organization purposes, it is generally required that the loan be repaid during the association's first one to three years of operation.

No one method of payment of principal is likely to be satisfactory for all types of loans and to all associations, but from the above it will be noted that some plan of amortization is likely to result in more certain payment of principal and at the same time be reasonably satisfactory both to the creditor and to the debtor.

Reserves

Sound financing of a cooperative requires the building of reserves which are sometimes referred to as its financial shock absorbers. These funds are the association's protection against financial risks which are not covered in ordinary operating expenses. Depreciation and losses from credit accounts are usually covered as a part of ordinary operating expense.

The desirable size of reserve will, of course, depend upon the nature of the business, the association's operating policies and its general plan of financing. An association should have large reserves if it is engaged in a business in which there are frequent changes in competitive conditions, or a great deal of risk of price variation or of quality deterioration. Likewise, an association making final payments to producers before the entire product is sold should also carry liberal reserves.

Special reserves are frequently advisable where the risk is large. A special reserve against price decline is desirable in purchasing associations which

carry large inventories. In every association there should be a general reserve fund as a protection against risks or contingencies which are not covered by special reserves.

In bargaining associations, such as those usually found in city milk markets, a sizeable reserve fund is usually advisable. Sometimes such reserves are built up as capital in the form of a revolving fund. A sizeable reserve is of distinct advantage in negotiating for favorable prices, since it is evidence that the association can, if necessary, provide the plant and equipment with which to handle its own milk on short notice.

Personal Liability in Borrowing Money

Frequently, in order to obtain funds for cooperatives, the directors, and occasionally other members, or the manager, assign their personal signatures to notes and mortgages. Anyone signing such a note or mortgage, except as an authorized officer or agent of the association, is personally liable for the amount which the association might fail to pay when due, including unpaid interest. Yet 44 farmers' supply associations in Wisconsin in 1935 had indebtedness of this character, totaling over \$233,000. Personal indorsement of loans has been particularly frequent among newly organized local associations. It is not only an undesirable business practice, but if such a procedure is necessary even for new associations it indicates unsound financing on the part of the cooperative.

A much better practice is for the directors of the association to authorize one or more of its officers, such as the president, and secretary or treasurer, by a motion of resolution, to borrow money on behalf of the association for a specific purpose and not in excess of a stated amount. The designated officers should then negotiate for the loan on behalf of the association and sign only as officers of the association. In this way no individual can be held personally liable for the payment of the loan.

Effect of Extension of Credit in Financing

If a cooperative sells on credit or extends credit to members for production purposes it usually needs a lot more money with which to carry on its business than if it sells for cash only and extends no production credit. An association having a liberal credit policy is likely to have a lot of money tied up in accounts and notes receivable, a high collection cost and a substantial loss from poor accounts.

The credit problem is not likely to be serious for a local association which markets only through a reputable sales agency and does not make retail sales. On the other hand, a purchasing association, or an association that actually engages in retail distribution, is likely to have a serious credit problem unless it follows closely a cash basis in making sales. It is not, however, always feasible to operate strictly on a cash basis, as a matter of convenience, or because of custom and competitive trade practices.

Production credit associations are now active in most agricultural areas and there is no longer the same necessity for extending credit in the sale of farm supplies that there was before such credit associations were formed.

Moreover, marketing associations can seldom handle production credit as well as associations organized for that particular purpose.

Various methods have been devised for controlling credit sales where it is not deemed feasible to sell strictly on a cash basis. A common method is to leave extension of credit to the judgment of the manager, but require that he furnish a complete list of outstanding accounts to the board of directors periodically for review. In some local associations the directors prepare a credit list with a maximum credit limit for each person to whom credit may be extended.

Some associations bond their manager or sales force and make them strictly accountable for all extension of credit. In many small associations this plan has worked reasonably well, but it has generally been regarded as inadequate in large associations. Some of the large associations have their own separate credit departments which must pass upon all proposed credit accounts before sales are made. Still others attempt to control credit through a differential in price between cash and credit sales, or through an interest charge on accounts extending over thirty days. A differential in price between cash and credit sales is often desirable because it places upon those who use it at least part of the cost of credit. An interest charge on accounts may be reasonably effective in obtaining earlier collection of accounts, but merely to add an interest charge will probably not help in collecting questionable accounts.

These examples illustrate the methods used in controlling credit, but none of them is fool proof. Where credit accounts are permitted reserves should be set up as a protection against probable loss from poor accounts. From the standpoint of its effect upon finances, and its effect upon operating costs the credit policy of an association is a matter of much importance.

Adjustments in Capital

Cooperatives are usually under-financed and therefore their problem in adjustment of capital is generally one of obtaining more capital rather than to decrease the amount. However, as an association becomes better financed it has a problem of both increasing and decreasing its operating capital. This is because the volume of business usually fluctuates from one season to another, and to some extent from year to year. It is just as important to make efficient use of capital as it is to make efficient use of plant or labor.

Changes in volume of business will affect the need for operating capital since the volume of business affects the current expenditures for supplies, labor, insurance, etc. If an association is marketing products for farmers and making advances, or part payment when the products are delivered, then a larger volume of produce automatically requires additional capital or money for advances to patrons. If the association extends credit on sales the changes in volume of business will likewise automatically affect the amount of capital needed to finance such credit. The seasonal income of patrons receiving credit will influence their promptness in paying for goods purchased. Particularly is this likely to be true in associations handling farm supplies.

An association can adjust its operating capital to meet the changing needs of the association by supplying peak demands through operating and com-

modity loans. Such loans can usually be adjusted in accordance with the seasonal needs and increased or decreased as business may seem to warrant.

Adjustments are difficult to make in capital that has been invested in fixed assets. Some adjustment can be made by the sale or purchase of equipment or by renting equipment during peak periods. This, however, is usually not very satisfactory. An efficient use of capital as far as investments in fixed assets are concerned depends very largely upon prudent original investments rather than upon adjustments after the plant and equipment have been purchased. This means that an association needs to study thoroughly its needs and requirements before any large investment is made in facilities or fixed assets.

Supplementary Readings

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X. COOPERATIVE BUSINESS RECORDS AND THEIR USE

CAREFUL RECORD keeping is an essential part of the business operations of any cooperative. The preparation of an annual report which shows in detail a balance sheet and the results of the operations of the business is necessary for both the management and the membership. The balance sheet which shows the assets and liabilities of the association of a particular date is used for many different purposes. The operating statement should yield information that will reflect the operations of the association in such a way that the membership and management can follow closely the progress of the association.

COOPERATIVE associations often need a more detailed system of records and accounts than do private companies. Since net income in a cooperative is distributed largely on the basis of patronage rather than in proportion to stock, a record should be kept of each person's business with the association, whether it is on a cash or credit basis. Moreover, a member often demands information from his cooperative that would ordinarily not be required by a stockholder in a private company. This is because the member is interested in the operations of his association, both as a patron and as a stockholder. In fact his interest as a patron often exceeds his interest as a stockholder.

Good records have value in the pooling operations of a cooperative. When expenses, sales receipts or products are pooled it is important to know that the pooling is equitable and in keeping with market conditions and with good cooperative practice. Only the information that comes from a good system of accounts will offer a satisfactory basis for intelligent judgment as to the fairness of pooling operations.

A good set of books is valuable to any business, whether private or cooperative, since it provides a systematic and useful record of sales, purchases, credits, collections, expenses, earnings, etc. Records of operating costs often aid the management in detecting unnecessary expenses and wasteful practices.

Accounting and Auditing Service

Although a good set of books is of great importance in the operation of a cooperative business, it need not be elaborate or complicated for most local associations. Bookkeeping systems should, however, be adapted to particular types of businesses, such as creameries, cheese factories, livestock shipping

associations and feed warehouses. Relatively simple sets of books have been worked out for local cooperatives, such as creameries and local oil associations. These are in general use in Wisconsin.

Neither the directors nor the members can each individually check the accounts to be certain that they are accurate, complete and properly kept. Therefore it is desirable that the cooperative have at least an annual audit. The audit should be thorough and should be made by a good accountant from outside the cooperative itself.

An audit should be looked upon as an inspection and checking of the accounts of an association. The audit report is a verification of the accounts or a statement of the auditor's findings. Many cooperative associations have one audit per year. Some have two audits per year. It is only rarely that an association has more than two audits per year.

Regional cooperative associations sometimes have accounting departments which serve local associations. In a few cases auditing associations have been set up strictly for the purpose of making audits and installing systems of accounts on a cooperative basis. Some states, such as Wisconsin and Minnesota, have established state departments to help cooperatives with their accounting problems and to provide auditing services for cooperatives at nominal fees. Auditing and general accounting service may also be obtained from private accountants.

Use of Balance Sheet

A balance sheet of a cooperative is an accounting picture or statement showing the association's financial condition on a given date. The balance sheet is divided into two main parts. One part shows the assets or what the association owns in the form of real property and financial claims. The second part shows the liabilities and the net worth. The liabilities are the debts or what the association owes to others. The net worth is what the members or stockholders have left in the association after allowing for its debts.

In studying the balance sheet of a cooperative one should not look just at the total figures for assets, liabilities and net worth. The items which make up these totals are also of importance. A good way to study a balance sheet is first to look at the size and the nature of the main items which make up the assets, and the liabilities and net worth; second, to compare such figures as current liabilities with current assets, total liabilities with total assets and with net worth; and third, to determine what changes have taken place in the general financial condition of the association. Such changes are easily shown in a comparative balance sheet for two or more years as is illustrated in Table IX.

Assets—The items under assets are usually classified as current assets, fixed assets and other assets.

The current assets include those items which can be turned into cash in a relatively short time, usually within two or three months and during the regular business operations of the association. The main items under current assets are usually cash on hand and in banks, accounts receivable and inventories.

The amount of cash is, of course, an indication of an association's ability to meet its immediate obligations, but too much weight should not be given to this item alone. The amount of accounts receivable shows to some extent the association's credit policy and the ability of the association to control its credit sales. Ordinarily it is desirable to have accounts receivable as low as possible. They should seldom be larger than an average month's business in a local association. In practically every association in which sales are made on credit there should be a reasonable reserve against probable losses from bad accounts. In the accompanying balance sheet the accounts receivable are equal to two months' sales. However, reserves for bad accounts are equal to nearly 20 per cent of the total accounts receivable.

