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This report represents the joint effort of a number of the experienced research workers in its field in the United States. The special Advisory Group listed below made suggestions as to the content and outline of the report, and of persons to help with various parts of it. Part of them also assisted by reading and criticising the manuscript before its publication. The name of the principal contributor will be indicated in parenthesis at the beginning of each section of the report.

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USES OF THIS REPORT

This report is No. 15 in a series on "Scope and Method" of research in the various sub-fields of agricultural economics and rural sociology. This series of reports is part of a program of assistance to research in these fields, upon which the Advisory Committee on Social and Economic Research in Agriculture set forth in 1925 under instruction from the Social Science Research Council. Each report will undertake to outline the research of some sub-field of agricultural economics or rural sociology and then discuss the problems in methodology that are peculiar to it. The outline of any sub-field will be in large part in terms of a listing and discussion of specific research projects that have been undertaken or might be undertaken. Hence the discussion of methodology will be largely in terms of specific projects.

It is expected that these reports will be useful in the following ways: First, directors of experiment stations and chiefs of divisions of agricultural economics and of rural sociology in land-grant institutions in the United States, and persons similarly responsible for direction of the research in agricultural economics and rural sociology of other types of institutions, will find the outlines of the various sub-fields of much help in laying out continuing programs of research for their institutions. Second, individual research workers, graduate students looking for thesis subjects, and teachers conducting research seminars, as well as the agencies above named, will find the listing and discussions of projects helpful in choosing suitable research projects. Third, the descriptions of research already done will save research workers from duplicating other work and help them to find a way of building upon it successfully. Fourth, the discussion of the nature of a project and the qualitative background will reveal the body of the subject-matter which needs to be mastered for its intelligent prosecution, and the difficulties involved, and thus save many research workers from launching forth upon projects for which they have not yet qualified themselves, or which may be too difficult for all but the chosen few. Fifth, the analysis of methodology will furnish a basis for a more intelligent decision as to the procedures and methods which will lead to valid and usable results. Sixth, the discussion of methodology will also suggest helpful devices in technique and details of procedure that might not otherwise be brought to the attention of the research workers. Seventh, the discussions of both scope and methods will make clear to those organizing research in any field the contributions which workers on different subjects have to offer to it, and point the way to the form of collaboration needed.

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Research in Agricultural Cooperation --Scope and Method--

INTRODUCTION

(By H. E. Erdman)

The farmers of the United States have organized coöperatively in nearly all lines of economic endeavor—selling, insurance, buying, credit, production, communication, transportation. However, they have made much more use of coöperative methods in selling than in other lines, in contrast to the emphasis upon coöperative credit in most other countries. Coöperative insurance probably ranks next to coöperative selling in importance in the United States; then buying, credit, etc., in the order of the above listing. A large part of the coöperative buying is conducted by the same organizations, or subsidiaries thereof, as do the selling. Perhaps half of the coöperative selling associations in the United States do more or less buying, and in some areas with some types of associations, such, for example, as grain elevators in the areas where farmers have largely changed from grain growing to livestock farming, the buying has become more important than the selling.

Coöperative marketing has developed in the United States as a response to an opinion long prevalent among farmers that the existing methods of marketing farm products were inadequate to meet the needs of the time, both from their own point of view and from that of consumers. They have felt that the spread between their prices and those of consumers was unnecessarily wide because of supposed excessive profits and enormous waste. Moreover, many of them have been restive under the belief that commercial agencies have maintained their profitable margins by more or less fixing of prices. They have tried coöperative selling as a remedy, over and over again, in all parts of the country. The large number of failures, some of enormous proportions, of the Granger and Farmers' Alliance periods scarcely did more than retard the progress of the movement. The available records of organizations in operation at various periods are very incomplete, especially for the earlier periods. However, the Federal Farm Board had actual records in 1932 of 4,725 purchasing and/or selling associations in operation in 1913, the year in which the Office of Markets of the United States Department of Agriculture

was established. The number had increased by 1920 to 10,588 and reached its maximum of 12,007 in 1924, at which figure it has remained practically constant. Membership, however, is estimated to have increased from 2,700,000 in 1925 to 3,100,000 in 1930.¹

This report will deal with research in all lines of cooperative activity, but the emphasis will be entirely upon cooperative selling. Much of the analysis, however, will be pertinent to cooperation in other fields than selling. The objective of the report is to outline agricultural cooperation as a field of research and review from the standpoint of methodology the research already done or in progress in this field, or involved in a list of projects selected for special consideration.

COOPERATION AS A FIELD OF RESEARCH

(By John D. Black)

For the purpose of this report, cooperation is defined as including only forms of organized collective effort of the *business* type. This excludes organization for recreation, community improvement, education, politics, propaganda and legislation, etc., covered under Rural Organization and Agricultural Policy. To be classified as cooperative, enterprises must be owned and democratically controlled by the members, and managed in the interests of those who furnish the business, so that the returns and savings are distributed in proportion to the business handled and not on the basis of equities held in the organization. The intent is to exclude *farmer organizations* (like the Grange) and all consideration of farmer movements, except as these may affect business cooperatives in various ways. (See Rural Organization and Agricultural Policy.)

Thus limiting cooperation to organizations of the business type does not mean that the non-pecuniary values in cooperation, the values commonly associated with the idea of welfare, will be ignored; or that the sociological and psychological phases of cooperative activity will be largely subordinated to profit-seeking and financial gains. It will be recognized throughout that these are important factors in the success of cooperative endeavor, and some will be covered in projects indicated as joint with Rural Social Psychology.

In its early days, cooperation of the type we are considering was essentially voluntary organization among the weak, its main object being to secure some of the advantages that accompany an increase in strength through combination of effort. Today it has evolved, in the case of our large-scale commodity marketing organizations, into

(1) See *Statistics of Farmers' Selling and Buying Organizations*, Federal Farm Board Bulletin 8 (1932), pp. 72-74.

intricate highly formal structures. Consequently organization and structure must constitute a considerable section of a research program in this field.

One tendency must be recognized, namely, for coöperative organization to ally itself with government, as illustrated by (1) the compulsory pooling arrangements provided for in some countries and constantly being advocated by others; (2) arrangements for financing and the like (the Federal Marketing Act of 1929); and (3) in its extreme form, by the rôle of coöperation in a socialistic state. Some attention must be given to this phase of the subject in modern research programs dealing with coöperation. Projects of this nature will commonly be indicated as joint with Agricultural Policy.

The report on Research Relating to Marketing of Farm Products contains the following paragraph which will serve as a basis for distinguishing the field of agricultural coöperation from the rest of agricultural economics: "Another separation which has been made in organizing the whole project in 'Scope and Method' is that between marketing and coöperation. The interest of agriculturists in coöperation is such that it has been deemed advisable to set up a special sub-field of research devoted to it, in which the unifying principle is the coöperative mode of economic functioning as distinguished from the *private* or *competitive*; and all matters involving especially, or peculiar to, the coöperative mode of economic functioning, have been separated out of the sub-field of primary production (farm management), and out of the sub-fields of credit, insurance and transportation as well as out of the sub-field of marketing. The line of demarcation which has been established between coöperation and marketing is as follows: Matters equally relevant to both private and coöperative enterprise in marketing are included in marketing; those especially relevant to coöperative enterprise are included under coöperation. Thus membership relations are peculiarly a problem of coöperative marketing; likewise pro-rating of pool expenses and pool receipts."

