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**THE ECONOMICS OF
COOPERATIVE MARKETING**

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THE ECONOMICS
OF
COOPERATIVE MARKETING

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PREFACE

Economic security has become the quest of millions who suffered untold hardships during the recent lean and uncertain years. The old patterns of economic and social institutions are being critically appraised to avert if possible a recurrence of the debacle that began in the autumn of 1929. The disruption of commerce and the stagnation of industry have created a great wave of renewed interest in reform movements. Cooperation is being seriously considered by many as the best possible alternative mode of organizing business to assure economic and social stability. Some leaders in the movement are apprehensive of sporadic growth. They foresee many persons being induced to exert their influence and invest their resources in organization and administrative activities without a proper understanding and appreciation of the fundamental principles involved.

The purpose of this book is to present a comprehensive statement of the basic philosophy, the decisive principles, and the practical methodology of cooperation. It is designed primarily as a college text not for the sole purpose of arousing intellectual curiosity, but as a valuable source of information for those who may teach the subject or come in contact with the broad realities of the movement through actual participation as members, directors, and employees.

The term "marketing" as it is used in the title of this book is to be construed to include both sides of the transaction, buying as well as selling. A narrower interpretation of the word is common in commercial usages connoting sales activities only. Since approximately 85 per cent of the cooperative business of the country is done by farmers' cooperative sales associations, chief consideration has been given to this phase of the business.

This book on cooperation truly exemplifies the meaning of the word. The authors have collaborated in every way in its preparation and will share all censures and commendations.

They acknowledge their indebtedness to their colleagues and to the many writers and commentators on the cooperative movement. No small share of credit for this work goes to students and assistants for their helpful analysis of the organization and technique in presentation.

HENRY H. BAKKEN,
MARVIN A. SCHAARS.

MADISON, WISCONSIN,
October, 1937.

40998

CONTENTS

	Page
PREFACE	v

PART I

THE EVOLUTION OF COOPERATIVE BUYING AND SELLING

CHAPTER

I. COOPERATION—ITS SETTING IN AN ECONOMIC SOCIETY	2
II. THE FORERUNNERS OF THE COOPERATIVE MOVEMENT	24
III. DEVELOPMENT OF COOPERATIVE MARKETING IN THE UNITED STATES	46
IV. COOPERATIVE MARKETING ABROAD	78

PART II

THE ECONOMIC PHILOSOPHY OF COOPERATIVE MARKETING IN THE UNITED STATES

V. BASIC ECONOMIC CONCEPTS OF THE COOPERATIVE MOVEMENT	118
VI. PRINCIPLES OF COOPERATIVE SALES ASSOCIATIONS	144
VII. PRINCIPLES OF COOPERATIVE PURCHASING ASSOCIATIONS	168
VIII. FORMATION OF COOPERATIVE ASSOCIATIONS	185
IX. TYPES OF COOPERATIVE ASSOCIATIONS	204
X. MEMBERSHIP RELATIONS	242

PART III

LEGAL CONSIDERATIONS OF THE COOPERATIVE METHOD OF MARKETING

XI. LEGAL BASIS OF AGRICULTURAL COOPERATIVE ASSOCIATIONS	268
XII. MEMBERSHIP CONTRACTS	304

PART IV

FUNCTIONAL RELATIONSHIPS OF COOPERATIVE ORGANIZATIONS

XIII. MANAGEMENT OF COOPERATIVES	336
XIV. FINANCING COOPERATIVE MARKETING ASSOCIATIONS	350
XV. FINANCING COOPERATIVE MARKETING ASSOCIATIONS (<i>Continued</i>)	392

CONTENTS

CHAPTER	PAGE
XVI. POOLING AGRICULTURAL PRODUCTS	430
XVII. POOLING AGRICULTURAL PRODUCTS (<i>Continued</i>)	451
XVIII. SALES POLICIES.	474
XIX. INDUSTRY PLANS FOR THE CONTROL OF PRODUCTION AND DISTRIBUTION OF AGRICULTURAL PRODUCTS.	501

PART V

COOPERATION IN PERSPECTIVE

XX. LIMITATIONS AND POSSIBILITIES OF COOPERATION	528
XXI. THE FUTURE OF COOPERATION	544

APPENDIX

A. CAPPER-VOLSTEAD ACT.	555
B. MEMBERSHIP AGREEMENT AND CONTRACT.	557
INDEX.	563

APPENDIX A
CAPPER-VOLSTEAD ACT

AN ACT TO AUTHORIZE ASSOCIATION OF PRODUCERS OF AGRICULTURAL PRODUCTS

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, 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 interstate 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 nonmembers to an amount greater in value than such as are handled by it for members.

SEC. 2. That if the Secretary of Agriculture shall have reason to believe that any such association monopolizes or restrains trade in interstate or foreign commerce to such an extent that the price of any agricultural product is unduly enhanced by reason thereof, he shall serve upon such association a complaint stating his charge in that respect, to which complaint shall be attached, or contained therein, a notice of hearing, specifying a day and place not less than thirty days after the service thereof, requiring the association to show cause why an order should not be made directing it to cease and desist from monopolization or restraint of trade. An association so complained of may at the time and place so fixed show cause why such order should not be entered. The evidence given on such a hearing shall be taken under such rules and regulations as the Secretary of Agriculture may prescribe, reduced to writing, and made a part of the record therein. If upon such hearing the Secretary of Agriculture shall be of the opinion that such association monopolizes or restrains trade in interstate or foreign commerce to such an extent that the price of any agricultural product is unduly enhanced thereby, he shall issue and cause to be served upon the

association an order reciting the facts found by him, directing such association to cease and desist from monopolization or restraint of trade. On the request of such association or if such association fails or neglects for thirty days to obey such order, the Secretary of Agriculture shall file in the district court in the judicial district in which such association has its principal place of business a certified copy of the order and of all the records in the proceeding, together with a petition asking that the order be enforced, and shall give notice to the Attorney General and to said association of such filing. Such district court shall thereupon have jurisdiction to enter a decree affirming, modifying, or setting aside said order, or enter such other decree as the court may deem equitable, and may make rules as to pleadings and proceedings to be had in considering such order. The place of trial may, for cause or by consent of parties, be changed as in other causes.

The facts found by the Secretary of Agriculture and recited or set forth in said order shall be prima facie evidence of such facts, but either party may adduce additional evidence. The Department of Justice shall have charge of the enforcement of such order. After the order is so filed in such district court and while pending for review therein the court may issue a temporary writ of injunction forbidding such association from violating such order or any part thereof. The court may, upon conclusion of its hearing, enforce its decree by a permanent injunction or other appropriate remedy. Service of such complaint and of all notices may be made upon such association by service upon any officer or agent thereof engaged in carrying on its business, or on any attorney authorized to appear in such proceeding for such association, and such service shall be binding upon such association, the officers, and members thereof.

Approved, February 18, 1922.

APPENDIX B

POTATO CO-OPERATIVE GROWER'S CONTRACT

PARTIES TO CONTRACT

This Memorandum of a stock subscription and agreement to buy or agency contract made in duplicate and entered into on the date of this instrument by and between the POTATO CO-OPERATIVE, a co-operative association of _____, Wisconsin, organized and existing under Chapter 185 of the Wisconsin Statutes of 1933 and the acts amendatory thereof and supplementary thereto, which co-operative shall hereinafter be referred to as the "Association" and _____, a resident of the (Town) (City) of _____ in the County of _____, and State of Wisconsin, who shall hereinafter be referred to as the "Grower"; Witnesseth That:

CONSIDERATION

(1) For and in consideration of the mutual benefits to both parties, the promises of each being the consideration of the promises of the other, hereby agree as follows, to-wit:

SUBSCRIPTION AGREEMENT

The grower hereby subscribes at par for and agrees to take _____ shares of stock of the Association, which Association is organized with capital stock of fifteen thousand and no/100 (\$15,000.00) dollars, which is divided into one thousand five hundred (1,500) shares of the par value of ten and no/100 (\$10.00) dollars per share. The grower agrees to accept said stock upon tender of delivery and to pay therefore either in cash or in the following manner; twenty-five (25%) per cent of the par value of said stock in cash upon the signing of this instrument and to make, execute and deliver to the Association his promissory note for the balance of the purchase price of said stock, which promissory note shall be due ninety (90) days from date of this instrument, shall bear interest at the rate of seven (7%) per cent per annum, and shall be payable at the office of the Association. The grower further agrees that upon default occurring in the terms of said promissory note the Association shall have the right to deduct the full amount due and owing under the terms of said promissory note from any and all moneys due, or to become due, from the association to the grower, whether said Association owes money to the grower as principal debtor or agent, until said promissory note, interest and all legitimate charges are paid in full.