One will often find it helpful in judging accounts receivable if he has the accounts classified as to age, such as those not over 30 days, those 31 to 60 days, those 61 to 90 days and those over 90 days. This will show the length of time that such accounts have been held by the association without being collected. Naturally the older the accounts become the more difficult they are of collection. The age of the accounts are not shown in the sample balance sheet, but it does show that notes and accounts receivable were reduced over \$2,500 during the year.

The next large item under current assets is usually inventories. This includes the goods on hand for resale or goods in process of manufacturing or sale. One should be interested in the amount of money invested in inventories because it is ordinarily expensive to carry large stocks of goods. In judging the size of inventories one should give some thought to the nature of the business because some businesses require larger stocks of goods than others. Large inventories relative to sales tend to make for high operating costs. Small inventories, at the end of the fiscal year, are sometimes misleading, however, since inventories at that time are usually reduced below the normal existing during the remainder of the year. For example, one would not expect an association retailing coal to have more than a small inventory of coal during the late spring months.

Having noted the main items under current assets a person should next examine those under fixed assets. These items usually give a good picture of what the association has invested in land, plant and equipment, and how much of the original cost of plant and equipment has been written off as depreciation. The depreciation rate should be high enough to write off the value of the buildings and equipment during their normal period of service. The rate of depreciation should usually be about 2 to 2½% per year for concrete and brick buildings and 3 to 4% for wooden or frame buildings. The depreciation rate on equipment is usually 10%, although for individual items it is likely to range from 7 or 8% on furniture and fixtures to as high as 20 to 25% on motors, automobiles and trucks. Items, such as milk cans, are often depreciated at an even higher rate, usually 33⅓%, since milk cans are ordinarily not expected to last more than about three years when in regular factory use.

Most of the assets of local associations come under the classification of current assets and fixed assets, but nearly every local cooperative will have a small amount of property or financial claims that are classed as other assets. When an association has paid rent or insurance beyond the date of the balance

sheet the unused part of the premium is shown as an asset. Part of the organization expense in a new association is sometimes shown as an asset. Seldom should any part of the organization expense be carried as an asset for more than one or two years after the beginning of an association. Creditors give little value to items of good will, patents, etc., in a balance sheet, except in special cases. Such items should never be carried in the balance sheet at more than a nominal value. Local associations frequently own stock or certificates of indebtedness in wholesale or regional cooperative associations. Such items are usually classed as investments and are either put under a separate heading or shown under other assets.

Liabilities and Net Worth—The liabilities are important since they are obligations or debts which an association must eventually meet, if it is to continue operating. It is usually a good idea to determine whether any of the liabilities are past due, and also the date on which the main items of debt, such as large accounts payable, notes and mortgages, become due.

If a cooperative has to pay off a large amount of debt on a particular date, or during a short period of time, it presents a difficult financing problem and is often an indication of weakness in the association's financial program. On the other hand, if a plan of amortization or gradual payment of debt has been worked out, and is carefully followed, it is usually an indication of a good financing program.

Accounts and notes which are payable within a relatively short time after the date of the balance sheet are usually classed as current liabilities and all other debts are classed as long term or fixed liabilities. One should ordinarily look for a division of the accounts payable according to whether they are due patrons, employees or others.

Under the general title of net worth are listed the items which indicate the financial interest of members or stockholders in the association. Here one should note the amount of outstanding common stock and preferred stock, and also any part payments or credit towards stock. One should also look under net worth to see how much the association has in the form of general reserves or surplus and how much it has in undivided income.

Financial Comparisons—After one has a fairly clear impression of the main items under assets, liabilities and net worth he is ready to raise and answer certain questions. One will probably ask what changes have taken place in the finances of the association during the year. The answer to this question is apparent when one compares the most recent balance sheet of the association with those made previously and in a manner similar to that shown in Table IX.

In studying the balance sheet one should ask what is the probable ability of the association to meet the obligations or debts that will come due within the next few months. One way of answering this question is to find out how many dollars of current assets the association has for each dollar of current liabilities. This is done by dividing current assets by the current liabilities. It is usually desirable to have current assets about twice as large as current liabilities. In the sample balance sheet the current assets were four times as large as the current liabilities in 1932 and nearly six times as large in 1933.

TABLE IX—A Comparative Balance Sheet of a Local Cooperative Supply Association

ASSETS					
	December 31, 1933		December 31, 1932		Change
Current Assets:					
Cash on hand and in banks	\$ 10,031.76	\$ 1,232.54	\$ 10,921.64	\$ 752.27	+\$ 480.27
Accounts receivable	1,985.58	8,046.18	1,336.20	9,585.44	- 1,539.26
Res. for bad accounts					
Notes receivable		2,041.31		3,075.46	- 1,034.15
Merchandise inventory		8,783.77		9,100.37	- 316.60
		20,103.80		22,513.54	- 2,409.74
Fixed Assets:					
Land		849.92		849.92	
Buildings	4,681.76		4,681.76		
Res. for depreciation	2,923.44	1,758.32	2,600.38	2,081.38	- 323.06
Warehouse equipment	2,298.24		2,289.37		
Res. for depreciation	422.99	1,875.25	193.45	2,095.92	- 220.67
Delivery equipment	4,262.40		4,204.90		
Res. for depreciation	3,677.18	585.22	2,650.53	1,554.37	- 969.15
Total fixed assets		5,068.71		6,581.59	- 1,512.88
Other Assets:					
Prepaid Expense		131.00		179.35	- 48.35
Investments		5,950.13		5,081.66	+ 868.47
Deposit in closed bank		1,437.81		.....	+ 1,437.81
Total other assets		7,518.94		5,261.01	+ 2,257.93
Total assets		\$32,691.45		\$34,356.14	- 1,664.66
LIABILITIES AND NET WORTH					
	December 31, 1933		December 31, 1932		Change
Current Liabilities:					
Accounts Payable	\$ 1,176.57		\$ 4,036.25		-\$2,859.68
Notes payable	1,835.00		1,057.75		+ 777.25
Accrued expense	412.59		414.85		- 2.26
Total current liabilities	\$ 3,424.16		\$ 5,508.85		- 2,084.69
Fixed Liabilities:					
		None		None	.....
Net Worth:					
Common stock issued	\$18,280.00		\$18,110.00		+ 170.00
Part payments on stock	576.21		500.41		+ 75.80
Surplus	7,890.81		8,020.84		- 130.03
Net income for year	2,520.27		2,216.04		+ 304.23
Total net worth	\$29,267.29		\$28,847.29		+ 420.00
Total Liabilities and Net Worth	\$32,691.45		\$34,356.14		- 1,664.69
Net sales for year	\$60,646.67		\$60,555.30		+ 91.37

In local marketing associations in which the products are sold and the money obtained before final payments are made to the producers the current assets need not be much larger than the current liabilities. In no case should an association have current assets lower than current liabilities as such a condition indicates that the cooperative might have serious difficulty in meeting its short term obligations.

It follows that one would next be interested in the ability of the association to meet its total debt or total liabilities. This situation will depend more upon volume of business and operating efficiency than upon the condition of the balance sheet on a particular date. The relative amount of security back of such indebtedness is, however, shown by dividing the total assets of the asso-

ciation by the total liabilities. In the sample balance sheet the association had \$6.24 in 1932 and \$9.55 in 1933 of assets for each dollar of total debt. This is unusually high. The larger this ratio, as a general rule, the stronger is the long term credit position of the association.

Another measurement of the debt burden of an association is obtained by dividing the net worth by total liabilities. The sample balance sheet shows that the members had an equity of about 85 cents for each dollar of total debt. The larger this figure, the lighter is the debt burden in proportion to the equity of members and stockholders.

If one wants a measurement of the efficiency with which fixed assets are used he can obtain it by dividing the annual sales by the fixed assets. This shows the amount of business that is done per dollar of investment in land, plant and equipment. The sample balance sheet shows five dollars of business for each one dollar in fixed assets (at cost). The greater the volume of business per dollar of fixed assets the lower is likely to be the operating costs with respect to depreciation, property taxes, insurance and usually with respect to total operating expense. Consideration should be given to the fact that some associations rent a considerable part of their plant and equipment and some others, such as local gasoline and oil associations, have employees furnish part of the equipment on a commission basis. In many retail oil cooperatives the truck operators furnish their own trucks and are paid on a commission basis for their services, including the use and the operation of their trucks.

Operating Statements

Operating Expenses—It is often difficult to measure accurately the operating efficiency of a cooperative association since efficiency depends upon many factors. Probably the most valuable single test, however, is that of operating expense which should be considered together with the service rendered and the general operating conditions.

Most local cooperative associations prepare an expense statement for their members at least once annually. These statements could often be made more valuable to members if the various items of expense were shown both in total amount and in cents per unit of volume or in percentage of sales. Such statements would likewise be more valuable if they showed the major changes that took place during the year. This type of sales and expense statement is shown in summary form in Table X for a cooperative milk distributing association.

TABLE X—A Comparative Operating Statement in Summary Form for a Cooperative Milk Distributing Association*

	1935		1934		Change in	
	Amount	Percentage of Sales	Amount	Percentage of Sales	Amount	Percentage of Sales
Sales	\$163,610.61	100.00	\$153,588.93	100.00	\$10,021.68	.....
Operating Expenses Summarized:						
Office	\$ 3,731.79	2.28	\$ 4,377.05	2.85	— 645.26	— .57
Delivery	34,631.96	21.17	33,001.61	21.49	+ 1,630.35	— .32
Plant	17,288.27	10.57	16,890.23	11.00	+ 398.04	— .43
Administrative	10,121.48	6.18	10,313.52	6.71	— 192.04	— .53
Total Expense	\$ 65,773.50	40.20	\$ 64,582.41	42.05	\$ + 1,191.09	— 1.85

* The total figures have been changed so as not to reveal the identity of the association, but the percentages have been kept the same.

The sales figures in Table X show an increase of over \$10,000 or about 6.5%. This table also shows that while total expenses increased \$1,191, the expense in percentage of sales actually decreased from 42.05 to 40.20, or 1.85. Moreover, the table also shows in what departments the expenses increased or decreased and how much. In this case the increase in total expense was in plant and delivery expense. The office and administrative expenses actually decreased in total amount, as well as in percentage of sales. These facts would not be apparent in an operating statement covering only one year.