The foregoing reference to the coöperative mode of economic functioning as distinguished from the competitive must not be understood to imply that all competition disappears when coöperation enters. The members of the coöperation still compete, but only as a group with other groups, instead of also with one another as individuals within the group. In fact, competition between groups may even be intensified as a result of organization into coöperatives.

This statement should be supplemented by indicating more clearly what is included under membership relations and pooling mentioned above, and under other relevant aspects of coöperation, as in the following list:

- ✓ Legal basis of organization and operation—frequently provided for under special statutes.

- Corporate set-up—differences in the ownership of stock, in right of transfer of stock, in size of shares, voting rights, etc. Many coöperative organizations are of the non-stock type.
- Operating set-up—differences in departmentization, in district organization, in types of local unit, in relations between the central office and the district and local units.
- Relations between members and the organization—the membership contract relationship in its various forms and degrees; division of power between the officers, the executive committee, the board of directors and the members; arrangements for securing participation of members in determination of policies; and responsibility of the organization to its members.
- Educational values to members from participation in a coöperative organization.
- Security of patronage and control over supply of products—in contrast to non-coöperative types of business. This may include control of time of delivery.
- Possibilities of securing orderly production.
- Possibilities of control of quality.
- Possibilities of monopolistic practices through control of supply, differing in nature at least from the related practices of proprietary organizations.
- Nature and source of “earnings” and arrangements for their distribution; accounting procedures that should be adjusted to the foregoing.
- Differences in the earnings and their distribution according to whether the organization is of the pooling type, and according to the area of the pool and its period, and the method of handling differences in grade and quality. Similar questions for handling distribution of expenses.
- Certain business practices such as advertising and selling which assume special aspects in coöperative organizations. For example, there is a definite relation between the control of quality and the developing and advertising of brands.

Several of the foregoing aspects apply to coöperative selling only. Most apply also to coöperative production, buying, credit, insurance, etc., with adaptations to suit the special characteristics of each type of business. Thus the concept of control of quality applied to credit and insurance becomes a matter of the selection of risks and the prevention of losses.

Although, as indicated above, the reports on “Scope and Method” of Research Relating to Marketing, Farm Management, etc., will cover the phases of organization and business practice which are common to both proprietary and coöperative units, many are suffi-

ciently different for coöperatives, and even for different types of cooperation, to need special consideration in programs of research in coöperation. Moreover, the features which are peculiar to coöperative types of organization are likely to be so closely related to the considerations common to both that no clear-cut separation is possible. Consequently projects will be included in this report in which the coöperative business unit is the subject for analysis and all the different phases of organization and operation are considered, although always with emphasis on those with most coöperative significance. Projects of this type will commonly be indicated as joint with Marketing, Credit, etc.

Another important aspect of coöperation is its relation to prices of the products sold or commodities and services bought. This relationship takes very different forms with different coöperative sales policies—for example, pooling *vs.* buying for cash, collective bargaining *vs.* selling in a public market, etc. A number of the projects will therefore be indicated as joint with Prices.

Moreover, this report does not constitute "a program of research" in coöperation such as a particular institution might lay out for itself. It is instead a presentation of the materials out of which an institution may build a program suited to its special circumstances, such as the needs of its constituents, the types of marketing agency in its territory, its resources and its staff. *It is recognized that in practice the major portion of the research in coöperation in many institutions will be carried on in projects which combine marketing as outlined in the report on research in that field with coöperation as outlined in this report.* This is a matter of program-making, not research analysis. To develop a project representing this combination, an institution needs only to use the two reports in conjunction.

The alternative to the plan adopted would have been to have introduced coöperative principle and procedure into the several reports on marketing, production, credit, insurance, etc. The Advisory Committee on Agriculture felt that under this plan coöperation as such would not be adequately developed.

The approach which at present promises to be most helpful in the field of coöperation is to try to determine the essential characteristics that distinguish the coöperative mode of economic functioning from other modes, and the essential associated differences in the structures and procedures, and then try to relate these in detail to the special circumstances associated with each of the various fields of economic activity in which coöperation occurs. The research program for this field must take account of this situation and include a strong emphasis upon developing a body of coöperative theory.

Research in this field pertains closely also to fundamental subjects in the general field of economic theory. Not until coöperative

procedure takes its place on a par with the competitive in the standard treatises on economic principles shall we be able to say that coöperation has found a place in our economic system.

Following is a list of subjects fundamental to coöperation and related theory which need to be developed by research in this field:

- The essential nature of coöperation, in so far as it can be stated at present—relation to pooling, buying for cash, stock *vs.* non-stock organization, dividends on stock, non-member business, etc.
- The special characteristics of the coöperative mode of economic functioning, in so far as they can be stated at present.
- The economic basis of coöperation.
- The legal basis of coöperation; adaptations of legal theory to fit coöperation.
- The general theory of competitive price.
- The theory of monopoly price; of collective bargaining; of monopolistic competition and duopoly; temporary monopoly; local monopoly.
- Price stabilization theory.
- Theory of orderly marketing and gains from holding.
- Theory of market differentials.
- Theory of gains from "going around" the central markets and selling more directly.
- Federated *vs.* centralized types of coöperative organization; intermediate types.
- Function of local and district units.
- Integration as applied to marketing.
- Pooling, pooling period, pooling area, pool price.
- Prorating theory—pooling and distribution of expenses.
- Theories pertaining to methods of paying according to quality; quality pools; etc.
- Membership contracts.
- Theory of gains from advertising.
- Theory of incidence of marketing costs and gains.
- Theory of the relation of the state to coöperation.
- Measures of the success of a coöperative enterprise as distinguished from a proprietary enterprise.
- Adaptations of accounting theory to fit coöperative enterprises.

These various theories will be discussed as the basic qualitative analysis of the different research projects outlined in the body of this report.

HISTORY OF RESEARCH IN AGRICULTURAL COOPERATION IN THE UNITED STATES

(By H. E. Erdman)

What was probably the first attempt at a comprehensive study of agricultural coöperation in the United States was conducted by George K. Holmes of the United States Department of Agriculture. In his report for the year ending June 30, 1898, Secretary of Agriculture James Wilson says concerning the work of the Division of Statistics (p. LIX):

"Among the subjects which have been investigated by the experts of this Division are . . . the application of the principle of coöperation to farming or for the farmers' benefit."

The next year we are informed¹ that:

"An investigation into the extent and results of the application of the principle of coöperation to irrigation farm and livestock insurance, the distribution of agricultural products, the purchase of non-agricultural commodities, and in other directions in which farmers have interest in common is well advanced, and it is expected that some definite results will be available for publication in a short time."

The report was never published, but much of it seems to have been incorporated in an unpublished manuscript on "Farmers Coöperation" now in the files of the Historical and Statistical Section of the Division of Coöperative Marketing, of the Agricultural Credit Administration. It was concerned mainly with the extent and nature of coöperation and with reasons for success and failure.

Holmes seems to have continued his interest in the subject and to have renewed his work on it, for in 1913 he published his "Systems of Marketing Farm Products and Demand for Such Products at Trade Centers."²

The history of research in agricultural coöperation from this point on can be read most effectively from the bibliography of the studies whose results have been published, as available in Bulletin No. 6 of the Federal Farm Board, *A Selected and Annotated Bibliography with Special Reference to Marketing, Purchasing, and Credit* (1931). A few groups of studies, however, will be selected to represent stages of development.