OWNERSHIP OF STOCK CONTROLLED

The Board of Directors of the Association shall have the prior option to buy for the Association the stock of the grower and the right to recall for value the stock of any stockholder subject to the limitations now or hereafter provided by law and subject to the further limitation that the Association upon exercising said option to buy or right to recall shall pay for said stock at its book value or at its par value when the book value is less than the par value. However, said option or right to buy shall be exercised by said Board of Directors within thirty days after it receives written notice from the grower that he is offering his stock for sale, and said option to purchase shall continue in said Association for said thirty-day period of time unless otherwise required by law. No transfer of stock shall be made by the grower contrary to the provisions of this instrument and any attempt to do so shall be void.

ELIGIBILITY OF MEMBERS

Only people engaged in raising and producing potatoes shall be eligible to hold stock in the Association and any grower who fails to comply with the charter rules, regulations and by-laws of the Association shall in the discretion of the Board of Directors lose his power to vote at meetings of the stockholders and his stock may be recalled as hereinbefore provided. The Board of Directors shall be the sole judges as to whether or not any member has or has not complied with the Articles of Organization, rules and by-laws of the Association with respect to said stockholder's right to vote.

AGREEMENT TO BUY AND AGENCY CONTRACT

1. The grower agrees that he will sell to or through the Association all marketable potatoes, except those which the grower reserves for seed and his own personal use, but not for sale, produced by or for him throughout the term of this agreement, and all potatoes grown, either by the grower or by any member of his immediate family, on land either owned by or leased to the grower, are intended to be included in this agreement. This contract is intended by the parties to pass an absolute title to all such potatoes, as soon as the same are delivered to the Association's warehouse or loading platform.

2. The grower hereby represents to the Association that he has not heretofore entered into any contract to sell or market any potatoes to be produced by him subsequent to the effective date of this agreement.

DELIVERY NOTIFICATION

3. The grower agrees that he will notify the Association as soon as the potatoes are harvested of the approximate number of bushels he will have for sale. He further agrees that he will give at least three days' notice in advance of the time when he wishes to market the potatoes and the amount he wishes to sell at that time. He further agrees that after said notice is given he will deliver said potatoes at the time and place and in the manner

directed by the Association and that in the production and handling of said potatoes he will comply with all rules, regulations, requirements and by-laws of the Association, and with all laws applicable thereto. He further agrees that the Association may sort and grade said potatoes as delivered and that the Association's grading and classification shall be conclusive. He further agrees that the Association may pool or mingle potatoes which are of a like grade, kind, type or quality delivered to it under substantially similar conditions.

COMMODITY COLLATERAL FOR ASSOCIATION LOANS

4. The grower agrees that the Association is expressly authorized and shall have power to borrow money in its name and on its own account on the potatoes delivered to it, or on any accounts of the sale thereof or any drafts, bills of lading, bills of exchange, notes, acceptances, or any commercial paper held by it, and to pledge in its own name and on its own account drafts, bills of lading, bills of exchange, notes, acceptances or any commercial paper as collateral.

CONTRACT ONE OF AGENCY OR PURCHASE AND SALE

5. The Association agrees that it will either buy all the potatoes, on the basis of grade and quality, produced by or for the Grower or will act as the collective marketing agent of the Grower. It is expressly and mutually agreed that the Association may, in its discretion, as from time to time exercised, either purchase the said potatoes from said Grower or may act as his collective marketing agent.

METHODS OF MAKING PAYMENTS

6. The parties agree that in the event the Association acts as the marketing agent the price which shall be paid for said potatoes shall be the average price which the Association receives minus a uniform charge on all the potatoes of the same grade, kind, type or quality to substantially cover the expense of operating the Association. Average prices shall be based upon the Association's total receipts from the sale of potatoes of the same grade, kind, type or quality sold in the same period and under substantially similar conditions. The amount of the uniform charge and the elements to be included therein shall be determined by the Board of Directors of the Association and may include a sufficient amount to create such reserves and produce a working capital as the Board of Directors may deem necessary to accord with sound business principles and if working capital is so provided the interest of the grower therein must be accounted for on the books of the Association.

7. It is mutually agreed that in the discretion of the Board of Directors of the Association, the method of paying the purchase price of the potatoes delivered to the Association may be, to advance within a reasonable time after delivery to the Association, an amount to be determined by such Board of Directors, and to pay the remainder, if any, of the purchase price when the potatoes, which are of the same grade, kind, type, or quality of

any one period, to be fixed from time to time by the Board of Directors, are entirely sold; that in its discretion the Board of Directors may order and cause to be made partial payments prior to the final distribution and may defer the final distribution until all the potatoes of the same grade, kind, type or quality of any one period are sold, and until the uniform fixed charges have been fixed and determined for any reasonable period, which the said Board of Directors may designate. The parties hereto agree that the advance payments shall be in as large amounts as are possible in accordance with sound business practices; the parties further expressly agree that any and all payments made by the Association shall be considered as advances until the Board of Directors of the Association, by action duly taken, determines finally the amount to be paid and the amount of uniform charge for such period, as they may determine.

REMEDIES FOR BREACH OF CONTRACT

8. The Grower further agrees that in the event he breaches this agreement he will pay to the Association as liquidated damages thirty (30) per cent of the value of the potatoes not delivered by him under the provisions hereof, the value to be determined as of the day the breach occurred, at the place of contemplated original delivery to the Association and the said damages may be deducted from any money due to the Grower from the Association. The value shall be determined by the Association and shall be final and conclusive. The Grower agrees that in the event of a breach or threatened breach by the Grower of any of the provisions of this contract, the Association shall be entitled to an injunction to prevent breach or further breach thereof and shall also be entitled to a decree of specific performance hereof. It is further understood and agreed that a breach or threatened breach of this contract shall be cause for ejection of the Grower from the Association.

DURATION OF CONTRACT

9. This agreement is to be binding for a period of five years and shall be considered to be renewed at the expiration thereof for a like period of time unless either party hereto does, within thirty days before the expiration of this agreement, serve on the other party his notice of election to terminate this agreement. The effective date of this contract is the date upon which it is approved and signed by the officers of this Association.

MINIMUM VOLUME TO MAKE CONTRACT EFFECTIVE

10. And it is further mutually agreed between the parties hereto that the agreement to buy and agency contract herein contained shall be null and void, as conclusively determined by the Board of Directors of the Association, unless on or before the 15th day of July, 1937, sufficient contracts similar to this agreement have been entered into between the Association and other growers so that said contracts, according to the estimates recorded thereon, shall cover a production of at least three thousand five hundred (3,500) acres of potatoes.

11. It is mutually understood and agreed between the parties hereto that any and all encumbrances placed upon potatoes grown by the grower herein during the tenure of this agreement shall be subordinate to and subject to the terms of this agreement.

FEDERATION OF LOCAL ASSOCIATIONS MADE POSSIBLE

12. It is mutually understood and agreed between the parties hereto that the Association may make agreements with other growers not identical with this agreement but in conformity with Chapter 185 of the Wisconsin Statutes for 1935, and all acts amendatory thereof and supplementary thereto which may be hereafter enacted, but that the grower named herein may in his discretion have this contract amended so as to conform with the provisions of any other contract entered into by the Association with any other grower.

AGREEMENTS ARE SEVERABLE

13. It is further agreed between the parties hereto that the stock subscription agreement and agreement to buy and agency contract are severable and that if either is in any way invalid such invalidity shall not affect the other agreement.

Also it is further agreed that each of the several provisions of each of said agreements is hereby understood and declared to be severable and that if any one or more of such provisions shall be adjudged to be invalid such invalidity shall not effect the validity of the other provisions or either of them.

14. The parties agree that there are no oral or other conditions, promises, covenants, representations or inducements in addition to or at variance with any of the terms hereof; and that this agreement represents the voluntary and clear understanding of both parties fully and completely.

SIGNATURES

Read and considered, and signed at _____ this _____ day of _____ 193_____

Grower

Accepted this _____ day of _____ 193_____

POTATO CO-OPERATIVE.