Back of the general sales records should be detailed sales records showing as nearly as practical the net returns from various types of sales, the sales costs and the credit losses. The above association divided its sales into cash or counter sales, route sales and relief sales.

Operating expenses should usually be shown in more detail than is presented in the summary table for the milk distributing association. This association had supplementary tables in which the office, delivery, plant and administrative expense were each shown in more detail. The largest increase was in delivery expense for this milk association and it is shown in Table XI. Practically the entire increase in delivery expense was in the item of salaries. This resulted from a small increase in the amount of labor hired to take care of the increased volume of business and from slightly higher wage rates.

TABLE XI—A Comparative Statement of Delivery Expense for a Cooperative Milk Distributing Association*

	1935		1934		Change in	
	Amount	Percentage of Sales	Amount	Percentage of Sales	Amount	Percentage of Sales
Analysis of Delivery Expense:						
Salaries	\$29,172.70	17.83	\$27,664.96	18.01	+\$1,507.74	-.18
Deprec. & Rep.	2,083.72	1.28	2,366.23	1.54	- 282.51	-.26
Supplies	2,686.84	1.64	2,417.11	1.58	+ 269.73	+.06
Bottle Exchange	363.64	.22	334.56	.22	+ 29.08	.....
Miscellaneous	325.06	.20	218.75	.14	+ 106.31	+.06
Total	\$34,631.96	21.17	\$33,001.61	21.49	+ 1,630.35	-.32

* The total figures have been changed so as not to reveal the identity of the association. The percentage figures have been kept the same.

Depreciation and repairs showed a decrease of \$283 due to a smaller amount of repairs. The supplies which consisted mainly of feed for the delivery horses and gasoline and oil for the delivery trucks increased \$270. There was also a slight increase in this item when measured in percentage of sales. The bottle exchange cost remained directly in the same proportion to sales as would be expected. The miscellaneous items increased \$156 or .06% of sales. Here again these facts would not be shown in the usual operating statement.

The largest single item of expense whether in office, delivery, plant or administration expense is usually salaries and wages. The records should be available which will show the amount of labor hired and the rate of wages. It is after all the combined effect of these two factors rather than either of them individually that makes labor costs high or low. Frequently the manager's salary is open to much comment because it is usually the highest salary

paid by an association. His salary should be judged not only in terms of the total amount, but also in cents per unit and in terms of the service performed by the manager. Large salaries do not make efficient employees, but competent employees, particularly managers, usually command good salaries and a cooperative must expect to pay accordingly for such service.

Separate operating statements should be shown by departments in cooperatives engaged in more than one line of business or operating specialized departments. In some regional associations handling a diversified line of products, as is done by the Land O'Lakes Creameries, Inc., separate expense statements are shown for a dozen or more departments.

Other Operating Information—Numerous factors which enter into operating efficiency are not shown directly in an expense statement. In a creamery, for example, such factors as the composition of butter, together with quality and workmanship, have an important bearing upon the price an association is able to pay for butter fat in milk or cream. The use that is made of the by-products, buttermilk and skim milk, is also a factor. It is just as important to save a cent per unit by having the proper amount of butter fat in each pound of butter, usually 80.5 per cent, or adding a cent by making a high quality of butter as it is to save that amount by having low operating expenses. Records on composition, quality and workmanship are valuable to directors in judging the efficiency of their creamery operations, and particularly when such records are based upon competent laboratory analysis.

Shrinkage is sometimes an important item of expense, particularly in local oil associations in which the shrinkage ranges from as low as 1 per cent to over 5 per cent. Losses from excessive shrinkage are usually added to the cost of goods and are not shown as a direct item of expense. Such losses may, nevertheless, be an important item of cost. Stock account records which show regularly the inventories, purchases, sales and shrinkage are valuable in controlling shrinkage.

Records on the purchase of supplies are sometimes valuable in judging efficiency. Such records should reflect any savings realized by careful buying, by taking credit discounts and from patronage dividends.

Probably no system of records will measure accurately all phases of an association's operations. One should, therefore, exercise common sense and judgment at all times in using and interpreting both balance sheets and operating statements. A good system of records, when used with discretion, is, nevertheless, a valuable aid to every cooperative business.

Supplementary Reading

Ullyot, Lloyd and Hollands, Harold F. "Creamery Business Analysis," Bul. 322 (April 1935) Univ. of Minn., Agr. Exp. Station, University Farm, St. Paul, Minn.

XI. POOLING AS APPLIED TO EXPENSES, SALES RECEIPTS AND PRODUCTS

POOING of agricultural products is a distinctive cooperative procedure. An association may either buy a farmer's products on the day of delivery, handle them on a commission basis or pool them with the products of other producers. Pooling is an averaging process. All cooperatives pool their expenses and many others pool the products, as well as the sales receipts. On the basis of such pooling operations members that contribute to the pools receive the average sales price. There are numerous advantages of pooling, but these advantages are based upon the effectiveness with which the pooling operations are carried on. Consideration must be given to the quality of products, the length of the pooling period and the size of the pooling area in order that farmers may receive equitable treatment from their cooperative.

A COOPERATIVE association may handle a member's products according to one of three methods: (a) it may buy the products on the day of delivery from the producer and pay a price for the same based on current market values; (b) it may simply act as agent for the producer in selling the product receiving a commission for handling the goods; or (c) it may handle the products on a pooling basis. Of these three the last named is a distinctively cooperative procedure and is not found among private marketing agencies.

Pooling involves a consideration of three practices: (1) The mingling of products of individual producers into a collective lot in which the identity of each grower's produce is lost. Usually, a separate pool for each grade of product is established. In purchasing associations orders for farm supplies are oftentimes pooled. (2) The expenses of operations are pooled and allocated against the products which are handled or the supplies which are purchased. (3) The sales returns are prorated amongst the producers contributing to the pool, ordinarily on the basis of the grade of the products supplied. Pooling, consequently, involves a sharing of the expenses, risks, services, and sales receipts for the products that have been supplied by a number of patrons and that have been mingled together for the purpose of handling them as a collective unit. Pooling practices are by no means uniform in all cooperative associations.

Not all cooperatives pool their members' products. Some associations buy each grower's produce outright on the day of delivery. At the end of the year if any profits are made upon the purchases these are refunded to the growers on a patronage basis. Other associations handle producers' products on practically a commission basis. The association receives the products and sells them for the producer, at the time he directs, returning to the grower the sales receipts less the cost of operation. The third method of handling the growers' products is on a pooling basis. Where such is the practice the products are received by the cooperative, ordinarily graded into various grades established by the association, and after the sales of the entire pooled lot are made, the returns are prorated among the contributors to the pool, after deductions for operating expenses are subtracted. An initial advance payment at the time of delivering the produce and partial payments later may be made to the growers before all of the pooled products are sold.

In practically all associations expenses are pooled. This is due to the fact that it is nigh impossible to ascertain definitely the costs of handling each producer's products. Such costs as taxes, insurance, depreciation, and interest on notes must be allocated against all products that the association handles. Consequently, in making the deductions for operating expenses, the out-of-pocket costs directly attributable to each product must be supplemented by a pro-rata share of the overhead costs. The practice in nearly all associations is to make the deductions for expenses uniform for all growers and for all periods, and sufficiently adequate to meet all costs. It is apparent that this procedure may result in operating profits during certain periods and operating losses during others.

The gross sales for pooled products are allocated among the contributors to the pool, usually upon the basis of the grades of the products within the pool. This means that although certain producers' products may have been sold at a higher price than that of other producers, yet, each receives the average price which the products of any particular grade netted. It is evident, therefore, that pooling is an averaging process. Consequently the risks of marketing are borne collectively by all of the producers.

In order that the pooling operations may result in the most equitable treatment of all producers it is necessary to recognize differences in the quality of products, trade preferences for the products of particular localities, as well as the expenses of operation at certain points. It is for this reason that in allocating the expenses and the sales returns to the growers that a consideration be given to: (1) the quality of products; (2) the pooling period; and (3) the pooling area.

In order that the quality be given proper consideration, associations ordinarily grade the produce into a sufficient number of grades that are recognized in the market. It is evident at once that considerable judgment must be exercised by the management of the pool in the proper determination of the grades that are to be established. Exceptions are oftentimes noted in local associations, such as creameries and cheese factories, where the milk and cream is not graded before being pooled. Large scale sales associations, however, grade the products before placing them in different grade pools.



FIG. 14—COOPERATIVE MILK DISTRIBUTING PLANT.

A modern milk plant owned and operated by the Golden Guernsey Dairy Cooperative, Milwaukee, Wisconsin. Other cooperative milk distributing companies are found in the various markets of the country, although the bargaining type of associations are more numerous.

The correct length of a pooling period is likewise to be determined after due consideration is given to those factors which materially change the value of farm products from one time to another. For highly perishable commodities a pool period of a short duration is used and for the less perishable products a longer pool period is established. For example, in strawberry marketing associations a daily pool has been found to be practical. In certain egg marketing associations a weekly pool has been used with success. In creameries a monthly pool has worked out well. In other cases an annual pool has been used, particularly for crops such as cotton and tobacco that are harvested annually and which are marketed during a long period of time. It is apparent that producers would not consent to pool periods of great length if there are sharp price fluctuations within relatively short periods. A grower who has his products ready for market very early in the season and who wishes to take advantage of whatever high prices may exist at the time does not wish to lose this advantage by receiving the average price obtained for all produce sold throughout the season. The length of a pool period, however, must also be considered from the standpoint of the management of the cooperative if a sales and merchandizing program is to be effectively administered.

Inasmuch as there are distinctive characteristics of commodities from certain areas that are especially prized by buyers in the market or which have distinctive characteristics as a result of production methods, it is evident that in all fairness to the producers separate pools be created for the various areas that comprise the total territory served by the cooperative. In recognition of this fact pools that comprise certain districts within the membership of the association are set up and the expenses and sales returns for the products of such districts are allocated to the growers therein rather than to the growers throughout the entire territory. Just what area is to be included within a pool is a matter requiring the expert judgment of the management of the cooperative association.