In the early work of the Office of Markets, and of the later Office of Markets and Rural Organization, agricultural coöperation received particular attention, Professor T. N. Carver assisting with

(1) Report of the Secretary of Agriculture, 1899, section devoted to "Report of the Statistician", p. 264.

(2) United States Department of Agriculture, Office of Secretary, Report 38 (1913).

this phase of the work while on leave from Harvard University.⁸ The work at the start consisted largely of a general survey, and again concerned itself with the nature and extent of coöperation and with causes of failure and success. Presently, however, the emphasis turned to questions of business practice and accounting.⁴

The states also began to make studies during this period. Colorado published a bulletin on fruit associations as early as 1907.⁶ Missouri published in this field in 1911,⁹ and Ohio, Texas and Minnesota in 1913 and 1914.⁷ These studies and others following their pattern have attempted to set forth the extent and nature of coöperation in a state. A still larger group of studies have been devoted to coöperative marketing of some one commodity in a state. All of the foregoing studies have included relatively simple statistical presentations of numbers and distributions of coöperatives and membership, volume of business and business success, and in addition have commonly attempted to set forth the reasons for success and failure.

During the past decade a group of studies have dealt in more detail with individual associations. The first was a study of the American Cranberry Exchange.⁵ Other typical studies of this group dealt with the California Fruit Growers Exchange,⁹ the Mississippi Staple Cotton Association,¹⁰ the Land O'Lakes Cream and Butter Association,¹¹ and the Poultry Producers of Southern Cali-

(8) The Office of Markets was established May 16, 1918. The name was later changed to Office of Markets and Rural Organization, which was expanded into the Bureau of Markets in 1917. See Caroline B. Sherman, *History of the Bureau of Markets*, Mimeographed, U. S. D. A. (1920).

(4) The following studies are typical: J. R. Humphrey and Wm. H. Kerr, *A System of Accounts for Farmers' Cooperatives Elevators*, U. S. D. A. Bulletin 236 (1915); J. R. Humphrey and G. A. Nahstoll, *Accounting Records for Country Creameries*, U. S. D. A. Bulletin 559 (1917); G. A. Nahstoll and J. R. Humphrey, *A System of Accounting for Fruit Shipping Organizations*, U. S. D. A. Bulletin 590 (1918).

(5) Wendell Paddock, *Fruit Growers Associations*, Colorado State Bulletin 122.

(6) William H. Chandler, *Cooperation Among Fruit Growers*, Missouri Bulletin 97.

(7) F. Tausch, *Rural Cooperation and Cooperative Marketing in Ohio, 1913*, Ohio Circular 141.

George S. Wehrwein, *Cooperation in Agriculture, Marketing and Rural Credit*, University of Texas Bulletin 355.

L. D. H. Weid, *Statistics of Cooperation Among Farmers in Minnesota, 1913*, Minnesota Bulletin 146.

✓ (8) Asher Hobson and J. B. Chaney, *Sales Methods and Policies of a Growers National Marketing Agency*, U. S. D. A. Bulletin 1109 (1923).

(9) A. W. McKay and W. McKenzie Stevens, *Organization and Development of a Cooperative Citrus-Fruit Marketing Agency*, U. S. D. A. Bulletin 1237 (1924); also *Operating Method and Expense of Cooperative Citrus-Fruit Marketing Agencies*, U. S. D. A. Bulletin 1261 (1924).

✓ (10) A. V. Swarthout, *Farmers Cooperative Business Study: The Staple Cotton Cooperative Association*, U. S. D. A. Circular 397 (1926).

(11) H. B. Price, *Marketing Country Creamery Butter by a Cooperative Sales Agency*, Minnesota Bulletin 244 (1926).

fornia.¹² These studies aimed to ascertain the practices and policies that had made for success or led to trouble and also to set up standards by which to judge other associations.

Another group of studies have approached the problems of co-operatives from the point of view of statistical comparisons and analyses of samples of co-operatives engaged in similar activities. Many of these were not restricted to co-operative associations, though the latter usually predominated. The most thorough was that of J. D. Black and E. S. Guthrie, of the organization of 88 Minnesota creameries.¹³ Since these studies frequently include proprietary as well as co-operative enterprises, they are interpreted in this series as belonging more particularly in the field of marketing. The report on Research in Marketing of Farm Products shows that this type of study had had a slow but certain growth, particularly in the state experiment stations (p. 17).

In recent years, studies of co-operatives have tended to deal with special phases or problems, such as: legal phases, membership attitudes and sales policies.¹⁴

This discussion of the history of research in co-operation omits several studies dealing with the historical and evolutionary aspects of the co-operative movement in given commodity groups; for example, citrus fruit, grape, and livestock marketing.^{15 16}

When the Advisory Committee on Agriculture of the Social Science Research Council made its survey of research in agricultural economics and rural sociology in 1926-27, it classified 24 projects

(12) J. M. Tinley and E. A. Stokdyk, *Analysis of Operations of Poultry Producers of Southern California, Inc.*, California Bulletin 516 (1931). ✓

(13) *Economic Aspects of Creamery Organization*, Minnesota Technical Bulletin 26 (1924). ✓

(14) L. S. Hulbert, *Legal Phases of Cooperative Associations*, U. S. D. A. Bulletin 1106 (1922).

Carle C. Zimmerman and J. D. Black, *Marketing Attitudes of Minnesota Farmers*, Minnesota Technical Bulletin 45 (1926). ✓

J. W. Jones and O. B. Jesness, *Membership Relations of Cooperative Associations (Cotton and Tobacco)*, U. S. D. A. Circular 407 (1927). ✓

H. E. Erdman and H. R. Wellman, *Some Economic Problems Involved in the Pooling of Fruit*, California Bulletin 432 (1927).

K. B. Gardner, *Joint Use of a Sales Organization by Two Cooperative Associations*, U. S. D. A. Circular 10 (1927). ✓

E. A. Stokdyk, *Sales Methods and Policies of the Calavo Growers of California*, California Bulletin 539 (1932).

(15) W. W. Cumberland, *Cooperative Marketing: Its Advantages as exemplified in the California Fruit Growers' Exchange* (Princeton University Press, 1917). ✓

H. D. Phillips, *Cooperative Marketing in the Chautauqua-Erie Grape Industry*, Cornell Bulletin 27 (1919).

E. G. Nourse and J. G. Knapp, *The Cooperative Marketing of Livestock* (Brookings Institution, 1931).

(16) For other aspects of the history of research in the field, see: J. T. Horner, "The United States Governmental Activities in the Field of Agricultural Economics prior to 1918", *Journal of Farm Economics* (October 1928), Vol. 10, pp. 429-60.

as concerned primarily with coöperation.¹⁷ The published list of the Office of Experiment Stations for the same year classified only 16 projects in this field. The difference was due largely to the definition of coöperation or marketing under which projects were classified. Dr. Youngblood's *Classified List of Projects in Agricultural Economics and Rural Sociology* (1931) lists only 5 projects¹⁸ as dealing with coöperative marketing, but at least 10 in those listed under marketing appeared from their descriptions to be dealing largely with coöperative enterprises or with problems primarily concerning coöperatives. In addition, at least a score of marketing projects were dealing with coöperative aspects of problems as incidental to other aspects. Letters sent to project leaders report at least 12 projects on coöperative marketing actively under way in 1932-33. This indicates that the volume of research in coöperative marketing has scarcely held its own during this period. No doubt there has been a definite decline in recent years while the volume of research in agricultural economics in general has been expanding.