Solicited by _____

By _____
President

Secretary

I planted _____ acres of potatoes in 1936 and I expect to plant _____ acres of potatoes in 1937.

Grower

NAME INDEX

A

Abel, Edson, 515
 Andersen, Stilling, 86
 Anderson, R. A., 99, 101
 Armstrong, Paul S., 510
 Arthur, Charles M., 373, 428, 432

B

Babcock, H. E., 20
 Bacon, Francis, 27
 Bagehot, Walter, 122
 Bakken, Henry H., 340, 342
 Bingham, Robert W., 273
 Black, John D., 191, 223, 260, 313,
 316, 319, 324, 327, 328, 333, 434,
 439, 442, 444
 Blanc, Louis, 138, 139, 141, 143
 Bliss, James Harris, 426
 Bretano, Lujo, 29
 Briggs, G. R., 481
 Burn, Bruno, 462

C

Camp, William R., 464, 465
 Campanella, Tommaso, 27
 Cantillon, Richard, 123, 124
 Carlyle, Thomas, 125
 Cerini, Floyd B., 155
 Chamberlin, Edward, 499
 Cheney, Edward P., 30
 Childs, Marquis W., 105, 115
 Christensen, Chris L., 83, 87, 90, 316,
 320, 442
 Clayton, C. F., 362, 370, 380, 381
 Commons, John R., 121, 257, 269
 Cook, William W., 368
 Cotta, Freppel, 130, 298
 Cowden, Howard A., 181

D

Darling, George, 38
 Defoe, Daniel, 31
 Dickinson, Zenas C., 251
 Digby, Margaret, 299
 Dreier, Frederik, 43
 Dummeier, E. F., 364

E

Eberle, A. M., 186
 Elsworth, R. H., 64, 65, 71, 197
 Ely, Richard T., 137
 Engels, Friedrich, 139
 Erdman, H. E., 441, 447, 449, 452,
 453, 542
 Evans, Frank, 269

F

Faber, Harald, 83, 87
 Fellenberg, Philipp E. von, 133
 Fetrow, Ward W., 47, 55, 69, 433,
 439, 470
 Fetter, Frank A., 250
 Finlay, T. A., 101
 Fourier, F. M. Charles, 6, 81, 131,
 135-136, 137, 138, 139, 140

G

Gardner, Chastina, 60, 254
 Gardner, Kelsey B., 426, 490
 Gatlin, George O., 202, 203, 376, 428
 Gebhard, Hannes, 82
 Gee, Wilson, 309, 310
 Gide, Charles, 27, 138
 Gile, B. M., 354, 358
 Gilman, Stephen, 426
 Gjöres, Axel, 173

Godwin, William, 125, 132
 Goldsworthy, Vernon, 532
 Gournay, Jean C. M. V. V. de, 123
 Grundtvig, N. F. S., 85, 86

H

Hall, F., 109, 115, 207
 Hanemann, Andrew H., 381, 472
 Hanna, John, 269, 272
 Hardy, George F., 31
 Harper, F. A., 370, 427
 Harrington, James, 27
 Hensley, Harry C., 186
 Herrmann, O. W., 60, 254
 Hibbard, B. H., 49
 Hobson, Asher, 130, 298
 Hobson, John A., 252
 Högsbro, Svend, 81
 Holyoake, George J., 33, 34, 35, 168
 Hood, Robin, 536
 Horner, J. T., 362, 370, 380, 381
 Hulbert, L. S., 269, 368, 376, 398,
 406, 442
 Hume, David, 121, 122, 125, 126
 Hutcheson, Francis, 120

J

James, William, 250
 Jesness, O. B., 10, 246
 Jevons, William Stanley, 126
 Johnson, George F., 318, 319, 321,
 322
 Jones, J. W., 10, 246, 345, 537

K

Kagawa, Toyohiko, 81
 Kant, Immanuel, 139
 Kiekhofer, William H., 16, 18
 King, William, 34, 40
 Knapp, J. G., 47, 552, 553
 Knight, Frank H., 499
 Knight, J. J., 361, 363
 Kuhrt, W. J., 397, 457

L

Linlithgow, Lord, 438
 Lister, J. H., 47
 Locke, John, 119, 120, 121
 Loutfy, Omar, 107
 Luzzatti, Luigi, 81

M

McCulloch, John Ramsay, 125
 McFadden, A. J., 515
 McKay, A. W., 372, 397, 457
 Macklin, Theodore M., 541
 Madison, James, 178
 Madsen-Mygdal, 94
 Maffi, Antonio, 81
 Malthus, Thomas Robert, 125, 126
 Manny, T. B., 10, 260, 534
 Maris, Paul V., 152
 Marot, Helen, 252
 Marshall, Alfred, 24, 127, 477
 Marx, Karl, 139
 May, Henry J., 170, 297
 Mears, Eliot G., 411
 Mehl, J. M., 437
 Mill, James, 125
 Mill, John Stuart, 125
 Miller, J. D., 270, 279
 Miller, Paul, 434, 439, 444
 Miller, Seward A., 465
 Moore, A. N., 358
 More, Sir Thomas, 27
 Morley, Sam L., 365, 412
 Mussolini, Benito, 297, 298

N

Nielsen, Anders, 86
 Nourse, Edwin G., 145, 269, 276,
 281, 292, 316, 467
 Noyes, John Humphrey, 138

O

Oberlin, Jean Frederic, 133
 Owen, Robert, 6, 40, 131, 132, 133,
 134, 135, 138, 139, 140, 141, 143

P

Palgrave, Ingles R. H., 16
 Parker, Florence E., 302
 Patton, Harald S., 482, 519
 Pestalozzi, Johann Heinrich, 133
 Plato, 27
 Plunkett, Sir Horace, 81, 99, 101
 Plutarch, 28
 Podmore, Frank, 133, 134
 Pope, Alexander, 530
 Powell, G. Harold, 234, 235, 313, 334
 Price, H. Bruce, 191, 223, 313, 316,
 319, 324, 327, 328, 333, 373,
 428, 432, 442
 Proudhon, Pierre Joseph, 139

Q

Quesney, François, 121, 122

R

Raiffeisen, Friedrich Wilhelm, 40,
 41, 81
 Rashad, Ibrahim, 107
 Reed, Stanley, 352, 358
 Ricardo, David, 125
 Richards, A. E., 96
 Rist, Charles, 138
 Robotka, Frank, 434, 439, 444
 Rollin, Charles, 26, 27
 Rousseau, Jean Jacques, 123, 133
 Rowe, William H., 357, 358, 359
 Rucker, Vance M., 427
 Russell, George W. (A. E.), 101

S

St. Simon, C. Henri C. de, 131
 Sapiro, Aaron, 260, 273, 281, 323
 Scanlan, John J., 9, 308
 Schulze, Hermann, 40, 81
 Senior, Nassau William, 125
 Sismondi, J. C. L. Simonde de, 131,
 141
 Smith, Adam, 120, 121, 122, 123, 143
 Smith, Arthur H., 25

Smith, Joshua Toulmin, 29
 Stevens, W. Mackenzie, 372
 Stewart, Sir James, 127
 Stokdyk, E. A., 155, 269, 357, 395,
 426, 511
 Street, A. W., 438
 Swarthout, A. V., 308

T

Talbot, Ransom C., 367, 369
 Taussig, F. W., 252
 Teague, Charles C., 21, 22
 Terry, Edward Allison, 309, 310
 Thompson, Joseph W., 399, 400
 Thompson, Seymour D., 399, 400
 Thomsen, F. L., 316, 332
 Thorne, G. B., 316, 332
 Tinley, J. M., 9, 308
 Tobriner, Mathew O., 411
 Tugwell, Rexford, 141
 Turgot, A. Robert Jacques, 122

V

Veblen, Thorstein, 176, 252, 499
 Voltaire, François M. A., de, 122

W

Wagner, Adolf, 244, 251, 253
 Walter, Karl, 129, 298
 Warbasse, J. P., 241
 Ward, R. A., 422
 Watkins, W. P., 109, 115, 207
 Webb, Beatrice, 530
 Webb, Sidney, 530
 Weinstock, Harris, 273
 Wellman, H. R., 441, 447, 449, 452,
 453
 Wells, J. E., Jr., 352, 357, 386
 West, Sir Edward, 125
 White, D. G., 426
 Wilde, Oscar, 262
 Williams, J. Glynne, 99