Patrons, as well as the organization itself, benefit from properly conducted pooling operations. Patrons share equitable and on a pro rata basis in the sales returns, market expenses, and market risks. The association often-times improves its bargaining position in the market by having better control of timing and placing the growers' products on the market. The association has more difficulty in establishing a sales and merchandizing program if the products are bought outright or sold for the producer upon his direction. Economies in transportation can also be made if large pooled lots are shipped instead of many small amounts from individual growers or small associations. There are certain advantages of having a central administration in charge of the grading, packing, storing, and shipping of the producers' products. Wastes are frequently eliminated.

Supplementary Reading

Christensen, Chris L. "Pooling as Practiced by Cooperative Marketing Associations" Miscellaneous Publication No. 14, U.S.D.A., Washington, D. C., 1929.

XII. THE MANAGEMENT OF COOPERATIVES

THE COOPERATIVE is the purest form of democracy in business. Members of most Wisconsin cooperatives have sufficiently close contact with the management to observe the running of the business.

Community affairs, so closely interwoven with those of almost any cooperative, may dilute the energies of administration.

Even though the members take active interest in their cooperative, small associations are in many cases operated less efficiently than the larger businesses.

Members are usually aware of their common rights but they too often overlook the fact that there is a corresponding duty for every right.

In 120 large cooperatives, a study shows that an average of seven officials per association were elected from the membership at large.

The directorate is the management of a cooperative and in origin and function is similar to the legislative branch of our government.

Cooperatives are apt to minimize the importance of a good executive which is manifested by a reluctance to pay salaries commensurate with the services received.

THE WILL of the membership is supreme in cooperative associations—**theoretically.** This type of organization is said to be the purest form of democracy in business. The state and federal laws sanctioning its development are generally broad in their provisions concerning membership rights. Those who design the operating plans of different enterprises, however, can do much toward facilitating freedom of expression for all members upon questions having to do with the operations of those enterprises. In local associations the circumstances are generally most favorable to a complete membership participation in the affairs of the business.

There are in Wisconsin, a great number of local cooperative dairy associations such as cheese factories, creameries and fluid milk bargaining associations. The patrons of these associations come in frequent contact with one

another in their daily work. Many of them see the managers and employees of their association every day or week of the year. The frequent contacts with the employees of an association provide many opportunities for members to observe how their business is run and to discuss the common problems growing out of their venture that arise from time to time. In this arrangement every member is virtually an adviser of the directorate. In fact, the membership is so limited in some associations that the enterprise might be adversely affected if only two or three members were to discontinue their patronage. Under these conditions, the interests of members are likely to receive full consideration. Each association is a government unto itself, a complete autonomy. The annual meeting is usually regarded as the proper occasion for legislating new policies and for making major changes in the plans of operation.

A study of American cheese factories in Wisconsin shows that the patrons customarily hold an annual meeting to discuss the operations of the past year and to make plans for the coming year. Out of the 182 plants visited, 150 associations hold one regular meeting each year, six meet semi-annually, two associations hold five meetings a year, one meets twelve times or monthly, and in 23 privately owned factories which may be classified as quasi-cooperative, no meetings are held. The usual meeting place is at the factory, and the attendance of patrons at these meetings is good. Of the 159 associations holding regular meetings, four-fifths reported that 75 to 100% of the patrons came to the meetings.

These local business associations, however, are not free in many instances from other interests pertaining to the affairs of the community. There is a constant danger of diluting the energies of administration with social, political, and religious problems. No association may be entirely free from them in a closely knit community. If all relationships are reasonably congenial and frictionless the associations will be greatly benefited by them. On the other hand, they will suffer if conflict and cross purposes are raging in these other fields of activities. This fact explains the statement that local cooperative associations are more than economic units, they are likely to be affected by the adversities and fortunes which befall the other organized groups of the community.

The independent local cooperative associations as such are usually limited in their scope of work. They devote their energies to some of the more simple tasks of production and distribution. The problems of management, though, are never less important nor is the solution of them clearly apparent at all times to those concerned with them, for two reasons. First, because the number of employees are limited which precludes the possibility of specializing tasks. The advantages in the division of labor go by default. Secondly, the management is generally confined to local talent not having had, in all cases, an adequate training. For these reasons, small cooperative associations are in many instances likely to be found less efficient than larger ones even though all members may take an active interest in their affairs. People are inclined to be less critical about the things they do themselves than they are of the work they hire other people to do for them. The recognition of this fact is of much concern to cooperative leaders because larger and better cooperatives cannot be founded upon weak local units. One western association adhering to the

theory that active membership participation was essential to good management published a code of cooperative conduct similar to the following list.

Membership Rights

Corresponding Membership Duties

To elect officers and representatives	Give those elected your wholehearted support during their tenure of office
To enter into contract with fellow co-operators	Live up to the terms of contract
To legislate rules, regulations and by-laws	Observe them to the letter
To suggest ideas for improving services	Utilize the ideas adopted, even though they are not original with you.
To participate in meetings and conferences	Attend these functions regularly
To hear complaints about your association	Investigate adverse statements before repeating or believing them
To receive interest upon investment	Support your association financially
To ownership in undivided reserves	If reserves are sorely needed by your association don't insist on "cutting the melon"
To information on markets and sales returns	Don't expect monopoly prices from your association or other great imaginary performances
To a proportional share of all savings on the basis of patronage	Help your association to increase volume and reduce overhead expenses

Members may be familiar with their most common rights in a cooperative association even though they do not exercise them but they are prone to overlook the fact that for every right there is a corresponding duty. Much more emphasis should be given to this phase of cooperative participation.

The sphere of influence and service of a local association may be greatly enlarged if it unites with other local associations in performing tasks which require larger volumes of business, a more elaborate organization, and a large number of participants. The natural evolution of the cooperative movement is toward consolidation. After a limited number of producers have learned to work together and they have experienced the benefits of concerted effort, they logically conclude that if individuals can cooperate it should also be possible for groups of individuals to do likewise. If suitable conditions exist then, it is only a matter of time before the local associations enter into mutual arrangement to extend their power and promote their interests by uniting for the purpose of performing more services.

Delegating Power—When local associations unite in a district or regional organization, the management of the newly created unit is vested in all the

associations contributing to its formation. As a matter of expediency it is the usual custom to elect certain bona fide members from local associations to the directorate of the new organization. These men assume the responsibility of actually managing or supervising the management of the new organization.

There are certain advantages in this arrangement. It is not feasible for all who are concerned to meet every time certain decisions must be made and if it were possible it would not be an economical method of conducting a business. The election of a directorate makes possible the choice of a limited number of individuals peculiarly fitted to direct a business. In 120 large cooperative associations in the United States, as shown in a recent study, there were elected 850 officials from the membership at large, or an average of seven per association. These seven officials performed the tasks of administration ordinarily assigned to executive committees. They are generally removed from the immediate influences which affect the management of local associations and they tend to give more attention to the economic aspects of the business. As the opportunities for direct contact between members and the administration offices decrease, the problems of maintaining membership participation increase. In a study of the Dairymen's Cooperative Sales Company operating in the Pittsburgh area it was reported ". . . only 32 per cent of the members attended local meetings." In large associations the matter of keeping contact with members is sometimes satisfactorily arranged through the services of field men. In other associations where expenses are not justified in maintaining a field service the management relies on an effective house organ and the voluntary services of loyal members and directors.

Who Shall Serve on the Directorate?—The job of directing a cooperative association should not be left to chance alone. Logically it would seem that some specialized experience should be required. At the present time, however, the democratic procedure of electing representatives resolves itself into the usual custom of selecting men who show promise of possessing good business judgment, who understand human nature and demonstrate an ability to get along with people. Beyond this it is difficult to stipulate other qualifications and under the circumstances it is questionable whether anyone can arbitrarily enumerate specific attributes. Of course, it is assumed that the man's character is beyond reproach in his business dealings, and that he will be loyal to the interests of the group he professes to serve.

The Duties of Directors—The duties of a director cannot be assumed too lightly. The position is a trusteeship which bestows certain rights upon those elected to the office and these rights imply that certain duties may be performed. A duty is not readily defined by law, but it permits the individual to use his discretion. He is not legally obligated if he fails to act in some respects because the law is not specific.

Some duties of the directorate are:

To formulate policies

To employ managerial executives

To inform themselves upon the nature of the business of their association and study the possibilities of applying the principles and successful practices of cooperation.

- To enforce the policies which they enunciate.
- To attend all meetings of the board and maintain a record of its deliberations.
- To maintain contact with the leadership of their respective communities.
- To instill confidence in their cooperative organization.

Powers Delegated to the Directorate—In addition to the discretionary rights of directors there are stipulated several powers which entail definite responsibilities. These are based either on the common law, state laws, federal statutes or the by-laws of the association. Whatever these powers may be, he is under obligation to act or he makes himself personally liable for any damage or injuries arising out of his negligence or failure to fulfill his office. Some of the more general powers usually specified in the statutes and by-laws of different associations are:

- To call regular and special meetings at will or on command.
- To elect the officers of the directorate.
- To employ a manager for the association.
- To remove officers for cause, or to act so as to have them removed, and to fill vacancies.
- To receive, deposit and disburse the funds of the organization.
- To make contracts.
- To issue stock and other instruments of credit or obligations.
- To establish minimum prices on products.
- To revise and amend grades and standards within statute limitations.
- To borrow money for the association in its name.

It should be pointed out, however, that directors cannot be liable for mistaken judgment. They may make serious mistakes, but if it can be shown that they acted in good faith and to the best of their ability there can be no recourse on the part of complainants, except through the ballot at the time of the next election of directors.

In the final analysis the directorate is the management of a cooperative association. Its origin and functions are similar to the legislative branch of our government. It is empowered to enlarge or restrict the rights of individual members in the association, within the law, whenever such acts are necessary for the welfare of the total membership. An executive committee of the board may be appointed to pass upon routine business matters where policies have already been established but the board can never delegate its discretionary powers to a smaller number of its own body.

Directorate Management Committees—Only in exceptional cases do the directors of cooperative associations assume actual supervision of the business. There are occasions when a committee may be appointed to assume the work of an executive temporarily, while changes are being made in personnel or time is required to find a manager with the proper experience and training to fill a particular position. In the few instances where management committees have been selected from the directorate with the intention of making such com-

mittees a permanent substitute for a trained executive, the arrangement has, on the whole, not been satisfactory.