Research in coöperation, like research in marketing, has been greatly influenced by developments in the federal government. During the very early period, as above indicated, coöperation received most of the attention and marketing as such very little. With the establishment of the Bureau of Markets in 1917 an extensive program was developed in grades and standards, inspection, market news service, warehouse regulation, with a certain amount of accompanying research, in which coöperation as such entered only more or less incidentally. In fact, the policy of the Bureau of Markets was in general to offer no services to coöperatives which were not equally available to proprietary enterprises. The creation of the Division of Coöperative Marketing within the Bureau of Agricultural Economics by special act of Congress in 1922 not only led to a considerable expansion of research in coöperative marketing, but also had the effect of carrying much of the federal economic research in marketing into the coöperative field. Since that time, as stated in the report on Research in Marketing (pp. 12-20), the Bureau of Agricultural Economics has confined its marketing research largely to technological problems, studies of market outlets and consumer's preference being the principal exceptions. Furthermore, with the transfer of the Division of Coöperative Marketing to the Federal Farm Board in 1929, its research for the most part became centered on current problems of organization, structure, loans and outlets for existing supplies. This change is likely to become still more pronounced now that the Division of Coöperative Marketing has been absorbed in the new

(17) *Preliminary Report of a Survey of Economic Research in Agriculture in the United States During the Year Ending June, 1928*; see the section on "Cooperation" by E. G. Nourse.

(18) Office of Experiment Stations, Washington, D. C.

Agricultural Credit Administration. The future of federal research in cooperative marketing is probably dependent upon the establishment of a section on marketing research in the Department of Agriculture.

ANALYSIS BY PROJECTS

We now come to the main purpose of the report: to outline the field under discussion in terms of a suggested list of possible research projects, and to discuss methodology for each. This list is not intended to be inclusive of all possible projects, but instead to be representative of their topics and methodology. The projects were selected with the thought in mind of the agencies likely to engage in research in agricultural cooperation—an agricultural experiment station, the United States Department of Agriculture, a research institute. The choice of a project by such agencies depends upon what projects have preceded it, the resources of men and funds available, and a host of other considerations. Accordingly, the projects are not mutually exclusive. Some are comprehensive, calling for macroscopic analysis of a large subject; others are confined to narrow subjects or to limited areas. Under such circumstances, the broad projects may cover the same field as several narrow ones, but in far less detail. Several of the narrow projects might be combined into a detailed study of a rather large subject. This is most likely to be done when a limited area is to be covered, as in some of the case studies outlined below. In some instances projects overlap, but approach the subject from different directions. In the actual discussion an effort has been made to avoid duplication by cross-referencing to other projects, but a certain amount is inevitable. Finally, some projects have been listed that are not likely to yield tangible results, at least for the present, since neither adequate data nor satisfactory methods of attack are available. It seems likely, however, that progress will be furthered by calling attention to these problems, and by stimulating deductive and qualitative analyses which may lead to the collection of more adequate data and the development of more effective methods of attack. The limitations to present attack on such problems are, however, indicated in the discussion.

The committee responsible for this report prefers to have it regarded more as an outline of the field and the problems involved than as an analysis of methods and procedures to be used. So few workers in agricultural economics have recently had first-hand experience with research in agricultural cooperation that it has been impossible to obtain much specific discussion of methods. Moreover, space does not allow full development of all the avenues of thought and

analysis indicated in the outline. Many of the projects are therefore merely listed, or sketched very briefly.

Throughout the discussion are references to *Research Method and Procedure*. This is a general discussion of method published in mimeographed form as an introduction to this present series of reports on particular fields. It is available in the libraries of most research agencies of the country, since nearly a thousand copies were distributed before the stencils wore out.

SECTION ONE

COOPERATION IN GENERAL

The projects in this report are divided into two sections, those dealing with coöperation in general, and those dealing with coöperation by form of economic activity. The projects in Section One are directed at the development of a body of principles and relationships for coöperation in general, under the heads of structure or "set-up", procedure or operation, economic or other social basis, legal basis, public relations. Most of them will include coöperation in the various forms of economic activity—marketing, production, credit, insurance—and will attempt to discover, among other things, the differences in structure and procedure, according to form of economic activity. Consequently, the emphasis in these projects will be upon analysis suited to peculiarities first of structure, then of procedure, of each aspect of coöperation named above.

GROUP A

Projects Relating to Cooperative Structure

The projects in this group deal with the set-up of coöperative organizations; whether corporate or not, and the form of corporation; the operating set-up—centralized or federated, subsidiaries, departmentization, division of authority and responsibility, etc., the form of membership contract; the financial set-up—source of capital, arrangement of indebtedness; the economic set-up—size of unit, distribution of investment between plant, equipment and operating capital, and combination of input factors in relation to costs.¹ This

(1) "Economic set-up" is not a good term for this phase of structure, but no one has thus far suggested a better term. "Factoral organization" may be used by those who prefer it.

set-up is determined at the time the coöperative is started, or upon occasion of subsequent changes in any of the foregoing details of organization, many of these arrangements being prescribed in the articles of incorporation and by-laws of the organization. Group B, in contrast, deals with questions of procedure and operation which arise either at the time of the development of the association, or from year to year, month to month and day to day in the conduct of the business after it is set up. Obviously no hard-and-fast line can be drawn between details of procedure and operation and of re-organization.

Research on some of the foregoing features of set-up is so nearly the same for proprietary as for coöperative enterprises that no special analysis will be presented in this report.

PROJECT I. Operating Organization—Locals

OBJECTIVE: To determine the factors affecting the form of operating organization best suited to various forms of economic activity, commodities, communities, etc.

(By Paul L. Miller)

The term operating organization refers to the layout of the work to be done, its division between the various parties making up the operating unit, and the arrangements for keeping the unit going from day to day. In a large enterprise, such organization may include a complex problem of departmentization and lines of authority. In a small local coöperative, the problems seem relatively simple, pertaining to different arrangements of officers, boards of directors, committees, management, and specialization in management and labor, and to the powers and responsibilities of officers, board members, managers and members. They seem simple because only a small personnel is involved. Actually the range of types of work to be done and problems to be solved is no less than in a large organization. The circumstance that all are handled by a few persons may complicate in some ways as well as simplify in others. Projects 3 and 4 deal with operating organization in larger types of enterprise.

The principles involved are discussed for the usual types of business enterprise in treatises bearing such titles as "Business Organization", "Business Administration", "Industrial Organization". A brief presentation will be found in Chapters XIX and XX of J. D. Black's *Production Organization*.

More specifically, this project will undertake:

- (1) To describe and characterize the operating organization of various types of local coöperatives and to discover the

significant variations among them in the powers and responsibilities of the employed management, officers and board of directors and members. This part of the project must distinguish carefully between the "paper" and the actual organization.

- (2) To ascertain the powers and responsibilities of the employed management, the board of directors, and the members that are essential to the successful conduct of various types of local coöperatives.
- (3) To show how the exercise of various powers by the different elements in the operating organization affects the conduct of the business of various types of local coöperatives and what arrangements are most conducive to their complete functioning.

Some of the practical questions to which answers are sought are as follows:

Just how have local coöperatives organized themselves to accomplish their objectives? Have they perfected a smoothly functioning operating organization? Or, have they in many instances only complied with legal requirements and more or less failed to implement the coöperative properly for the conduct of its business? Do these organizations operate in accordance with the declarations and specifications of their by-laws or is there a wide discrepancy between these provisions and the actual conduct of business? What important variations are there in the more essential by-law provisions? In what elements of the operating organization are weaknesses and defects most common? Do these defects pertain to the conduct of routine business or to policy-making? From a study of coöperatives in action, what can be learned concerning the essential powers and responsibilities of each of the three elements in an organization?