Z

Zimmerman, Carle C., 260

SUBJECT INDEX

A

Abundance, concept of, 120-126
Advertising, by large-scale associations, 521-523, 541
Agency contracts, 317-320
Agricultural Adjustment Act, 505, 512
Agricultural Council (Danish), 90
Agricultural Marketing Act 1929, 287-288, 354-355, 418, 504
Agricultural production and cooperation, 7, 502-515, 523-524, 547-548
Agricultural Prorate Commission of California, 513, 515
 report of, 514
Agricultural Wheel, 51
Allgemeene Nederlandsche Zuivelbund, 107
Almonds, cooperative organizations for, history of, 62
American Cotton Cooperative Association, 10, 11, 60
American Cranberry Exchange, 63*n.*, 95, 225, 481, 491, 518, 523
American Farm Bureau Federation, 51, 54, 56, 70, 73, 186, 291, 355
American National Fox & Fur Breeders Association, 63*n.*
American Rice Growers Cooperative Association, 440
American Society of Equity, 51, 53, 56, 61, 70, 186
Annual statements or reports, 423-424
Antidiscrimination acts, 285-287
Antislender provision, Wisconsin, 287
Antitrust laws, exemption from, 279-281, 291-292

Apple Growers Association of Hood River, 521
Appropriation, modes of, 245-246
Arkansas Cotton Growers' Cooperative Association, 354
Assessments, 402-403
Attitudes, of producers toward marketing, 260-261
Audits, public, 291
Australia, cooperative marketing in, 101-102

B

Bacon, cooperative marketing of, in Denmark, 86-88
Banks for cooperatives, 155, 165, 419-421
Bargaining power, of cooperatives, 248
 of producers, 120, 480-481, 541-542
Bill, U. S. Department of Agriculture, model, 281
Bonds, 379-380
Bourgeois class, plight of, 130, 131, 138
Brighton experiment, 33, 34
Brook Farm, 138
Burley Tobacco Growers Association, 380
Butter, cooperative marketing of, in Denmark, 86-88
Butter marketing, 446-447, 493-495
By-products utilization, 515-517

C

California Farm Bureau Marketing Association, 440, 489

- California Fruit Exchange, 63, 373, 518
- California Fruit Growers Exchange, 21, 22, 63, 91, 95, 149, 213, 216*ff.*, 254-255, 313, 372, 406, 459, 493, 508, 516, 518, 522, 523
- California Prune and Apricot Growers Association, 523
- California Vineyard Association, 507
- California Walnut Growers Association, 21, 22, 62, 95, 150, 216, 234, 407, 492, 523
- California-Arizona Citrus Agreement, 512
- Canada, characteristics of cooperatives in, 97-98
 cooperative marketing in, 95-98
 number of associations in, 97
 types of associations in, 96-97
- Canadian Cooperative Wool Growers, Ltd., 96
- Canadian Livestock Cooperative (Maritimes), 96
- Canadian Poultry Pool, Ltd., 96
- Canadian Seed Growers' Association, 98
- Canadian Wheat Producers, Ltd., 39, 97, 98, 109, 333, 462
- Capital, for facilities, 355-356
 for farm production, 357-359
 for large-scale associations, 363-365
 for local associations, 360-363
 methods of providing, 365*ff.*
 for operations, 356-357
 for organization, 354-355
 sources of, 408-421
- Capital stock associations, legislation enabling, for, 275-276
- Capital stock, basis of organization, 353
- Capitalism and cooperativism, 13-15
 differences, 14, 15
 similarities, 13, 14
- Capitalistic control, barriers against, 154
- Capper-Volstead Act, 4, 154, 159, 281-283, 295, 504, 530, Appendix A
- Cash purchase of farm products, 431-439
- Cash trading, principle of, 177-178
- Cattle, cooperative marketing of, in Denmark, 90
- Causes of business failures, 197-198
- Central Cooperative Association, 63*n.*, 226*ff.*
- Central Cooperative Wholesale (Superior, Wis.), 75, 210, 291
- Central Federation of Cooperative Dairies (Latvia), 107
- Central Wool Marketing Corporation, 232
- Centralized associations, advantages of, 221
 contrasted with federated, 223-225
 description of, 219-222
- Certificates, of equity, 394
 of indebtedness, 394-398
 redemption plans, 396
- Challenge Cream and Butter Association, 63, 404*n.*, 518
- Cheese, cooperatives, history of, 52
- Cheese marketing, 484-486
- Cheese rings, 41, 42, 52
- Chemical Foundation, Inc., 517
- Chicago Board of Trade, 286
- Chicago Producers Commission Association, 63*n.*
- China, cooperation in, 25, 177
- Citrus fruit marketing, 493, 507-510
- Citrus fruits, cooperative marketing of, history of, 56
- Class legislation, 295-296
- Classicists, doctrines of, 120-127
- Clayton Act, 280-281
- Clearinghouse schemes, 505-507
- Collective bargaining associations, description of, 228-231
- Collective farming, 5, 207
- Colorado Potato Growers Exchange, 457, 523
- Combination-type associations, 225

- Commission firms, cooperative live-stock, history of, 54, 55
- Commission method of handling products, 225-228, 439-442
- Commodity basis of organization, 200
- Commodity Exchange Act, 11, 286
- Common law and cooperatives, 269-271
- Common stock, 368-376
 basis of sales of, 371-373
 extent of use of, 369
 interest paid on, 374-375
 methods of paying for, 370
 value of shares of, 371
- Communal societies, 26, 27, 133-134, 138, 531
- Communism and cooperation, 17-18
- Competition, in agricultural industry, 498-499, 522
 elimination of, 505-506
 impact of, 159-160, 202, 248, 533-534
 ineffectiveness of, 8, 11, 13
- Compulsory pooling, 472
- Connecticut Milk Producers Association, 325, 403
- Connecticut Valley Tobacco Association, Inc., 384
- Consanguinity, affecting cooperatives, 531
- Consumer and producer societies, amalgamation, difficulties of, 109
 cooperation between, 108-111
- Consumers, gain from cooperative sales, 22, 23
- Consumers' Cooperative Association (North Kansas City, Kan.), 75, 181
- Consumers' cooperatives, classified, 206
 versus farm purchasing associations, 208-209
 in foreign countries, 80-83
 in Great Britain, 30-39, 173, 175-176, 177, 182
 law for, 302-303
- Consumers' cooperatives, principles of, 168-184
 retail and wholesale, 75, 210
 scope of, 209-210
- Contracts, conclusive presumption in, 329-330
 damages from breaking, 326
 in Danish associations, 316, 316*n.*, 320*n.*
 defenses for violation of, 330-332
 defined, 305-306
 duration of, 320-325
 efficient marketing and, 332-333
 evolution of, 314-316
 filing of, 325-326
 importance of, 202
 injunction, for breach of, 328
 laws limiting duration of, 322-323
 legal value of, 311-314
 liquidated damages in, 327-328
 membership, 304-334
 and membership selection, 249-250
 methods of voiding, 330
 purpose of, 307-312
 remedies for breach of, 249, 326-329
 specific performance of, 329
 terminating and self renewing, 321-322
 types of, 159, 160, 317-320
 violation of, 307-311
- Control plans, agricultural production, 502-524
- Cooperation, benefits of, diffused, 533-534
 and capitalism, 13-15
 and communism, 17, 18
 concepts of, 6
 among cooperatives, 517-520
 education, effects upon, 550-551
 and fascism, 18, 19
 future of, 545-553
 industrial, 132-135, 138-139
 international, 503
 limitations of, 528-540
 in medieval times, 27-29
 opposition to, 21, 22, 129, 537