The General Manager's Job—His task is that of supervising the operating details of the enterprise. If this involves more detail than one man can personally attend to, he may employ assistants. If the ramifications of the business are national in scope, the office of management may be divided into several departments and an assistant may be put in charge of each. The more extensive the business, the greater are the problems of supervision and coordination. Members of cooperative associations are apt to minimize the importance of a good executive which is manifested in a reluctance to pay salaries commensurate with the services received.

A competent manager should be capable and resourceful in directing a business upon cooperative principles and interpreting the intent of the directors in complying with their policies. He must be tactful in dealing with employees and members. His sympathy should be genuine in attempting to fulfill the aims of those whom he serves, on the condition that their objectives are intended to promote social and economic well being. He is the servant of all members, and he is completely responsible to the directorate in his stewardship of their business venture.

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XIII. MEMBERSHIP RELATIONS

INASMUCH as a cooperative is organized for, supported by, and composed of its members it is essential that they be adequately informed about the organization and operations of the association. Membership loyalty is one of the keystones of successful cooperation. Some associations have adopted a selective in preference to an open membership policy. In cooperative purchasing associations the open membership policy is universally used. One means of defining the rights and duties of both the members and the association is through the use of a membership contract. Such a contract which calls for the delivery of all the products by the members for a certain period of time has both an economic as well as legal value in the association. In Wisconsin contracts can not run for more than five years. These may be of the agency or purchase and sale type and self-renewing or terminating. Under the Wisconsin cooperative law three remedies for breach of contract are provided, namely, liquidated damages which may not exceed 30% of the value of the products, injunction and specific performance. Contracts serve their greatest usefulness during the early years of the association's operations. Operations, however, must be efficient if competition is to be successfully met.

COOPERATIVE organizations differ from independent companies in that the owners and members of the cooperative are also the contributors or purchasers of the products or services which the association provides. A farmer or consumer has therefore an equity in the cooperative as its partial owner, and also a commercial interest in it as a result of trading with it. The cooperative is organized for its members, it is largely supported by its owners who are its patrons, and it is composed of those whom it intends to serve. It is especially important, therefore, to keep the members adequately informed about their association, if their patronage and loyalty are to be retained.

The type of information that may benefit the members should be the guide in determining its nature and scope. Such information may relate to improved production practices, to internal organization and operating prac-

tices, to prices received and paid for commodities, to costs of doing business, to special problems confronting the association, and to such other items that will solicit the loyalty and the patronage of the entire membership. It is essential to create and maintain among the members a correct attitude toward their association. A full understanding of what a cooperative can and cannot do, why things are done as they are, and how things must be done is important. It is particularly difficult to keep the support of members if the object of their membership is impossible of attainment—hence, the possibilities of cooperation must be correctly interpreted to the membership.

There are numerous ways of keeping the membership adequately informed. These vary from the methods used by national or central associations to those followed by the small local associations. Some of the means of keeping members well informed about their associations are: personal participation in some activity of the cooperative, direct contacts with directors, officers, field men and the manager of the association, business and social meetings of the entire membership, issuance of enlightening annual reports and of informative house organs, and a constant willingness of the management to explain courteously matters to inquiring members. The problem is relatively simple in local associations and sometimes difficult in large-scale associations.



FIG. 15.—CENTRAL COOPERATIVE WHOLESALE, SUPERIOR, WISCONSIN.

This central cooperative wholesale serves approximately 125 local associations with more than 200 products which are sold under the trade-mark "Co-op".

Although the organization has a definite obligation to fulfill toward its membership, namely, the efficient operation of the business, it is also well to point out that the individual member has his obligation, too. When a person becomes a member of a cooperative, he is assuming personally the risks of marketing or purchasing his products through a collective group. Such business risks are otherwise borne by the private agencies that carry on the undertaking. It may happen that prices drop between the time products are

received and sold by the cooperative, that costs of conducting the business are higher than expected, and that adverse conditions arise over which the cooperative has little or no control. The members must realize these are risks that they must bear, and that criticisms of the management or of the cooperative itself may be entirely unfounded.

In numerous cases cooperatives have adopted a selective-membership policy in preference to a non-selective. Under such a system after the initial group is in the organization, criteria can be set up for admission of any additional members. The ability of the prospective member to cooperate with the others, the need for his products, and an analysis of his past record in the community would be considered by the board of directors who pass upon his application. It is not always feasible economically to adopt such a policy, however, and therefore most local associations permit "any bona fide producer" to become a member. One means of having a definite understanding between producers and the cooperative concerning each one's obligations and duties is to use a membership contract. In purchasing associations selection of membership is seldom practiced, except to keep out known "trouble-makers."

Contracts with Members

The membership contract, widely used in marketing organizations, but seldom used in purchasing and service associations, is a legal instrument which specifies the conditions under which the products of the members are handled by the association. It is a statement in writing listing the rights and duties of the signer and the association, the marketing services and charges to be made, and the remedies to be accorded in the event of breach. Practically all large scale marketing associations have contracts with their members, and many small local associations have also found it advisable to use them.

Purpose—The purposes of a membership contract are to assure the association the continuous support of its members and a fairly definite volume of business, to cut down the cost of soliciting member patronage, to improve the standing of the association in the eyes of bankers, farmers, and the trade, and indirectly to strengthen the status of the association through its improved borrowing ability. It further protects the interest of the loyal majority by providing legal means to coerce a disrupting minority as well as to restrain interference from the outside. It definitely states the duties of members so that no misunderstanding need arise concerning the delivery, handling, and marketing charges. It also precludes the possibility of non-members using the association as a threat over local buyers. It further helps to create confidence on the part of buyers in the association in that they are fairly well assured of receiving delivery of products sold to them.

Types and Duration—Two types of contracts are used by marketing associations: (1) agency, and (2) purchase and sale. These contracts have different legal implications, although in actual practice of the cooperative one finds little difference in the two. If the first is used then the cooperative acts as agent for the producers, whereas under the second, the cooperative takes title to the product upon its purchase. It agrees to pay the producer the price received upon resale less the handling charge. Remedies for breach of con-

tract are the same for both types. Banks and credit institutions have looked more favorably upon the purchase and sale type of contract since it permits the management of the cooperative to exercise more freely its judgment regarding the sale of the products. This is due to the fact that this type of contract vests the title in the products in the cooperative, whereas under an agency contract the agency relationship may grant less freedom to the association.

Contracts in Wisconsin vary in length from one year to five years, the maximum permitted by the Wisconsin State Cooperative Law. They may terminate at the end of the contract period, or be self-renewing for an additional period (not to exceed five years) if so provided in the contract. Most contracts today include a clause permitting the member to withdraw from the association during some specified period of each year—usually a one-month period at the close of the marketing year. The minimum length of the contract logically depends upon the time it takes to market products and upon the extent of capital investments. A contract in a livestock shipping association may very well be one year in length at the start, and for convenience sake self-renewing for longer periods. There is as a rule no capital investment and all of the business is practically completed with each shipment—hence, there is less need for a long contract. Where it is possible to commence with a longer contract, three years for instance, certain advantages will be gained, however. But a cooperative that must provide a plant and expensive equipment, or one whose marketing operations are not always consummated in a year's time, needs a contract of longer duration than one year. Associations marketing tobacco ordinarily use a self-renewing five-year purchase and sale type of contract. Inasmuch as some farmers are skeptical of cooperative marketing and are unaccustomed to sign contracts of this nature, it is a good policy to start with as short a contract as is economically expedient.

Remedies for Breach—Contracts are not always fulfilled and thus cause a financial and a moral loss to the association. The Wisconsin statute provides three types of remedies for breach or contemplated breach. Liquidated damages up to 30% of the value of the products that are the subject of the breach may be provided. The law also reads, "The association, in the event of breach or threatened breach of any such contract by a member, shall be entitled to an injunction to prevent the breach or further breach thereof and to a decree for specific performance." Such injunction may restrain members from selling outside the association as well as to enjoin buyers from trying to get members to violate their contract.

Filing Contracts—A clause in the cooperative statute permits an association to file in the office of the register of deeds of the county in which the contract signers live, a copy of the contract, together with a sworn list of the signers. "From and after the date of such filing, the same shall constitute notice to any and all persons that an interest in the title to all property so agreed to be sold by the maker of such contract during the term of such contract is vested in the said association. In case of a purchase thereafter of any such property by any party other than the association, no title of any kind or nature shall pass to such other purchaser, and the said association may re-

cover the possession of such property from any and all such other parties or from any party in whose possession the same may be found, by replevin action, or may sue for an injunction."

A word of caution may be in order. Some cooperative leaders believe that the membership problem is solved if a contract is used. This is far from the facts of the case. A contract does not displace loyalty—it is no stronger than the will of the majority. A contract is a valuable instrument and serves a very useful purpose, but it should not be relied upon too heavily. The operations must still be efficient, competition must be met, and members must be well informed if the cooperative is to succeed.

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XIV. COOPERATIVE SELLING

PRODUCTION of quality products available in large quantities of uniform grade is essential to any successful merchandising program. The experiences of America's outstanding cooperative associations indicate that success is predicated upon the extent to which the associations are able to secure a uniformity in quality and grade of the products which are placed upon the markets of the country. Large scale sales associations through their bargaining power have a voice in the price registering markets of the country which cannot be achieved by small associations or by individual farmers. Likewise, important buyers prefer to deal with organizations that are in a position to serve them with the varieties, grades and volume of products which their customers prefer.

THE BUSINESS of producing, assembling and processing of commodities alone will not bring the full benefits of cooperative marketing efforts unless it is also accompanied by efficient and effective merchandising. The production of a quality product, available in large quantities of uniform grade, is essential to any successful merchandising program. And this requires, in many cases, not only the cooperation of farmers but that of their local cooperatives as well. The primary producers may not realize the fullest benefits from quality products, regularly supplied in uniform and dependable grades, unless the distributive and merchandising machinery effectively builds consumer confidence and reflects the premium prices back to the producers.

When it comes to building cooperative organizations for the manufacturing and merchandising phases of the dairy business in Wisconsin, for instance, there are two distinct functions or services that lend themselves to group effort. First, is the local assembling and manufacturing of the product whether it be cheese, butter, or evaporated milk. Here the manufacture of quality products of uniform and dependable grade becomes the most important function in the local or the first step in cooperative effort.

