

Economics of
**COOPERATIVE
MARKETING**

**BAKKEN
AND
SCHAARS**

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**THE ECONOMICS OF
COOPERATIVE MARKETING**

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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.

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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.

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PART I
**THE EVOLUTION OF COOPERATIVE BUYING AND
SELLING**

I

Cooperation—Its Setting in an Economic Society

A cooperative sales association is a voluntary business organization established for the purpose of collective marketing. Such association is owned and operated by member patrons for their direct benefit. Its immediate purpose is to obtain for its members the highest farm price; its ultimate aim is to elevate the plane of living on farms. Cooperation in marketing is a business undertaking amenable to the economic forces but not to all the traditions, codes, and practices which affect private commercial enterprises.

Many reasons cause farmers to set up their own marketing agencies, such as, low returns for their products, wide marketing margins, inadequate services, and, in some instances, unfair treatment by middlemen. A basic reason, however, is the small-scale production on most farms. These conditions furnish the underlying motives for the organization of cooperative sales associations which provide mass distribution for the nonintegrated, small production units such as are common to American agriculture. As business institutions these associations must succeed or fail on their own merits.

The cooperative association resembles the private business corporation in its methods of operation. It differs from the capitalistic system, as typified by the modern commercial corporation, chiefly in its motives and internal organization. Cooperatives in the United States do not seek paternalism but the same fair treatment accorded other American business concerns by the government. The ideals of cooperativism, however, are unlike those of socialism, communism, or fascism. Cooperativism is a synthesis of elements of several economic systems. It eliminates many weaknesses of other systems and prevents the extremes to which they go. Cooperativism is the "via media, via amicabile."



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

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