- Cooperation, possibilities of, 7, 12, 15, 22, 23, 153, 540-543
 principles of, 144-184
 between purchasing and sales associations, 109-111, 113, 550
 reasons for, 2, 5-10, 47-49, 142, 248, 253-254
 renaissance of, 39-44
 and socialism, 16, 17
- Cooperative associations, affected
 by type of farming units, 547
 classification of, 5, 205-206
 contracts used by, 304-334
 failures of, 197-198, 202-203, 337, 458, 462
 functions of, 192
 historical development of, 24-44
 influence in central markets, 196
 large-scale, establishing, 191-194
 legal basis of, 268-303
 local, establishing, 186-191
 management of, 336-349
 mistakes of, 344-345
 operation of farms, by, 37-39
 practices of, contributing to success, 199-202
 essential to success, 198-199
 quasi-public nature of, 537-538
 in restraint of trade, 292
 sales policies of, 474-500, 507-510
 types of, 204-241
- Cooperative Fodder Societies (Danish), 90
- Cooperative Grange-League Federation Exchange (G.L.F.), 66, 72, 240, 471
- Cooperative Honey Producers' Association (New Zealand), 104
- Cooperative Insurance Society, 37
- Cooperative League of the United States, 180, 207
- Cooperative marketing, 3, 11
 definition of, 3, 4
 development of, in United States, 47-76
 extent of, in United States, 74
 in foreign countries, 25, 26, 30-39, 42-44, 78-115, 173, 182
- Cooperative marketing, objectives of, 5-10
 and the state, 19, 20
- Cooperative organizations, capital stock basis, 353
 commodity basis of, 234-237
 geographical basis of, 234-237
 legal basis of, 268-303
 nonstock basis, 353
 periods in which developed, 66-71
 regional development, 63-66
- Cooperative and Economical Society, 33
- Cooperative spirit, importance of, 201
- Cooperative Union, Ltd., 37, 180
- Cooperative Wholesale Society (C.W.S.), 36-40, 102, 103, 109, 110, 111, 184
 farming operations, 37-39
- Cooperative Wholesale Society (Denmark), 89
- Cooperativism, a synthesis, 2, 13, 19, 118
- Corporations, private, contrasted with cooperatives, 15
- Costs, of organizing, 354-355
- Cotton cooperative organizations, contract violations in, 307-310
 history of, 60-61
- Cotton marketing, 433, 439-440, 449
- Cranberry, cooperative organization of, history of, 56
- Cranberry marketing, 491
- Creameries, cooperative, in Denmark, 86-88
 history of, 52
 in Ireland, 99-100
- Credit, extension of, by stores, 177-178, 476
- Credit societies, 25, 40-44
 decline of, in Germany, 41
- Credit unions, 75-76, 552
- Critics of the social order, 130-142
- Crop carry-overs, risks involved in, 520-521
- Customs, affecting membership relations, 243, 530-531

D

- Dairy cooperative organizations**,
 cheese, 51-52
 creameries, 52
 fluid milk, 52
 history of, 51-53
- Dairy Disposal Company (Ireland)**,
 100
- Dairymen's Association of Providence (R.I.)**, 313
- Dairymen's League Cooperative Association**, 65, 231, 465
- Danish Cooperative Bacon Trading Company, Ltd.**, 88
- Danish Cooperative Egg Export Association**, 89, 92
- Danish Cooperative Manure Society**, 90
- Danish Farmers Cooperative Association for Seed Growing**, 89, 92n., 110
- Danish folk high schools and co-operation**, 85, 94
- Danish Union of Cooperative Slaughter-houses**, 110
- Dark Tobacco Growers Cooperative Association**, 332, 459, 466
- Defenses for breaking contracts**, 330-332
- Deferred payments**, 393
- Del-Mar-Va Eastern Shore Association**, 507
- Democracy in business**, 153-158, 171-172
- Democratic control, principle of**, 153-158, 171-172
- Denmark, bacon cooperatives**, 88-89
 cattle export associations, 90
 characteristics of cooperatives, in, 90-95
 cooperation in, 83-95
 among butter producers, 86-88
 egg and poultry cooperatives, 89
 folk high schools in, 85, 182
 history of cooperation in, 43-44
 purchasing associations, 90
- Denmark, reasons for cooperative organization**, 84-85
 seed associations, 89
 types of cooperative associations, 86
- Directors, duties and powers of**, 340-343
 election of, 336
 public, 297, 537
 qualifications of, 339-340
- Distribution of wealth, classical theory of**, 125-126
- Dividends, on patronage basis**, 158-160
 on purchases, 172-173
- Division of Cooperative Marketing, Act creating**, 283-284
- Duration, of contracts**, 320-325
 changes in, 325
 factors affecting, 323-324
 of pooling periods, 454-457

E

- Eastern Shore of Virginia Produce Exchange**, 236
- Eastern States Farmers Exchange**, 66, 72, 240
- Economic concepts and cooperation**, 119-143
- Economic need for cooperatives**, 187, 199
- Economic principles, followed by cooperatives**, 10
- Economic systems, capitalism**, 13-15
 communism, 17-18
 cooperativism, 2, 13, 19, 118
 fascism, 18-19
 laissez-faire, 118, 120-127, 129
 planned economy, 118
 socialism, 16-17
 types of, 118
- Education, promotion of**, 163-166, 178-183
- Egg auctions, cooperative**, 59
- Egg marketing**, 58, 59, 459, 491-492
- Eggs and poultry, cooperative marketing of, in Denmark**, 89

- Egypt, cooperation in, 107
 Elevators, cooperative grain, history of, 55
 Emmenthal Cheese Exporting Company, 106
 Employees, relationship to cooperatives (*see* Workers)
 Equitable pioneers, of Rochdale, 34-40, 175-176
 Equity Cooperative Livestock Sales Association, 63*n.*
Eranoi, predecessors of cooperatives, 27, 28
 Ethics, an urge to economic actions, 252-254
 Europe, societies in, 28, 34-44, 134, 138
 Exchange Lemon Products Company, 406
 Exchange Orange Products Company, 406
 Exchange Supply Company, 407
 Exchange transactions, development of, 475-478
 Exchanges, cheese, 484-486
 produce, 161, 481-483
 Expenses, pooling of, 443-444
 Exploitation, modes of, 245-246
 Export sales by cooperatives, 521
 Extent of cooperation, Canada, 97
 in foreign countries, 79-115
 United States, 70, 74
- F
- Facilities, financing, 355-356
 Failures of cooperative associations, 197, 198, 202-203, 337, 458, 462
 Farm Bureau Services, Inc., 73
 Farm Chemurgic Council, 517
 Farm Credit Act 1935, 303, 356, 384-388
 Farm organizations, general, related to cooperative marketing, 49-51
 Agricultural Wheel, 51
 American Farm Bureau Federation, 51, 54, 56, 70, 73, 186, 291, 355
 Farm organizations, general, related to cooperative marketing, American Society of Equity, 51, 53, 56, 61, 70, 186
 Farmers' Alliance, 50, 53, 56, 60, 67, 70
 Farmers' Educational and Cooperative Union, 50, 54, 56, 60, 70, 186, 291
 Grange, 49, 53, 55, 56, 58-61, 66, 67, 70, 75, 186
 Non-Partisan League, 51
 Farm production, financing, 357-359
 Farmers Alliance, 50, 53, 56, 60, 67, 70
 Farmers Cooperative Commission Company, 373
 Farmers Educational and Cooperative Union, 50, 54, 56, 60, 70, 186, 291
 Farmers' Holiday movement, 124
 Farmers' National Grain Corporation, 56, 63*n.*, 286, 490
 Farmers Union Central Exchange, Inc., 73
 Fascism, and cooperation, 18, 19
 Fear, classification of, 244
 a force of economic action, 244-254
 of ignominy, and disdain, 250-251
 of inactivity, 251-252
 of punishment, 249-250
 of self-reproach, 252-254
 of want, 249
 Federal Farm Board, 20, 98, 231, 287-288, 346, 382-383, 418-419, 504, 524
 Federal Intermediate Credit Banks, 383, 385, 387, 416-418
 Federal laws relating to cooperatives, 278-283
 Act creating Division of Cooperative Marketing, 283-284
 Agricultural Marketing Act, 287-288
 Antidiscrimination acts, 285-286
 Capper-Volstead Act, 281-283, Appendix A
 Clayton Act, 280-281