Quality products of a uniform grade or standard are the foundation for any successful merchandising program. No group of agricultural producers can hope to realize the benefits of cooperative selling until and unless there is available a large quantity of a quality product of a uniform grade or standard.

Similarly, the business of producing and manufacturing a quality cheese, butter, or other farm commodity of a uniform grade has not been completed until this product has been efficiently placed before the buying public as such.

The merchandising job, however, is another definite function and usually one which neither the individual farmer nor the local creamery or cheese factory can perform when operating alone. It is the task that can usually be performed by a large organization. The local creamery or cheese factory cannot devote the attention necessary to find good outlets. This task must be approached from the standpoint of the industry. The business of merchandising butter, cheese, and other dairy products is one which calls for a large federation or organization, competently managed, which will undertake the job of understanding the desires of consumers and in turn develop a merchandising program with a sales service that undertakes the job of satisfying the wants of the consumer by furnishing quality products in a sanitary condition.

For in the merchandising of food stuffs as in the manufacture of industrial goods, business goes to those who satisfy best the needs and wants of the buying public.

The assembling and shipping of livestock, of milk and cream and the grading and packing of fruit are typical of the functions performed by local commodity cooperatives. Experience has demonstrated, however, that these local associations cannot give their members complete marketing service, such as adequate financing, warehouse facilities, adequate market information, and the services in the central markets of technically trained and skilled personnel required for effective merchandising. There are certain functions with respect to this merchandising—such as building up retail consumer acquaintance and preference, controlling the rate of shipment to market, allocation to world markets, standardization so as to obtain uniform grading and packing, and merchandising under advertised brands that must be under centralized control if the farmers and their local cooperatives are to obtain the most efficient distribution and selling of their products. Thus the trend among agricultural cooperatives up to the present is toward the federation of local units in order to render a more complete marketing service to the farmers and their local commodity associations.

Twelve Thousand Orange and Lemon Growers Merchandise Cooperatively—There is, for example, the California Fruit Growers Exchange, a large scale organization composed of some 12,000 farmers in 220 local cooperative packing house associations, federated into one central selling and distributing organization.

The California Fruit Growers Exchange, with headquarters at Los Angeles, California, is a non-stock, non-profit cooperative, incorporated under the laws of the State of California. The 220 local packing house associations are grouped into 23 district exchanges or associations. Each of these district exchanges elects a representative as a member of the California Fruit Growers Exchange.

Through the California Fruit Growers Exchange, the 12,000 grower members of the 220 local associations maintain their own sales organization. The sales force of the Exchange are widespread and through these sales representatives or brokers the Exchange reaches all of the principal citrus fruit markets of the United States and Canada. This organized group of growers through their local packing house associations, grade and pack their fruit according to well defined standards. This practice enables them to pack and

merchandise the best grade of their oranges and lemons under a nationally known trade mark. These growers through the California Fruit Growers Exchange spent in 1935 approximately \$2,000,000 in advertising and sales promotion of citrus fruit under the "Sunkist" brand name.

Federation of 450 Cooperative Creameries and Cheese Factories—A more recent development in local cooperatives acting together for the distribution and selling of their products, is the federation of 450 cooperative creameries in Minnesota, Wisconsin and the Dakotas, which sell through their own cooperative known as the Land O'Lakes Creameries, Inc.

Farmers in the North Central states have had long experience in the local cooperative assembling and manufacture of butter and cheese. The first cooperative creamery in Minnesota was started in 1890 and the first cooperative cheese factory in Wisconsin at somewhat earlier date. Today there are some 1200 cooperative creameries in Minnesota, Wisconsin, Iowa and the Dakotas.

The formation of a central federation for cooperative merchandising is simply extending the cooperative effort of dairymen as expressed through their local cooperative creamery. They have learned by experience that a group of farmers can manufacture butter more efficiently than each farmer of the group acting individually. Likewise there are many things that a group of creameries can accomplish more efficiently in a federation than can each local creamery association operating separately. For instance, a local cooperative creamery can hardly afford to maintain its own laboratory with a trained chemist and bacteriologist in charge in order to safeguard the quality of its product. Yet several trained chemists and bacteriologists can be employed and at a very low cost per unit of product by a group of creameries.

In the same way, no single cooperative creamery can well maintain a sales organization for the selling and distributing of its products in the large Eastern consuming markets. A group of cooperative creameries working through a central organization and efficiently operated can do this at a very low cost per unit. Similarly, a trade mark or brand name will attract little more than local attention when established by one creamery. Butter or cheese from a group of cooperative creameries and cheese factories, however, when manufactured, graded and packed in conformity with the same standards and grades by many creameries, can gain national recognition among consumers at little cost to each of the cooperative units.

The cost of advertising is almost prohibitive to the local creamery of average size. However, when the expense has been spread over a large volume of butter and the advertising correlated with the selling program of the central organization, the returns usually justify the expenditure. Also, programs of standardization can be made effective only when a large volume of butter or cheese is inspected and graded by a disinterested grading service.

In forming their own cooperative selling organization the dairymen and their cooperative creameries of the North Central states have taken the second step in cooperation and have capitalized on their long and successful experience in working together in the manufacture of their butter cooperatively by extending their collective effort to selling and distribution.

There are 283 cooperative creameries in the state of Wisconsin. Forty-five of these are selling their products through a large cooperative which has

established its own sales organization in the large markets—merchandising the butter and other dairy products in attractive packages under their own label to consumers through the retail trade.

Another 65 creameries are working together in Wisconsin on a quality improvement program through a creamery federation. While this federation's field representatives do arrange for cooperative shipments of butter from several of its member units, the federation does not, as an organization, sell and distribute the output of its members on a cooperative pooling basis.

Another 173 cooperative creameries belong to no organization and are selling independently. This situation suggests an opportunity for the cooperative creameries to unite into one organization and undertake the job of merchandising on a cooperative basis and in this way build a sales service for their products.

Cranberry Growers of Wisconsin, New Jersey and Massachusetts Sell Cooperatively—If one were to look for other examples of effective cooperative merchandising, he could probably do little better than to review the history of the Wisconsin Cranberry Sales Company. This local cooperative group has found it advantageous to sell cooperatively with similar cooperative associations of cranberry growers in New Jersey and Massachusetts, through their own national sales agency—The American Cranberry Exchange. Many of the essential characteristics of effective merchandising have been established in their sales efforts: (1) a reputation for quality product has been built up by establishing and maintaining uniform grades and packs of cranberries; (2) marketing risks have been distributed, equally, by means of a pooling system; (3) the market has been widened and sales increased, and incidentally the tradition of serving cranberries at Thanksgiving and Christmas time has been extended to all the winter months; (4) orderly distribution among markets has been brought about by coordinated sales effort with other large cranberry regions in the nation; (5) a price policy has been followed which was designed to move the entire crop year after year; and (6) the cost of marketing cranberries has been reduced until now it is believed to be among the lowest of all fruits.

Price and Sales Policy—In any program of selling farm products a cooperative marketing association is first confronted with the important problem of developing a sound and effective price and sales policy. It is only through the development and successful carrying out of such a policy that the members are able to obtain the full benefits from their organization.

The board of directors are responsible for the formulation of a sound price and sales policy for the association. In discharging a responsibility they need to know the factors which determine the price for their commodity, the reaction of price to changes in supply, and the probable effective demand, and how it is likely to influence price, the probable seasonal and other changes in price under varying economic conditions. In all these matters the manager and other members of the executive staff are in position to offer opinions based on experience and study. Their advice should be sought. They should make available to the board full information about supply, probable market demand, and price behavior. This is vital to the board in shaping its selling program.

In popular discussion there are two theories as to what constitutes the price and sales policy for a large scale farmers' cooperative association which undertakes to perform the marketing functions of carrying the product and feeding it into the consuming channels. One of these assumes that it is the aim of a cooperative association to effect such control of a product as to enable it to dictate an arbitrary price without reference to supply and demand features. This theory assumes that, given control of a sufficient volume of a given commodity, an association can arbitrarily fix the price at which it will sell, without relation to current supply and demand.

Obviously it is possible for an association to arbitrarily fix a price, but it is not possible to make consumers pay that price. Experience has demonstrated that this theory with respect to the arbitrary fixing of a price does not work successfully over a period of time. It is unworkable because there is probably no agricultural commodity which is so essential to human existence that substitution cannot be made for it, at least in part, and this possibility of substitution destroys or makes ineffective any arbitrary control of prices over a period of time.

Take wheat, for instance. If every wheat farmer in the United States belonged to one cooperative wheat marketing association, that association could arbitrarily fix the price of wheat at \$3 or \$4 a bushel. But could it sell the entire crop at that figure under present-day economic conditions? If the price of wheat were set at a figure that was out of line with the prices of other food products, it would only be natural for consumers to use more of other products and less wheat. They would have no difficulty in making bread out of other products. For instance, rye, potatoes and rice are used for flour and the use

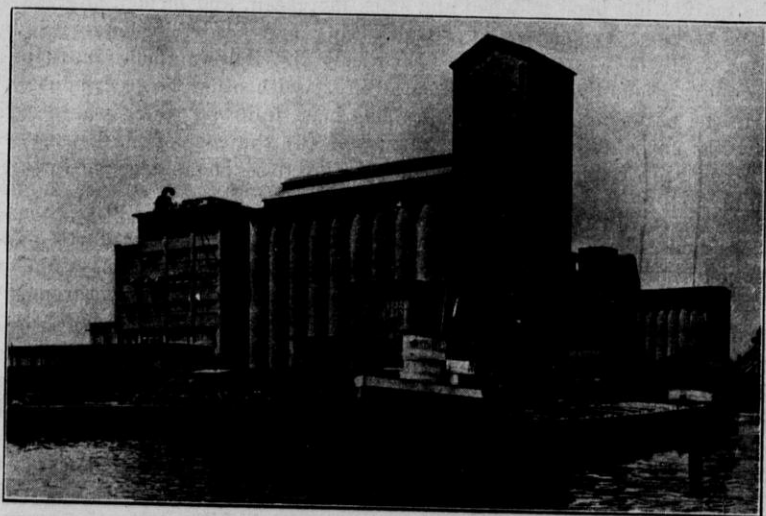


FIG. 16.—MILL AND ELEVATOR OF A LARGE COOPERATIVE WHOLESALE ASSOCIATION.