How does a capable manager work with his board of directors? Just what responsibilities reside with the board of directors in its relation to the manager, and to the members? Just what arrangements and procedures on the part of boards of directors are best calculated to maintain a high interest and full participation in the enterprise on the part of members? Is membership support weak because of vague definition of and lack of emphasis upon the qualifications and responsibilities of members or because of neglect and indifference on the part of members? In the case of associations whose performance is below reasonable expectations, what elements in the operating organization are commonly at fault?

The literature on this subject ranges from brief general statements concerning the duties and responsibilities of members or of boards of directors to analytical studies of the operating organization of coöperatives. Examples of the former type of material are: *The*

Business Set-up of a Coöperative Marketing Association, by C. L. Christensen, United States Department of Agriculture Circular 403; *Directors of Farm Coöperatives—Their Duties and Responsibilities*, by H. H. Bakken, Wisconsin Extension Circular 245. Analytical studies of the operating organization of coöperatives usually appear as parts of more comprehensive studies of large individual enterprises, and therefore are more closely related to Projects 3 and 4 than to the present project. *Coöperative Marketing: Its Advantages as Exemplified in the California Fruit Growers' Exchange*, by W. W. Cumberland, furnishes an excellent analysis of the operating organization of one such coöperative. *Farmers' Coöperative Buying and Selling Organizations in Michigan*, by C. F. Clayton and J. T. Horner, Michigan Special Bulletin 171, is worthy of special note for its analytical treatment of the operating organization of various types of smaller coöperatives. An example of another type of study that deals with an important aspect of the subject of this project is *The Farmers' Part in Coöperative Marketing*, by W. W. Fetrow, Oklahoma Bulletin 174.

Procedure

Statistical analysis of samples of coöperatives can have little place in such a project, since very few of the significant facts can be reduced to numerical statement, and the difficulties in securing the requisite information preclude covering large numbers. The basic procedure must therefore be to select a limited number of coöperatives for case analysis. Once certain categories have been established, it will probably be possible to include sufficient additional coöperatives to establish the relative prevalence of different forms of operating set-up and the results associated therewith.

The selection of cases for any problem is difficult, and is likely to be unusually so in this study because of the wide range of variation likely to be found. The basis of selection is discussed in *Research Method and Procedure in Agricultural Economics*, and in various projects in this series that use the case method, especially Projects 22 and 23 in the report on Farm Family Living, and Projects 21 and 37 in the report on Farm Management.

The first requirement for a proper selection of cases is a clear understanding of the significant variations in the form of operating organization. The first problem then is to prepare a classification of types or forms of operating set-up. If it is agreed that operating organization is defined in terms of the duties, powers and responsibilities of three organization elements, the manager, the board of directors and the members, then the problem of classification of types turns upon variations that may exist among coöperatives in the relation of each of these elements to the enterprise as a whole. The main variation may be with respect to the relation of members to their coöperative. In some instances their duties and responsibilities

may be definite and exacting, in others indefinite and optional. In a given project, particular attention might be centered upon this phase of operating organization. But other important phases invite study in almost any group of coöperatives. Among these is the working relationship between the board of directors and the manager.

If little is known about the types of organization represented among the coöperatives coming within the purview of the study, a reconnaissance is advisable. This should take the form of informal interviews with officers, managers and members of a varied assortment of coöperatives. Ordinarily a month spent in this way in the field, combined with evidence from business reports made to state departments, or copies of by-laws kept on file with the Secretary of State, or perhaps even returns from special mail questionnaires, should furnish a basis for the classification and selection of such representation of the classes or types as is desired.

From each case selected as the basis for this study, information will be required concerning (1) the conduct of business, and (2) the formulation of policy. The test of an operating organization is twofold: does it conduct its business efficiently, and does it provide for adequate formulation of policy? From the by-laws and from observations of the manner in which the business is conducted, information is available for an analysis of the functioning of the organization from these two viewpoints. The distinction between the by-law provisions regarding powers and duties and the powers and duties actually assumed should be carried throughout the analysis. In actual practice the members of many coöperatives assume little or no responsibility for maintaining their association even to the extent of contributing their full patronage. Also, boards of directors very frequently only go through the motions of exercising their powers and responsibilities, giving insufficient attention for prudent and skillful management. Too frequently the board is only a rubber stamp for the manager or possibly for an overhead agency. Many local boards know too little about their enterprises to be able to discover proper steps toward greater efficiency in operation. Failure with respect to this responsibility means incompetency with respect to the formulation of policies for the projection and development of the enterprise. Undoubtedly the success of a coöperative is more dependent upon the manner in which the operating organization functions than in the form of the operating set-up itself.

Data concerning the effectiveness of an operating organization are more allusive than those pertaining particularly to its structure and manner of functioning. Coöperatives fail for many reasons other than defective operating organization. Sometimes they have a large degree of success in spite of a weak operating organization. The investigator must look beneath the surface for information concerning effectiveness. Careful attention to the history of an enterprise will yield much useful information. Has membership and

volume increased? What changes have taken place in operating methods or services performed? In what way have circumstances affecting the association changed? What has been its financial history and what efforts have been made to surmount any persistent financial weakness? What opportunities for improving, projecting and developing the enterprise have been open? To what extent have they been exploited? From data relevant to questions such as these, it is possible to create a background for the facts characterizing the features and mode of functioning of an operating organization. Such a background of information will serve to reflect the degree of effectiveness of the operating set-up of the association and its adaptability to the circumstances surrounding it.

The data thus obtained will first serve for a characterization and appraisal of each enterprise separately. Its circumstances are bound to be somewhat different from those of other associations. Its success or failure may be fortuitous or at least only remotely related to the form and functioning of the operating organization. On the other hand, there may be a close relation between results and form and conduct of the enterprise. The analysis must disclose these relationships clearly enough for comparison with those discovered in other enterprises. The data may then serve for comparisons and contrasts among enterprises of the same and of different types. In so far as comparative study can be made valid, it will support definite conclusions concerning the adaptabilities of particular forms and arrangements of operating organizations.

ERROR'S NOTE—The foregoing discussion touches only briefly the most important part of such a project, namely, the actual analysis of the enterprises. Anyone undertaking such a study who has not had experience with the case method is likely to achieve only fair success with it on his first trial and many researchers never attain any success with it. The least that one can do who lacks case experience is to spend a few months upon the literature of the method and reading the results of case studies, and a similar period upon trial analyses. The references above cited, a number of the analyses in *Methods in Social Science*,¹ and Project 41 of the report on the Social Psychology of Rural Life will serve as a beginning.

The so-called "participant observer" method should also be considered for this project. Project 22 in the report on Farm Family Living furnishes an outline that could readily be adapted to the problem in hand. The best entrée into the activities of coöperatives is likely to be as an extension specialist in coöperation. A person experienced in the use of the case method, and familiar with the problem in hand, could combine extension and research to good advantage in this field.

The outline may seem to call for a larger expenditure of energy and resources than is likely to be available in many states. However, few, if any, types of research project in coöperation are likely to be more worth while. We have spent much too large a part of our

(1) Stuart A. Rice, Ed. (Social Science Research Council, 1931).

resources thus far upon the superficial aspects of coöperation. We need most at this stage an understanding of its inner workings, of how the human material that is involved actually performs.