- Federal laws relating to cooperatives, Farm Credit Act, 303, 356, 384-388
 Purnell Act, 284-285
 Sherman Antitrust Act, 279-280
 War Finance Corporation, 289, 414-416
- Federal Trade Commission, attitude toward cooperatives, 542
- Federated Danish Cooperative Butter Export Association, 87
- Federated Fruit and Vegetable Growers, Inc., 234
- Federated sales associations, 215-219
 contrasted with centralized, 223-225
 description of, 216-219
 functions of, 216
 strength of, 219
- Federation of Agricultural Societies of Eastern Switzerland (V.O.L.G.), 106
- Federation of Danish Agricultural Societies, 90
- Federation of Danish Cooperative Societies, 90
- Federation of Danish Small-holders Societies, 90
- Finance associations, 207-208
- Financial statements, 423-424
- Financing, 350-429
 adequacy of, 199, 426-428
 affected by pooling, 465
 basis of, 351-354
 by credit agencies, 412-421
 facilities, 355-356
 farm production, 357-359
 by government agencies, 413-421
 large-scale associations, 363-365
 local associations, 360-363
 by members, 408-410, 535-536
 by nonmembers, nonproducers, 410
 operations, 356-357
 organization expenses, 354-355
- Finland, cooperative marketing in, 104
- Fixed capital, 355-356, 360, 363-364
- Flexibility in cooperative organizations, 200
- Florida Citrus Exchange, 50, 406
- Florida Citrus Growers Clearing House Association, 507
- Fluid-milk, organizations, history of, 52
- Folk high schools, Danish, 85, 94
- Forerunners of the cooperative movement, 25-44
- Formation of cooperative associations, 185-203
- Fourierism, 135-138
- France, history of cooperation, 41-42
- Franklin Cooperative Creamery Association, 207
- Fraternal orders, forerunners of cooperatives, 31, 32
- Friendly societies, predecessors of cooperatives, 30-34, 44
- Fruit Growers Supply Company, 404*n.*, 406
- Fruit Growers Union (Hammonton, N. J.); 56
- Fruits and vegetables, cooperative organizations, history of, 56-58
- Future of cooperation, 545-553
 changes in principles, 548-549
 consolidations, 546
 education, effect on, 550-551
 experience, effect on, 551-552
 governmental influence, 547-548
 of purchasing associations, 552-553
- G
- Gains, conjunctural, 245-246
 criteria of efficiency, in purchasing associations, 172-173
 patronage distribution of, 158-160, 172-175, 348
 personal economic, motive for, 245-249
 psychic, 250

- Gasoline purchasing associations,
73-74
- Geographical basis of organization,
200, 234-237
- Georgia Cotton Growers' Coopera-
tive Association, 326n.
- Germany, cooperatives in, 40, 41,
129, 297
- Goodlettsville Lamb and Wool Club,
53, 59
- Government, relation to coopera-
tives, 19-21, 114, 269-303, 547-
548
- Government regulation, of market-
ing, 11, 154, 512-515
- Grain, cooperative organizations,
history of, 54-56
- Grain elevators, buying practices,
432
- Grain Growers Grain Company, 519
- Grain marketing, 432, 490
- Grange, The, 49, 53, 55, 56, 58-61,
66, 67, 70, 75, 186
- Gravenstein Apple Growers Clear-
ing House of California, 507
- Great Britain, cooperation in, 30-39,
82, 173, 175-176, 177, 182
- Greek *Eranoi*, 27, 28
- Growers Loan and Guaranty Com-
pany, 407
- Guilds, forerunners of cooperative
movement, 27-32, 44
- H
- Handling farm products, methods
of, 431-450
- History of commodity organizations,
51-62
- House organs, cooperatives', 179-
180
rules for editing, 263
- Howarth, Charles, leader of Roch-
dale Pioneers, 34, 35
- Human relationships, in business,
importance of, 243
- I
- Illinois Livestock Marketing Asso-
ciation, 489
- Imperial Valley Lettuce and Can-
taloupe Clearing House Asso-
ciation, 507
- Incentives motivating man, associa-
tion, 252-254
economic, 245-249
employment, 251-252
emulation, 250
honor, 250-251
recognition, 249-250
- Income tax exemption requirements,
290
- Incorporation of associations, under
general laws, 271
value of, 299-300
- India, cooperation in, 107
- Indiana Farm Bureau Cooperative
Association, Inc., 73, 240
- Industrial pools, 461
- Information, to members, dissemi-
nation of, 163-164, 178-183,
261-265, 538
house organs, 179, 263
- Injunction, remedy for breach of
contract, 328
- Instinct (a force to action), of ac-
quisition, 245
defined, 245n.
of sex, 245
of workmanship, 251-252
- Insurance associations, cooperative,
76, 551
- Integration and specialization, 151-
153, 194-196, 474
- Intermediate Credit Act, 289
- Intermediate credit banks, 385-
386, 416-418
- International Commission of Agri-
culture, 108
- International cooperation, 108-111
- International Cooperative Alliance,
108, 114, 129, 168, 180, 540
Congress of, 1930, 169-170

- International Cooperative Wholesale Society, 108
- Interstate Milk Producers Association, 216
- Ireland, cooperative marketing, in, 99-101
creameries, cooperative, in, 99-100
- Irish Agricultural Organization Society (I.A.O.S.), 99, 115
- Irish Associated Creameries, 100
- Italy, history of cooperation, in, 41-42
policies governing cooperatives in, 18, 129-130, 297-298
- J
- Japan, cooperation in, 107
- Joint use of sales agencies, 517-520
- Joint-account dealings, 405
- "Just price," 135, 535
- K
- Keystone Cooperative Grape Association, 381n.
- Kooperativa Forbundet, 174
- L
- Labor division of, 120-123
- Labor exchanges, 134-135, 140
- Laissez faire* and cooperative activity, 124-127
- Land O'Lakes Creameries, Inc., 52, 63n., 72, 236, 355, 364, 394, 403n., 403, 410, 447, 494-495, 500, 518, 523
- Large-scale farming and cooperation, 547
- Large-scale regional associations, assistance to local associations, by, 192
capital needs of, 363-365
centralized type, 219-225
combination type, 225
establishing, steps in, 191-194
federated type, 215-219
- Large-scale regional associations, national in scope, 231-234
purchasing type, 239-241
sales policies of, 483-500
sales-agency type, 225-228
steps in marketing channel, carried on by, 194-196
- Latvia, butter, cooperative sale of, in, 107
- Laws, cooperative, California, 155-156
Capper-Volstead, 4, 54, 154, 159, 281-283, 295, 504, 530, Appendix A
federal, 278-283
Kentucky, 272-273, 296
limiting duration of contracts, 322-323
Nebraska, 272, 273
standard cooperative, 273-275, 296
state enabling acts, 271-278
Wisconsin, 159, 272, 273, 286, 325, 401-402
- Legal basis of cooperatives, 268-303
attitude of courts, early, 291-293
attitude of courts, later, 293-296
common law, considerations of, 269-271
complementary laws, 288-290
enabling legislation, 271-283
exemption acts, not class legislation, 295-296
incorporation, value of, 299-300
liability of members, 300-302
public audits, 291
supplementary laws, 283-288
- Legislation, enabling, capital stock associations, 275-276
for consumer cooperatives, 302-303
federal laws, 278-283
history of, 272-283
nonstock associations, 276-277
pooling, 460
standard act, 273-275
state laws, 271-278
uniform association act, 277-278

- Legislation, granger, 49
 Liability of members, 300-302
 Limitations of cooperation, 528-540
 Liquidated damages, 327-328
 distinguished from penalties, 327
 Livestock, cooperative organizations,
 history of, 53, 54
 Livestock marketing, 488-490
 Livestock shipping associations, his-
 tory of, 53
 trucking, 54
 Living, plane of, affected by coopera-
 tives, 2, 5, 142
 Loans, 382-390
 amount of, 382-384
 Federal Farm Board, 288, 382-383
 plans for repayment, 390
 security for, 388-390
 types of, 384-388
 Local associations, capital needs of,
 360-363
 consolidations of, 546
 expansion of territory of, 546
 functions of, 214
 limitations of, 215
 problems confronting, 192
 procedure in organizing, 186-191
 strength of, 215
 London Cooperative Society, 536
- M
- Maintenance clauses, 314-316
 Man, economic status of, 256-257
 motives for economic action, 245-
 254
 progress of, 264-265
 rights of, 153-154
 social and economic dependence
 of, 259-261
 stages of intellectual development,
 264-265
 Management of cooperatives, 336-
 349
 directors' part in, 340-343
 functions of manager in, 343-344
 as limiting factor, to success, 198,
 337, 529-530
 Management of cooperatives, mem-
 bers' part in, 338-340
 mistakes of, 344-345
 qualifications for, 529-530
 relationship of employees to, 346-
 348
 Manager, and cooperative policies,
 340-341
 problems of, 343-344
 salary of, 345-346, 539
 tasks of, 336, 340
 Manufacturing operations, by
 cooperatives, 37-39, 218
 Margins, marketing and coopera-
 tives, 549-550
 Market news service, 163-164
 Marketing, defined, 205*n*.
 by the government, 11-12
 methods of improvement of, 11-
 13, 541
 producer attitudes toward, 260-
 261
 Marketing agencies, classified, 3
 Marketing agreements (*see* Con-
 tracts)
 for citrus fruits, 507-510
 Marketing prorate plans, 507-515
 Markets, auction, 59, 479
 classification of, 479
 inequalities in, 477-478
 perfect, defined, 477
 described, 195*ff*.
 primitive, 474-477
 Market-sharing plans, 510-512
 Maryland State Dairymen's Asso-
 ciation, 381*n*.
 Maryland Tobacco Growers Asso-
 ciation, 486-487
 Masses, economic status of, 119
 inertia of, 529-530
 Members' notes, 380-382
 Membership, age groups, within,
 257-259
 indifference of, 536-537
 information to, 163-164
 limited to contract signers, 249-
 250