Modern mass distribution is carried on by a large number of farmers' purchasing associations of which the Grange League Federation Exchange Inc., Ithaca, New York is the largest. The above plant at Buffalo, New York has rail, water, and truck connections. The mill has a capacity of 75 cars of mixed feed per day and the elevator has a grain storage capacity of 750,000 bushels. (Courtesy of the Cooperative Division, Farm Credit Administration, Washington, D. C.)

of these products for flour could very easily be increased if the price of wheat were much higher than the price of rye, potatoes and rice.

Such an organization would also have to be content with the importation of wheat from foreign countries at lower prices than those fixed by the cooperative, unless the United States erected trade barriers, such as tariffs, which would shut off competing imports.

The other theory assumes that an organization handling farm products cannot maintain prices which are out of line with economic conditions, including the price of other commodities, and that in the long run its members will receive the largest benefit through the development of a price and sales policy which attempts to adjust supply to market requirements.

Experienced and successful sales managers recognize this price and sales policy as a very practical and feasible one. It assumes that sales must be made at market prices, but that successful and experienced marketing organizations can grade and pack farm products so as to meet the demand of the buyers and also may select a favorable time and place to sell. The successful administration of such a price and sales policy requires a thorough study of price and demand history of the commodity and a knowledge of present and potential supply is essential in determining the selling program.

Usually a brief analysis of the price history of various commodities and its relationship to supply and demand factors will be helpful in determining a sound and workable price and sales policy.

What might constitute a satisfactory selling program for one commodity might not bring the desired results with other commodities. Because of ever changing economic conditions, it is unlikely that the sale of the crop in equal periodical installments would constitute the type of sales program which an organization would want to adhere to strictly at all times. Demand is not equally active at all times, and to force the sale of a commodity in order to satisfy the "equal installment" program would probably result in making unsatisfactory price concessions.

A large-scale cooperative marketing association handling wheat or cotton, for instance, should give some attention to the seasonal trends in the price of its commodity. Helpful information on the seasonal price changes can usually be obtained through a careful examination of the seasonal movements for individual years over a long period. It is not possible for an association to take advantage of seasonal changes unless some reliable means for forecasting these changes can be found. Further research, both by large associations and by State and Federal agencies, is needed on the whole question of price behavior of farm commodities.

But in addition to the seasonal price movement there are usually short-time up and down swings in the market. These continue for varying lengths of time.

A large scale cooperative charged with the responsibility of merchandising large quantities of products should constantly be seeking marketing information of the following character:

1. Information regarding production, yields and supply.
 - a. Supply factors. One of the important price-making factors is the quantity of a given commodity which is available for sale. Supply not

only includes the annual production available from the current crop, but also the carry-over as well as the probable yield of the coming harvest.

2. Information regarding prices, general market conditions and demand.

- a. Many people are prone to give too little consideration to demand factors. These include,
 - (a) Ability to buy. A consumer may want a particular commodity and yet not have the money to buy. The ability to buy is also influenced by (1) general business conditions; (2) rate of wages; and (3) relative amount of employment.
 - (b) Supply and price of competing commodities.
 - (c) Consumer preference. The consumer may prefer some other commodity and prices may have to be lowered in order to attract them to the commodity which is being offered for sale.
 - (d) Variations in demand. The strongest demand for a commodity usually comes during periods of rising prices. On the other hand, manufacturers and dealers generally do not want to buy when the price is falling, believing that it will go lower.

Bargaining Power—It is of course recognized that a large association or a federation of a large number of local cooperatives, controlling a large volume of any commodity, has "bargaining power" superior to that of a small association, or an individual farmer attempting to sell independently. The larger organization has the advantage of more complete market information and should be in a better position to build consumer confidence and preference among a large number of consumers, and also take some advantage of market trends than a small organization or individual without complete information. Furthermore, buyers often gravitate toward an organization which controls a large quantity of products and is in a position to serve them with the kinds, varieties and grades of products they may prefer. Organizations that have a large volume of a product of uniform grade and quality attract larger buyers.

Service to Consumers—An efficient price and sales policy must take into consideration salary requirements and their ability to pay, and must give attention to matters such as the price of their commodity in relation to the price of other commodities, sanitary and attractive packages of convenient size, and the use of a distinctive label whereby the article may be readily identified by the consumer.

Competition for the consumer's dollar is keen. Much of the time farmers face a buyer's market in which the consumer's interests determine whether or not sales will be made. If a cooperative is to be successful in wooing the market, it must at all times concern itself with the meeting of tastes, the preferences and the ability to buy of consumers. The farmer can only do this by means of organized efforts.

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XV. HOW TO ORGANIZE A COOPERATIVE

A PRELIMINARY survey of a prospective cooperative area by a trained personnel is important before plans have been too definitely crystallized.

The organization committee will assume the responsibility of critically reviewing preliminary work, devising and approving plans, determining course of action and directing activities.

The temporary becomes the permanent organization when it is incorporated, when by-laws are adopted, a directorate is elected, and members are notified of the steps taken.

If it is anticipated that a need for a federal loan may be imperative, associations should conform to legally specified standards of organization and operation.

The by-laws constitute the additional legislation.

Generalizations derived from economic and sociological studies indicate that voluntary action in organizing and directing cooperatives is much preferred to legal coercion.

EVERY CARE should be taken to start cooperative undertakings under favorable conditions. Those interested in doing this should not fail to recognize a need for cooperative services. Often a real need for cooperative action may exist, but many of the people in the community might be either indifferent or not aware of the fact. It is generally wise procedure for those sponsoring organizations to make a preliminary survey of the area before plans have been crystallized too definitely. Such surveys may be directed by a trained personnel from educational institutions, federal bureaus, research foundations or in some instances by local talent already seasoned by the experience of managing and directing cooperatives. A general survey for a proposed farm marketing association should include an appraisal of:

1. The services and facilities made available by existing institutions.
2. The extent of the area and the intensity of production of the commodity to be marketed.
3. Custom as a factor influencing farm operations and methods of handling farm products prior to their delivery for sale.

4. The degree of refinement in quality which producers have attained through improved cultural practices. Variations in the quality of the product offered by different producers complicates the problem of making sales.

It also tends to increase the costs of grading, keeping records and perfecting an equitable system of distributing proceeds.

5. General price relationships. The relationship between local, terminal, and retail prices of a commodity or the relationship of prices between different commodities prior to and following organization might indicate, in a measure, the influence of associations.
6. Alternative means of transportation
 - a. Railroads
 - b. Motor trucks
 - c. Water transportation
7. Present market outlets and probable future ones.
8. The traditions and cultural background of the people.
9. The success or failure of past cooperative efforts in the community.

After a survey has been made to appraise "the lay of the land", some definite conclusions might be formed relative to the need for organization and the obstacles that may be encountered during and following positive action. The results of the investigation should be submitted to a responsible body which will act in an advisory capacity and serve as the agency to carry forward plans of action.

The Organization Committee—Usually the original idea of a survey has its inception in a self-appointed group of public spirited individuals of the community. In some instances this group may have only an indirect interest in any eventual organization. For this and other reasons it is advisable to consider the selection of a temporary organization committee to assume the responsibility of critically reviewing all preliminary work, devising and approving plans, deciding on a course of action and directing activities. The strenuous tests put to the temporary organization committee are generally regarded as "a proving ground" for directorate timber. Consequently, it has become customary to elect those performing meritorious services on the organization committee to the first directorate of a newly formed association, although this courtesy is neither obligatory nor in all instances advisable. Before the final ceremonies of creating an association are performed it is assumed that the organization committee after having ascertained the need for organization, has taken every possible precaution with regard to the availability of:

- Sufficient volume of business
- Ample financial resources
- Facilities to store and properly handle materials
- Suitable transportation services
- A capable managerial personnel

Favorable market outlets

Other important factors which may affect the success of the association.

Converting the Temporary into a Permanent Organization—There are at least two common methods of organization procedure. First, the committee may simply begin a campaign for membership with only a plan of organization, a statement of the objectives, and a conditional agreement (contract). When such a plan has been favorably received by the community and a sufficient number of agreements have been signed to assure the new enterprise the required financial support and the desired volume of business, then definite steps are taken to complete organization.

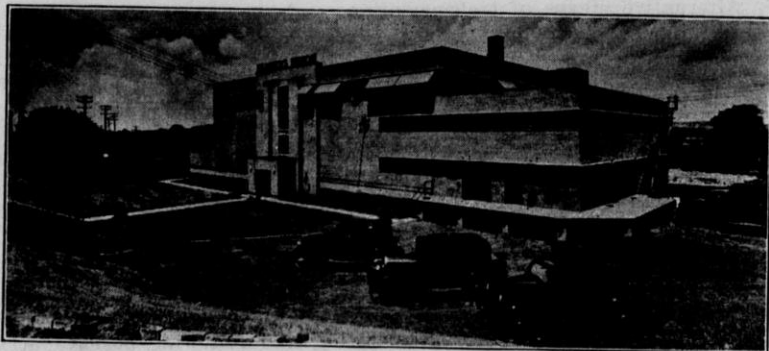


FIG. 17.—A COOPERATIVE WHOLESALE PURCHASING ASSOCIATION.

This modern building houses the central offices, warehouse, and lubricating oil blending plant of the Farmers' Union Central Exchange, St. Paul, Minnesota.

This is done by incorporating the association, adopting by-laws, electing a directorate and formally notifying the membership that the agreement is in force. This order of progress permits all the agreement signers an opportunity in shaping the organization to their liking before its completion as a legal entity. This order of procedure may also be more democratic in that the first directorate can really represent the choice of the majority. Some disadvantages in this method of procedure are apparent. Those undertaking actual promotion run the risk of contributing their time and assuming their own expenses without remuneration, unless free-will contributions have been made in advance. Money cannot be borrowed in the name of an association, nor can it be obligated to anyone for services before it comes into actual existence. The time of completing organization may be indefinite and no assurance can be given that it will ever become a reality.