In scope, such a project can be, and probably should be in most instances, limited to the local coöperatives in a state or region selling a single farm product. However, the problem will not be understood until similar studies are made for other products and for other forms of coöperative activity, and for different types of community and population groups.

Other references:

- E. G. Nourse, "History and Structure of Cooperative Livestock Marketing", *American Cooperation*, 1928, Vol. I, pp. 71-77.
H. Bruce Price, "The Business Set-Up of Farmers' Elevators", *American Cooperation*, 1926, Vol. II, pp. 299-308.
H. J. Ramsey, "Relations Between Local and Central Organizations", *American Cooperation*, 1927, Vol. II, pp. 498-517.

PROJECT 2. Capitalization Structure

OBJECTIVE: To analyze the different forms and types of capital-stock cooperatives in different lines of economic activity—marketing, production, credit, etc.—in order to determine the adaptibilities to these different lines of activity and to special circumstances affecting cooperation, of different arrangements as to types, size and number of shares of stock, as to restrictions upon dividends; similar analysis for membership arrangements in non-stock cooperatives; a comparative analysis of the special adaptibilities of the stock and non-stock types.

Contrasting attitudes of prospective members toward the stock and non-stock types should be taken into account. Needs and conditions of financing will no doubt be a limiting factor in many cases. The point of view in this project is that of adaptability assuming adequate financing (See Project 6 for financial set-up). Particular attention should be paid to those coöperatives which were started before the passage of special enabling acts for coöperatives and which do not conform to the supposed coöperative standards in some of the respects above listed.

PROJECT 3. Operating Organization—Decentralized Types¹

OBJECTIVES: (1) To describe the actual structure of a federated cooperative association; (2) to analyze the function-

(1) The term *decentralized* is used in place of *federated* because it is recognized that some so-called federations have more centralization of power than some non-federations. Those classified as decentralized are of course those with a low degree of centralization.

ing of its several parts in relation one to another; and (3) to appraise the suitability of this type of organization to the character of the commodity, the structure of its market, qualities of its personnel, and other pertinent elements.

(By E. G. Nourse)

The local unit in the decentralized type of coöperative organization has been covered in the preceding project. The present project is concerned with the overhead or interconnecting organizations which render services of various types to the local groups or their members. One of the oldest overhead organizations is the state farmer-graindealer association. These have been primarily auditing organizations but have done something in the way of supplying local managers, in organizing the joint purchase of supplies or insurance, in serving as legislative representatives, and in promoting (or obstructing) terminal selling organizations.

Historical and analytical research into the farmer-graindealer associations in each of the ten or dozen states where they have existed would be highly serviceable to the coöperative elevator movement. It would show how the demand for certain activities not within the scope of the local elevator organization has arisen and the way in which these services have been supplied by overhead organizations. They should be studied not only with reference to the coördination of the work of the local coöperative groups but also in terms of their relation to a federation of state federations and to the wheat pools, the terminal selling projects which have arisen from time to time, and to the national marketing proposals of the early Sapiro movement, the Farm Bureau grain marketing effort, and the Farm Board activities.

Coöperative grain marketing as an illustration of the decentralized type may be divided either horizontally or vertically, the latter scheme being illustrated by the comprehensive projects for the study of state associations suggested above. Horizontal divisions which suggest themselves are (a) the study of manager training and placement, (b) the perfection of types of accounting and the furnishing of auditing service, (c) joint purchasing, (d) joint selling, and (e) legislative, protective and lobbying activities. These functional studies could most profitably be carried on not merely as internal analyses of the operating organization and its results in the field of grain marketing; they could be greatly strengthened and enriched by being made as comparative studies of the organization of functions in grain marketing federations and of federations marketing other commodities whose problems and experience seemed sufficiently analogous to furnish helpful suggestions.

The livestock marketing movement furnishes another important illustration of the decentralized type. Quite a group of studies of

varying degrees of completeness and merit have been made of local livestock shipping associations.² A few studies have been made of terminal selling agencies but generally with more emphasis on the performance of their selling work than on the relationship between them and local groups.³ One interpretation has been offered of the comprehensive livestock marketing organization projected in the National Producers Company and amplified in the Farm Board's National Livestock Marketing Association.⁴ It would be highly desirable, however, if each of the experiment stations in important livestock marketing states could make studies of the interrelations of local shipping associations, terminal selling agencies within their state boundaries, and overhead service agencies where they exist, all with reference to the division of functions and the results attained as parts of a national livestock marketing system.

(2) E. D. Durand, *Cooperative Livestock Shipping Associations in Minnesota*, Minnesota Agricultural Experiment Station Bulletin 156 (1916).

R. W. Clark, *Cooperative Marketing of Livestock*, Colorado Agricultural College Extension Bulletin, Series 1, No. 148 (1918).

B. H. Hibbard, L. G. Foster and D. G. Davis, *Wisconsin Livestock Shipping Associations*, Wisconsin Agricultural Experiment Station Bulletin 814 (1920).

O. B. Jesness and Dana G. Card, *Cooperative Livestock Shipping Associations*, Kentucky College of Agriculture Extension Circular 104 (1921).

E. G. Nourse and C. W. Hammans, *Cooperative Livestock Shipping in Iowa in 1920*, Iowa Agricultural Experiment Station Bulletin 200 (1921).

T. R. Reid, *Cooperative Shipping of Livestock*, Arkansas College of Agriculture Extension Circular 102 (1921).

K. A. Keithly, *Cooperative Marketing of Livestock in Virginia*, Virginia Department of Agriculture and Immigration Bulletin 174 (April 1922), pp. 16-20.

Ralph Loomis, *Cooperative Livestock Shipping Associations in Missouri*, Missouri Agricultural Experiment Station Bulletin 199 (1923).

E. W. Gaumnitz and J. D. Black, *Organization and Management of Local Livestock Shipping in Minnesota*, Minnesota Bulletin 201 (1922).

B. A. Wallace, *Cooperative Livestock Marketing in Ohio*, Ohio Agricultural Experiment Station Bulletin 875 (1924).

Harold Hedges and H. C. Filley, *Cooperative Marketing of Livestock in Nebraska*, Nebraska Agricultural Experiment Station Bulletin 209 (1925).

Theodore Macklin and Marvin A. Schaars, *Marketing Livestock Cooperatively*, Wisconsin Agricultural Experiment Station Bulletin 381 (1926).

Alva H. Benton and Harold E. Seielstad, *Cooperative Marketing of Livestock in North Dakota*, North Dakota Agricultural Experiment Station Bulletin 228 (1928).

W. W. Armentrout, *Efficiency of Cooperative Livestock Shipping Associations in West Virginia*, West Virginia Agricultural Experiment Station Bulletin 249 (1932).

(3) Theodore Macklin and Marvin A. Schaars, *Cooperative Sales Organization for Livestock*, Wisconsin Agricultural Experiment Station Bulletin 394 (1927).

C. G. Randall, *Cooperative Marketing of Livestock in the United States by Terminal Associations*, U. S. Department of Agriculture Technical Bulletin 57 (1928).

Kelsey B. Gardner, *A Business Analysis of the Producers Livestock Commission Association of National Stock Yards, Ill.*, U. S. Department of Agriculture Circular 86 (1929).

John H. Lister, *Analysis of the Operations of a Cooperative Livestock Concentration Point*, U. S. Department of Agriculture Circular 142 (1931).