- Membership, loyalty among cranberry growers, 532**
 open, policy of, 149-150, 171
 part in management, 338-340
 qualifications for, 148-151, 256-259
 responsibilities of, 336, 534, 536-537
 rights of, 339
 selection of, policy regarding, 148-151, 256-261
 in several associations, by farmers, 153
 unreasonable demands of, 534-535
Membership fees, 376-378
Membership loyalty, 199
Membership relations, 242-265
 expert advice on, 255-256, 344
 importance of, 254-256
 inattention to, 244
 motives affecting, 244-254
Mercantilism, 122, 127, 128
Methods of handling products, 431ff.
 cash purchase, 431-439
 pooling, 442ff.
 sales on individual account basis, 439-442
Methods of organizing cooperatives, "bottom-up," 192ff.
 capital stock or nonstock basis, 353
 commodity basis, 234-237
 factors to be considered in, 186-192, 237-239
 geographical basis, 234-237
 specialization or integration, 194-196
 "top-down," 193ff.
Michigan Potato Growers Exchange, 457
Middleman system, and the cooperative movement, 21, 22, 478-479, 483-484, 486, 492-495
 development of, 474-477
 in middle ages, 28, 29
 weaknesses in, 8, 9, 11, 474, 496-497
Midland Cooperative Wholesale, 75
Mid-South Cotton Growers' Association, 297, 364, 433, 440, 457, 466
Minnesota Potato Growers' Exchange, 458
Minority group control, 145, 151, 546
Mistakes, made by cooperatives, 344-345
Monopoly, absence of, in agriculture, 293-294, 498
 in cooperatives, 293-294
 control of markets, 9, 11, 28, 29, 498-499
Motives for economic action, 244
 Wagnerian, 244-254
Mutual insurance companies, 73, 76, 551
Mutual Orange Distributors, 63, 149
Mutual telephone companies, 76
- N
- National Cheese Producers' Federation, 247**
National Cooperatives, Inc., 75, 210, 519
National Council of Cooperatives (Denmark), 87
National Federation of Danish Creameries, 87
National Feeder and Finance Organization, 359
National Fruit and Vegetable Exchange, Inc., 228
National Industrial Conference Board, Inc., 20-21
National Livestock Marketing Association, 10, 11, 54, 95, 232ff., 241, 359, 372
National marketing associations, 231-234
National Wool Credit Corporation, 232
National Wool Marketing Corporation, 60, 232, 487
National Wool Warehouse and Storage Company, 59

- Netherlands, cooperative marketing in, 107
- Neutrality, political and religious, principle of, 162-163, 176-177
- New Harmony, communal society, 133-134
- New Zealand, cooperative marketing in, 103
- New Zealand Fruit Growers Federation, Ltd., 104
- New Zealand Produce Association, Ltd., 103, 109
- New Zealand Producers' Cooperative Marketing Association, 103, 109
- Non-Partisan League, 51
- Nonstock associations, 353
legislation, enabling, for, 276-277
- Nordisk Andölsförbund (N.A.F.), 108*n.*
- Northern States Cooperative League, 180
- Northern Wisconsin Cooperative Tobacco Pool, 306, 310, 331*n.*, 443
- Northwest Fresh Prune Clearing House Association, 507
- Northwestern Cooperative Livestock Shippers Association, 227
- Northwestern Turkey Growers Association, 228
- Norway, cooperative marketing in, 105
- Notes, members, to cooperatives, 380-382
- O
- Ohio Farm Bureau Federation, 72
- Ohio Wool Growers Association, 59
- Oil cooperatives, 73-75
- Oklahoma Cotton Growers' Association, 365*n.*
- Operations, financing, 356-357
- Opposition, to cooperative movement, 21, 22, 129, 130
- Oregon Cooperative Council, 152
- Organization of cooperative associations, 185-203
- Organization expenses, 354-355
- Overpayments, repayment of, 300-301
when not recoverable, 247
- Overseas Farmers' Cooperative Federation, Ltd., 102
- Owenism, 130-135
in America, 133-134
- P
- Pachappa Orange Growers' Association, 271*n.*, 316
- Pacific Cooperative Poultry Producers, 491
- Pacific Egg Producers Cooperative, Inc., 59, 222, 441, 491, 492, 519, 523
- Pacific States Livestock Marketing Association, 63, 228, 489
- Pacific Supply Cooperative, 72
- Pacific Wool Growers, 63
- Paternalism, not favored by cooperatives, 19, 20
- Patronage dividends, 158-160, 172-175, 348
- Payments, cash, demand for, 246-248
practice in some associations, 431-439
- Penny capitalists, forerunners of cooperatives, 32, 33
- Perfect market, defined, 477
description of, 195*ff.*
limited improvements of, by cooperatives, 196
- Philippine Islands, cooperation in, 107
- Physiocrats, opposition to planned economy, 122-124, 127
- Planned economy versus voluntary cooperation, 127-130
- Planning, applied to agriculture, 501-525
- Policies, classification of, management, 343

- Policies, formulation of, management, 340-341**
 membership control, 148-151
 sales, 474-500
Political neutrality, 162-163, 176-177
Pooling, 430-473
 advantages of, 462-466
 areas, 458-459
 changes in cotton, 433
 compulsory, 472
 defined, 442-443
 disadvantages of, 466-468
 expenses, 443-444
 legality of, 460
 periods, 454-457
 price level and, 470-471
 problems of, 452-454
 products, 444-445
 by purchasing associations, 471-472
 by railroads, invalid, 461
 reactions to, 468-470
 sales receipts, 445-449
 success of, 453
Pools, wheat, history of, 55, 519
Population, heterogeneity of, 531
 law, 125-126
Possibilities, of cooperation, 7, 12, 15, 22, 23, 153, 540-543
Potato marketing, 458, 488
Poultry and eggs, cooperative organization, history of, 58-59
Poultry Producers of Central California, 72, 321, 396n., 491
Poultry Producers of San Diego, 491
Poultry Producers of Southern California, 491
Poultrymen's Cooperative Association of Southern California, 63
Practices of cooperatives, contributing, to failure, 202-203
 to success, 199-202
 essential to success, 198-199
Preferred stock, 368, 378-379
Prerequisites to organization, 187-190
Prices, comparison of, 248-249, 535
 cooperatives aim to improve, 8-10
 determination of, 480-483, 533
 effect of cooperatives on, 474, 533-534
 effect upon production, 538
 low retail, policy of charging, 173, 174
 and pooling, 468-471
 prevailing market, charging, 175
 seasonal for eggs, 492
Principles of cooperation, 144-184
 definition of, 145-148
 deviation from, 539-540
 distinguished from practices, 146-148
 effect of property rights upon, 172
 evolutionary changes in, 166, 169-171, 183-184
 of purchasing associations, 168-184
 reported by International committee, 170-171
 of sales associations, 144-167
 significance of, 144, 540
Producers Livestock Commission Association (East St. Louis), 216, 490
Producers' Markets, Ltd. (Australia), 102
Products, pooling of, 444-445
Produit net, concept of, by Physiocrats, 123-124
Profits system, opposed by cooperatives, 12, 14
 Owens attack upon, 134-135
 Proudhon's objection to, 139
Property, Owen's view of, 135
 principles affected by, 172
 Proudhon's objections to, 139
Property rights of members, 301
Prorate plans, agricultural, California, 505-515
Provincialism, deterrent to cooperation, 530
Public interest in cooperatives, 296-299
Purchase, of commodities, 431-439