Second, the organization committee can outline a plan of organization, name the association, draw up the articles of incorporation, adopt by-laws, elect a board of directors and arrange to borrow funds to finance a membership campaign. These preliminary arrangements have the advantage of providing a definite program. People who are inexperienced in the cooperative movement seem to be more willing to join an organization already in existence than to affiliate with a group proposing to do something, even though they may have a voice in what is to be done and how it might be accomplished. The drawbacks

in this procedure are several. Non-participation on the part of members in the formation of an association is a bad beginning. Their interest in the affairs of the association may never be aroused to the proper pitch, and if it is, there may be difficulties in maintaining their support. The precedent of permitting a few men to organize and determine policies at the outset is not in keeping with the democratic ideals of a cooperative association. It may result in stratifying the membership, creating schisms, developing secret control groups, encouraging the practice of hiring relatives (nepotism) and other evidences of disintegration.

The main objection to the second plan of procedure may be overcome in part by calling a general meeting within a short period after the membership drive has been completed to approve or disapprove the work done by the organization committee and to elect a permanent board of directors.

Knowledge of Statutes Important—The federal and state laws define the rights and limitations of cooperative groups. Since 1919 the Wisconsin Statute relating to cooperatives has been amended or changed by every regular session of the legislature, except the one convened in 1925. In 1921, the law was completely revised. These numerous changes in the statutes make it advisable for anyone contemplating either becoming a member, working for, or doing business with cooperative associations to keep abreast with the basic laws pertaining to the movement.

The plan of organization for local associations should be designed to conform to a general scheme of integrating the local associations into larger economic units insofar as it is possible.

If it is anticipated that the association may rely on federal agencies for loans it is imperative that they conform to certain specified standards of organization and operation. Incorporation is made under state laws and not the federal law.

Steps in Organizing a Cooperative Association—In organizing and incorporating an association there are definite requirements to be met.

1. Obtain signatures of application for membership by circulating petitions, stock subscription forms or membership agreements (contracts).
2. The Articles of Incorporation are then filled out and signed by at least five persons. (See Forms in Appendix II). These articles must state the number of people that will serve on the directorate. Under Wisconsin law the number of directors of cooperative associations cannot be less than five.¹²
3. Send the original and verified copies of Articles of Incorporation to the Secretary of State.¹³ (A copy of the Articles of Incorporation must be verified by two of the five signers.)

¹² In making out the Articles of Incorporation for a cooperative with capital stock, state the capitalization, number of shares, and the par value of each.

¹³ The filing fee for a non-stock association is \$5.00 and for a stock association \$10.00 where capitalization does not exceed \$25,000.

4. Record the verified copy of the Articles of Incorporation with the Register of Deeds in the county where the central offices of the association are situated after this copy is returned by the Secretary of State.¹⁴
5. Notify all prospective members of the hour, date and place at which the first meeting will be held. This notice must be sent at least seven and not more than 20 days in advance of the date of the meeting. The letter should be signed by at least two of the persons making application for incorporation.
6. Hold the first meeting on the date set. Make certain that all steps of organization are in compliance with legal requirements.¹⁵ The usual business of the first meeting is the election of a directorate and the adoption of by-laws. With these steps completed, the association has become a legal entity.

The by-laws of an association constitute the additional legislation by members which is deemed necessary to adapt the enterprise to geographic conditions and to safeguard its interests in the ordinary methods relating to social and business intercourse. Obviously, it is not possible to anticipate the many dissimilar provisions which may be adopted to expedite the operations and transactions of associations in different areas of production handling unlike commodities for a heterogeneous people with different aims and purposes. The provisions which illustrate some of the more common clauses found in the by-laws of cooperative associations in Wisconsin are shown in Appendix III.

The reception of a new idea depends upon general attitudes but attitudes are not based on economic considerations alone. Customs, habits, social contacts, religion, business connections, type of leadership, education, experience and a number of other influences will determine the amount of effort and time necessary to make organization a reality. Insofar as possible, those who choose or are chosen to create cooperative associations should evaluate the influences favorable and unfavorable to organization for the purpose of conserving energy, avoiding useless expense, and maintaining the good will of the community.

Some generalizations derived from economic and sociological studies indicate that the voluntary actions of individuals in organizing and directing collective effort is much preferred to legal coercion. Cooperatives should not be unduly stimulated in their growth by high pressure salesmanship or by over enthusiastic leaders because there is the danger of proceeding too fast and too far in advance of the legions which support them. The homogeneity of a people implies similarity in thoughts and actions which is a powerful factor favorable to ventures dependent upon mass approval.

In communities where people have previously been successful in working together, it is not so difficult to organize additional enterprises if associative efforts are needed and the plans are economically sound. This may also be true for those who have met with only a fair degree of success in their first

¹⁴ This local registration of the association's declarations will require a small fee payable to the Register of Deeds.

¹⁵ In a capital stock association at least one-half of the authorized capital stock has to be subscribed and one-fifth of the authorized capital stock must be actually paid in before the association can do business with anyone other than its own members.

trials at cooperation. The story is likely to be different, however, where producers or consumers have met with disaster or disappointment in previous attempts.

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Contents

	Page
I. COOPERATION DEFINED	3
Rochdale Principles	3
Outstanding Forms of Business Organizations	5
Legislation	6
II. POSSIBILITIES AND LIMITATIONS	10
Possibilities of Agricultural Marketing Associations	10
Adjustments in Production	11
Uniformity in Quality, Grade and Pack—Standardization	12
Feeding the Market	13
Extending the Market	14
Cooperation Improves Farmers' Bargaining Power	14
Financing	15
Cooperation—A Spokesman for Organized Agriculture	15
Limitations of Agricultural Marketing Associations	15
Price Fixing	16
Cost of Production	17
Eliminate the Middleman	18
Purchasing Associations	18
Self-Service at Lower Cost	19
Elimination of Waste	19
Reduction in Costs	19
Selling Merchandise of Known Quality	19
Credit Unions	20
Furnishes Short-Term Credit	20
Promotes Thrift	20
Educates Members in the Handling of their Own Financial Affairs	20
Mutual Insurance	21
III. THE EXTENT OF COOPERATION IN THE UNITED STATES ..	22
Cooperation in the United States and Wisconsin Compared ..	22
Extent of Cooperation in Certain States	23
Commodity Groups Compared	24
Cooperative Purchasing of Farm and Household Supplies	25
Cooperative Purchasing in Wisconsin	26
Mutual Insurance	26
Credit Unions	27
IV. COOPERATIVE PURCHASING, INSURANCE AND CREDIT ASSOCIATIONS	28
General Farm Supply Associations	29

	Page
Cooperative Gasoline and Oil Associations	30
Cooperative Grocery Stores	31
Regional and Wholesale Purchasing Associations	34
Mutual Fire Insurance	35
Cooperative Credit	35
Farm Credit Administration	36
National Farm Loan Association	36
Production Credit Associations	37
Credit Unions	37
Other Cooperative Credit	39
Summary	39
V. COOPERATION IN GREAT BRITAIN	40
Inspirational Leadership	41
The First Communal Societies	41
Labor Exchanges	41
The Rochdale Pioneers	42
Fields of Cooperative Specialization	43
Consumers' Retail Stores	43
Industrial Cooperative Production	44
Cooperative Insurance at an Early Date	45
Cooperative Banking	45
Cooperative Services	45
Agricultural Supply Societies	46
Cooperation in Ireland	47
VI. COOPERATION IN DENMARK	48
Danish Folk Schools	49
Danish Farmers Use Cooperation in Many Ways	49
Cooperation Started in 1851	50
Cooperative Stores	50
Cooperation Among Dairy Farmers	51
Cooperative Swine Packing Plants	53
Cooperative Assembling and Marketing of Eggs	55
Farmers' Cooperative Buying Activities	57
Cooperative Liming and Marling Associations	59
Farmers' Cooperative for Livestock Improvement	59
Farm Accounting Associations	59
VII. AGRICULTURAL COOPERATION IN SWITZERLAND	60
Extent of Cooperation in Switzerland	60
Dairying is the Keystone of the Rural Cooperative Arch	61
Dairy Farmers are United by One Central Federation	62
The Dairy Farmer Enters the Export Field	63
Farmers and Dealers Unite	64
The Swiss Farmers' Union	64
Swiss Cooperation has Capable Leaders	65
VIII. TYPES OF COOPERATIVE ASSOCIATIONS	67
Local Associations	68
The Federation	69

	Page
The Centralized Association	70
Combination Form of Association	71
National Associations	71
Terminal Sales Agencies	72
Collective Bargaining Associations	72
Retail and Wholesale Associations	73
Factors Affecting Choice of Type	73
IX. FINANCING OF COOPERATIVES	75
Use of Capital	75
For Organization Purposes	75
For Facilities	76
For Operating Purposes	76
For Advances	76
Source of Capital	77
Common Stock	77
Preferred Stock	78
Membership Fees	78
Certificates of Indebtedness	79
Bonds	79
Loaning Agencies	79
Types of Loans	79
Capital from Business Operations	80
Security for Loans	80
Repayment of Loans	82
Reserves	83
Personal Liability in Borrowing Money	84
Effect of Extension of Credit in Financing	84
Adjustments in Capital	85
X. COOPERATIVE BUSINESS RECORDS AND THEIR USE	87
Accounting and Auditing Service	87
Use of Balance Sheet	88
Assets	88
Liability and Net Worth	90
Financial Comparison	90
Operating Statements	92
Operating Expenses	92
Other Operating Information	94
XI. POOLING AS APPLIED TO EXPENSES, SALES RECEIPTS AND PRODUCTS	95
XII. THE MANAGEMENT OF COOPERATIVES	99
Delegating Power	101
Who Shall Serve on the Directorate?	102
The Duties of Directors	102
Powers Delegated to the Directorate	103
Directorate Management Committees	103
The General Manager's Job	104

	Page
XIII. MEMBERSHIP RELATIONS	104
Contracts with Members	107
Purpose	107
Types and Duration	107
Remedies for Breach	108
Filing Contracts	108
XIV. COOPERATIVE SELLING	110
Twelve Thousand Orange and Lemon Growers Merchandise Cooperatively	111
Federation of 450 Cooperative Creameries and Cheese Factories	112
Cranberry Growers of Wisconsin, New Jersey and Massachusetts Sell Cooperatively	113
Price and Sales Policy	113
Bargaining Power	116
Service to Consumers	116
XV. HOW TO ORGANIZE A COOPERATIVE	118
The Organization Committee	119
Converting the Temporary into a Permanent Organization	120
Knowledge of Statutes Important	121
Steps in Organizing a ()	121