(4) E. G. Nourse and J. G. Knapp, *The Cooperative Marketing of Livestock* (The Brookings Institution, Washington, 1931).

The butter and cheese marketing movement has characteristically taken on the decentralized or federated form, whereas fluid milk marketing has ordinarily been of the centralized type within each particular metropolitan zone. The experience of the National Federation of Milk Producers' Associations presents an instance of the development of an overhead agency in the decentralized organization of locally centralized units. It seems highly improbable that the collective bargaining or group selling function will be centralized into a national or intermarket cooperative organization. On the other hand, it seems highly probable that the present trend of developments will force coordinated action to equalize price differentials and regularize competition between the several markets. Researches should therefore be undertaken as to the possibilities and requirements of a decentralized type of selling federation in the fluid milk field. Likewise projects for the study of the creamery federations in states where they have not yet been examined, and of bringing the analysis down to date in states where earlier studies have been made, should be undertaken.

The horticultural field also offers numerous examples of cooperative federations. Much has been written about the California Fruit Growers' Exchange but rather by way of description than functional analysis which would have greatest value to other decentralized cooperatives.

Sources of information

The information collected must include whatever is necessary to determine the "paper" and actual separation of powers and responsibilities and the relations between the locals and the central office groups, the organization of the locals into districts and separation of powers and responsibilities of the local and the district offices, and the district and central offices; also the departmentization of the work and lines of authority and responsibility between departments. This departmentization frequently takes the extreme form of setting up subsidiary enterprises, and hence this phase of the organization must especially be considered. Financial aspects, discussed in Project 6, will also be involved. This project will include, in addition, some aspects of membership agreements, treated in detail in Project 5, and of economic organization, treated in detail in Projects 7 and 8.

Obviously the data necessary for studies of this sort are not available in public records or statistical compilations. They must be secured by field work and first-hand contacts with the cooperatives to be studied, and will be forthcoming only if the investigator draws up his project in realistic terms which promise helpful results for the cooperative itself. In fact, the framing of the project may well be the joint work of the investigator and the officials or salaried personnel of the cooperative. It will thus represent both the cooperative's judgment as to the practical questions to be answered

and the professionally trained worker's view of the fundamental issues to be analyzed.

Even though the inquiry in a particular state may be directed primarily at the functioning of an overhead service or selling agency, the data bearing upon the question of effective organization and division of functions must rest upon a great deal of information gathered from local organizations and individual members. But to complement this data, much information of other kinds must be secured from terminal selling agencies or overhead directional bodies at terminal market centers. This fact calls attention to one of the difficulties of fitting such researches into the limitations of existing state experiment station organization. Station workers should be able to collect all pertinent data for organizations having headquarters within state lines, including primary markets and, in a few favored instances, central markets. To complete the work of assembling data recourse must be had to correspondence, to the work of investigators outside state lines on their own traveling expense and/or time, and to collaboration with persons in other institutions interested in the same or closely allied fields. Occasionally the thesis work of a graduate student or staff member can be utilized while he is in residence at another institution. Every effort and all the ingenuity at the command of persons in charge of marketing researches should be exerted to make the collection of data cover the whole field logically embraced by the problem.

Methods of analysis

To only a limited extent does this type of problem and the available data admit of quantitative analysis or the use of statistical techniques. In the main, reliance must be placed upon qualitative theoretical analysis, which seeks to generalize principles of efficient organization and effective division of function from the comparative study of actual commercial experience by coöperative and non-coöperative agencies within the given commodity field. The method of analysis will be a combination of that called "qualitative description" and that called the "case method" in *Research Method and Procedure*. See Project I for comments on the case method.

Other references:

- Knute Espe, "A State Federation of Shippers and its Field of Service", *American Cooperation 1926*, Vol. I, pp. 157-59.
- J. S. Montgomery, "The Organization and Work of the Central Cooperative Commission Association", *American Cooperation 1926*, Vol. I, pp. 169-84.
- E. G. Nourse, "History and Structure of Cooperative Livestock Marketing", *American Cooperation 1926*, Vol. I, pp. 71-77.
- E. G. Nourse, "Potential Development of Functions and Services by State Federations of Farmers' Elevators", *American Cooperation 1926*, Vol. II, pp. 534-43.
- H. E. Erdman, "Distribution of Control in the Cooperative", *American Cooperation 1927*, Vol. II, pp. 134-42.
- Paul S. Armstrong, "Organization and Operation of the California Fruit Growers Exchange", *American Cooperation 1928*, Vol. I, pp. 106-21.

- L. S. Haight, "Organization and Operation of the California Fruit Exchange", *American Cooperation 1928*, Vol. I, pp. 194-99.
- Carlyle Thorpe, "Plan of Operation and Organization of the California Walnut Growers Association", *American Cooperation 1928*, Vol. I, pp. 91-104.
- James S. Hathcock, "Policy-Making in Cooperatives", *American Cooperation 1929*, pp. 335-96.
- E. P. Hibst, "Organization and Operation of the Michigan Potato Growers Exchange", *American Cooperation 1930*, Vol. II, pp. 68-76.

PROJECT 4. Operating Organization—Centralized Types

OBJECTIVES: To determine the characteristics of the centralized form of cooperative association, emphasizing the adaptabilities of its organization features that are in contrast to those of decentralized cooperatives.

(By J. G. Knapp)

Typically, the centralized type of large-scale cooperative association differs primarily from the decentralized type by being directly connected with the producer, usually by means of a contract. The decentralized type discussed in Project 3, on the other hand, provides that the producer should be a member of a local association which in turn is connected with an overhead organization set up by the local associations. The responsibility of the producer to the centralized association is *direct* while it is *indirect* in the case of the federated association. However, centralization must be considered as more than a matter of direct or indirect tie-up with the central office groups, since more power may be given to the central office in some federations of locals than in some centralized cooperatives.

These differences in organization are of particular importance in such problems as membership contact, operating efficiency, flexibility in meeting economic disturbance, and stability of financial arrangements. It is, for example, a question of great importance whether it is desirable to have a producer tied *directly* by contract to the central office of a large-scale association. The answer would seem to depend upon the efficiency of the organization in establishing and maintaining membership contact, the type of producers, and the nature of the product, also upon the type of product and degree of concentration of production. While it may be admitted that the federated form of organization is especially suited to areas where local functions of marketing can well be handled through cooperative effort, it is less apparent that the federated form lends itself to use over a wide territory of scattered producers or in a narrow territory of heavy individual producers. For example, the Canadian wheat pool, a centralized type was, in the opinion of many, well suited to the geography of the situation. The California Walnut Growers Association, operating in a relatively concentrated area, is another

example of a decentralized type of association adapted to geographical and crop production circumstances entirely different from those in Canada. Analysis could well be directed to the determination of those territories and products best suited to the use of centralized or federated types of organization. Questions such as the following may be raised: Is not the wheat-pool type of centralized organization better adapted to the solution of the wheat farmer's marketing problem than the farmers' elevator federation plan of organization now in vogue?

One of the disputed advantages of the centralized type of association is that it is able to achieve superior marketing and operating efficiency through large-scale operation and control. The question arises whether this does not depend upon the organization studied. Does it not assume ideal coöperation on the part of members which may be more nearly given to a local association than to an association with offices at a distance? Other questions that arise in studying the centralized type of association are: the form and proper use of membership contracts, the forms of control set up in the contracts (delivery of product, type and quality of product, time of sale, etc.), the type of publicity needed by centralized associations, the use of subsidiary agencies such as warehouse corporations, disposal or by-product corporations, credit corporations.