- Purchase and sale contracts, 317-320
- Purchasing associations, classified, 5, 206
- in Denmark, 90
- description of, 208-211
- future of, 552-553
- gasoline, 73-74
- history of, 71-76
- local and regional farm supply, 71-73
- pooling by, 471-472
- principles of organization of, 168-184
- retail and wholesale grocery, 75
- scope of agricultural, 210-211
- scope of consumers, 209-210
- types of agricultural, 239-241
- volume of business, 73-74
- Pure Milk Products Cooperative, 364
- Purnell Act, 284-285, 504
- Q
- Quality products, handled by cooperatives, 199
- R
- Raiffeisen credit societies, principles of, 82*n*.
- Ratios, business, 424-426
- Raw products, conversion of, to affect prices, 515-517
- Records and accounts in cooperatives, 200
- Reforms, by government, 140-142
- Regional associations, establishing, 191-194
- (*See also* Large-scale regional associations)
- Religious tolerance, 162-163, 176-177
- Remedies for breach of contracts, 326-329
- Rent, Ricardian theory of, 125-126
- Reorganization of cooperatives, 546
- Representation, democratic, 153-156, 171-172
- Representative firms, influence of, 8
- Reserves, 398-402
- Retail stores, cooperative, difficulties affecting expansion of, 75
- extent of, 75
- Revenue Act of 1926, 289
- Reversion, tendency toward, 531-532
- Revolving fund plan of financing, 394-398
- to prevent minority control, 547
- Rice, cooperative organizations, history of, 62
- Rice Growers Association of California, 318, 440
- Risk, assumption of, unusual, policy against, 160-162, 520-521
- spreading, through pooling, 463
- Riverside Fruit Growers Association, 328
- Rochdale Pioneers, 34-37, 169, 170, 175-176
- Roman Collegia, forerunners of guilds, 28
- Rural electric associations, 76, 551
- Russia, history of cooperatives in, 18, 42-43
- S
- St. Simonism, 131
- Sales, volume of, by cooperatives, 64, 65, 74, 113
- Sales agencies, description of, 225-228
- functions of, 225-226
- Sales associations, classified, 205, 212-213
- description of, 213-239
- purpose and scope of, 5-10
- types of, 212-213
- Sales policies, 474-500
- advertising, 521-523
- by central associations, 483-500
- of large-scale associations, 483-500
- by local associations, 478-483
- Sales receipts, pooling of, 445-449

- Sanitary Milk Producers, 229, 231
 Saskatchewan Cooperative Elevator Company, 98
 Savings (*see* Gains)
 Scandinavian Cooperative Wholesale Society, Ltd., 519
 Scarcity, concept of, 121, 123-127
 Scotland, cooperation in, 32
 Scottish Cooperative Wholesale Society (S.C.W.S.), 36, 40, 108, 110, 519
 Seasonal valuation pools, 449
 Seeds, cooperative marketing of, in Denmark, 89
 Self-help cooperatives, 5, 207
 Service at cost, principle of, 156-158, 533
 Service associations, classified, 206
 credit unions, 75-76
 description of, 207-208
 future development of, 551-552
 history of, 71-76
 insurance, 76
 miscellaneous, 76
 rural electric, 76
 telephone companies, 76
 Sherman Antitrust Act, 279-280, 461
 Sight drafts, 403
 Single commodity associations, 234-237
 versus multiple commodity associations, 236-237
 Social attraction, law of, 136-137
 Social capital, 165-166, 176
 Socialism, 16, 17, 138-139
 Society, social reform of, 6, 130-143
 South Carolina Cotton Growers Cooperative Association, 309
 Specialization versus integration, 151-153, 194-196
 Specific performance of contracts, 329
 Speculation and pooling, 467-468
 Standard Cooperative Marketing Act, 272-275
 Staple Cotton Cooperative Association, 308
 State cooperative laws, 271-278
 Statistics of cooperation, Canada, 97
 United States, 74
 Stock sale, controlled, 150, 301-302
 Store credit, 358-359
 Subsidiary corporation financing, 405-407
 Sun-Maid Raisin Growers' Association, 379, 380, 522-523
 Surpluses, agricultural, control of, 503-518
 Survey, preceding organization, 187-191
 Sweden, cooperative marketing in, 105
 educational policy of cooperatives, 180-181
 international cooperation, 519
 price policy in retail stores, 173-174
 Swedish Cooperative Union, 111
 Swiss Dairy Union, 106
 Swiss Milk Producers' Union, 106
 Swiss Union of Distributive Cooperative Societies, 111
 Switzerland, cooperative marketing in, 41, 105-107
 Synthesis, of economic systems, 2, 19, 118, 142-143
 of passions, 136-137
- T
- Taxes, income, exemption from, 20, 159, 289-290, 302
 Telephone, mutual associations, 76
 Tillamook County Creamery Association, 63, 484-486, 523
 Tobacco, cooperative organizations, 61
 contract violations of, 310-311
 history of, 61-62
 pooling problems of, 459, 467
 sales policies of, 486-487
 Tobacco Growers Cooperative Association of Virginia, North Carolina, and South Carolina, 9, 307
 Trade, cash basis of, reasons for, 177-178

- Trade, evils of, 134
 primitive, 474-478
- Trade acceptances, 403-405
- Transactions, bargaining, nature of, 475-478
 barter, 475-476
 defined, 475
- Twin City Milk Producers Association, 63*n.*, 230, 372
- Types of cooperative associations, 204-241
 agricultural purchasing associations, 239-241
 classification of, 205-206
 factors affecting choice of, 237-239
 purchasing associations, 208-211
 sales associations, 211-234
 service associations, 207-208
 single and multiple commodity, 234-237
 workers' cooperative associations, 206-207
- U
- Uniform cooperative marketing act, 277-278
- Union of South Africa, cooperative marketing in, 103
- United Grain Growers, Inc., 56
- United Grain Growers, Ltd., 96
- Unity of interests, importance of, 200
- Updike Grain Company, 286
- Utah Poultry Producers Cooperative, 459
- V
- Valio Butter Export Cooperative Society, 104, 110, 111
- Value, theories of, 126-127
- Volume of business, importance of, 199
- Voting, in cooperatives, 4, 153-156, 171-172
- Voting, limited in nonstock associations, 276-277
 by proxy, 338
 regulations in Capper-Volstead Act, 282
- W
- Wages, doctrine of wages fund, 125-126
 paid by cooperatives, 346-348
 paid by C.W.S., 184
 paid to managers, 345-346
- Walla Walla Gardeners Association, 331*n.*
- Walnuts, cooperative sale of, 21, 22
 history of cooperative organizations, 62
 sales policies for, 492-493
- War Finance Corporation Act, 289, 414-416, 504
- Warehouse Act, United States, and cooperatives, 289
- Warehouse receipts, 421-423
- Washington Cooperative Dairies, 518
- Washington Cooperative Egg and Poultry Association, 63, 221*ff.*, 372, 379, 491
- Wealth, under capitalism, 246
 distribution of, 134-135, 137, 139, 158-160, 173-176.
- "Wealth of Nations," 121, 122
- Weavers, cooperation among, 32, 34-35, 42
- Wenatchee-Okanogan Cooperative Federation, 63, 359
- Wenoka Agricultural Credit Corporation, 359
- Western Australia Cooperative Wheat Pool, 102
- Westralian Farmers, Ltd. (Australia), 102
- Wholesaling, by cooperative associations, 36-40, 75, 174, 179, 239-241
- Winnipeg Grain and Produce Exchange, 482, 519

SUBJECT INDEX

583

- Wisconsin Cheese Exchange, 484
Wisconsin Cheese Producers' Cooperative, 518
Wisconsin Cooperative Wool Growers Association, 63*n.*
Wisconsin Cranberry Sales Association, 63*n.*, 532
Wool, cooperative organization, history of, 59-60
Wool marketing, 232, 487-488
Workers associations, Blanc's theory of, 138-139
 classified, 206
 description of, 206-207
Workers, and cooperatives, 346-348, 538-539
Workers, St. Simon's classification of, 131
 social workshops, 138-139
 status of, during Owen's time, 132-133
Working capital, 356, 360-363, 364-365
World War, effects on agriculture, 128-130, 501-503
- Y
- Yakima County Horticultural Union, 380
Yakima Fruit Growers Association, 63, 236, 380

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