Scope and Method: There have been but few studies which center attention on the above problems, although the pioneer study of J. D. Black and H. B. Price, *Coöperative Central Marketing Organization*¹ indicates a general method of approach to studies of this sort. That study, however, considered both the centralized and federated types of organization in a general way. It would seem desirable to confine projects to selected organizations clearly of the centralized type with attention focused on specific problems.

In recent years several case studies have been made of associations of the centralized type, for example, A. V. Swarthout, *The Staple Cotton Coöperative Association*,² and John J. Scanlan and J. M. Tinley, *Business Analysis of the Tobacco Growers' Coöperative Association*,³ but they have not analyzed structure and organization with sufficient thoroughness for the purposes of this project. Coöperative organizations go through evolutionary growth, and studies of this kind should be made of the same organizations periodically. It may be that the centralized type of organization is tending to change to federation or vice versa. Studies at intervals would help to interpret such changes.

The following outline for a study of a state cotton coöperative association is suggested as illustrative of the kind of studies of cen-

(1) Minnesota Bulletin 211, (1924).

(2) U. S. Department of Agriculture Department Circular 807.

(3) U. S. Department of Agriculture Circular 100 (1929).

tralized associations which are needed.⁴ I. Reasons for existence of organization; II. Its history; III. Nature of the administrative organization—central office set-up, local and district set-up, separation of powers and duties, lines of authority and responsibility, contractual arrangements with members, subsidiary set-up; IV. Operation—actual exercise of powers, duties, etc., in terms of the detailed conduct of the affairs of the association; V. Effects.

Such a study would call for ability on the part of the investigator to analyze critically an entire marketing organization of the centralized type, and analyze in detail its operations from day to day, over the year and from year to year. Similar studies of several centralized organizations need to be made, preferably by the same person, before many conclusions taking the rank of generalizations can safely be made. If a different person undertakes the later studies he should plan them with a view to combining their results with those of prior studies.

Obviously it will be desirable for the researcher to have full access to the confidential files and records of the association. The study should not ordinarily be attempted without the full sympathy of the organization, unless it should be necessary to make the study as a public duty. To get full coöperation it is essential that the trustworthiness, tact and ability of the investigator be apparent. The conclusions reached, however, must be independent of the opinions held by the officials of the organization studied. Most of the information necessary for studies of centralized associations is, however, generally available in annual reports, house organs, newspaper files, interviews and correspondence which are not controlled by the association, so that a reasonably satisfactory analysis may be possible without much coöperation from the organization. In any case every possible source of information should be canvassed.

In making such studies the compilation of information is perhaps less important than ability to make use of it. Many data concerning centralized associations are available but intelligent conclusions concerning them are still rare.

Other references:

- C. D. Cavallers, "Organization and Operation of the California Prune and Apricot Growers Association", *American Cooperation* 1922, Vol. I, pp. 209-18.
- Verna Elsinger, "The Burley Tobacco Growers Experiment", *American Cooperation* 1922, Vol. II, pp. 499-581.
- W. E. Grimes, "The Marketing Program of the Federal Farm Board", *American Cooperation* 1932, pp. 98-104.
- E. G. Nourse, "Cooperative Structure and Farm Board Policy", *American Cooperation* 1932, pp. 80-93.
- E. G. Nourse, "An Evaluation of the Livestock Marketing Work of the Federal Farm Board", *American Cooperation* 1932, Vol. I, pp. 12-17.

(4) J. G. Knapp, *The Hard Winter Wheat Pools* (University of Chicago Press, August 1933). ✓

PROJECT 5. Membership Agreements

OBJECTIVES: To describe and classify the various types of agreement between cooperative organizations and their members, discover under what circumstances different types of agreement have come to be used, analyze their working and determine their adaptabilities.

(By John D. Black)

The agreements with members may be in the form of contracts or of by-law provisions. They include, in the case of a selling organization, the arrangements with the members as to delivery of product, control of product after delivery, time and method of selling, advances on product delivered, responsibilities assumed by the organization and method of allocation of expenses, and as to renewal and termination of membership.

This project is not concerned with questions of marketing and credit procedures and policies as such, but only with questions of what authority is granted to the organization in determining such procedures, and how the authority is exercised.

In scope, such a project may be limited to the coöperatives selling one product, or expanded to include all products and other forms of coöperative activity. Not until all have been brought into the analysis will adequate generalization be possible. In practice, any one project is likely to be limited in scope, but it should be planned with a view to the combination of its results with those of similar studies.

An effort should be made to obtain the facts concerning all the different forms of membership agreement in use in the field included in the project. These facts can be ascertained from copies of the by-laws and contracts of the associations, obtainable in many states from state officials (secretary of state, commissioner of agriculture or markets, etc.), or by correspondence. The other information needed concerns the experience of the organization in the use of the contract or other forms of membership agreement, and must be obtained by field work among the associations, from their records, court records in some instances, and from representative members. It will include (a) the extent to which the various terms of the agreement are actually fulfilled by the members, (b) effort made to obtain fulfillment, including legal procedures, if any, (c) the manner in which, and success with which, the organization has exercised the powers granted it, (d) the attitudes of the members toward the existing agreement, and (e) needed changes in the present managements.

The foregoing information must be digested thoroughly, first, from a legal point of view by a person with adequate legal training who has already devoted considerable thought to coöperation, or is willing to work his way into this subject; and second, from the point of

view of coöperative practice by workers experienced in this field. The legal analysis should classify the various arrangements from a legal point of view, and furnish a legal interpretation of them, and likewise of the experience of the organization in its attempts at enforcement. (See Project 15 for a consideration of the problem of contract enforcement.) Then the manner in which each feature or phase of the membership agreements in use functions should be analyzed in terms of the economic results obtained and value in use to the organizations and members thereof. This part of the analysis will probably be most effective if confined to a limited number of carefully selected coöperatives. At least, the analysis of membership attitudes must be thus restricted. (For discussion of this latter problem, see the report on Rural Social Psychology, particularly Projects 5, 6 and 40.)

Other references:

- W. T. Jaynor, "Membership Contracts and Crop Mortgages", *American Cooperation 1925*, Vol. I, pp. 352-67.
L. S. Hulbert, "Present Legal Status of Membership Contracts", *American Cooperation 1928*, Vol. I, pp. 324-45.
Milton Sapito, "Withdrawal Features of Cooperative Contracts", *American Cooperation 1928*, Vol. I, pp. 279-301.
Edward J. Tracy, "Contracts or Other Membership Control Methods", *American Cooperation 1928*, Vol. I, pp. 302-23.

PROJECT 6. Financial Set-up

OBJECTIVE: To determine the adaptabilities as in the above projects of different arrangements for financing cooperative organizations of various types at time of establishment or upon occasion of subsequent reorganizations.

The arrangements to be considered include types of stock (common, preferred, etc.); types of bonds, interest rates, dates of maturity, provision for retirement, etc., financing of subsidiary corporations; raising funds by deductions from proceeds of sales; the various revolving finance plans designed to maintain an adjustment of investment by members to their use of the facilities; methods of raising funds with non-stock coöperatives; etc.

PROJECT 7. Economic Organization—Locals

OBJECTIVES: To analyze, for independent local cooperative units, the relations between proportioning of investment between plant, equipment and power, and between different classes of management and of labor, and between volume

of business and the accomplishments of cooperative organizations as measured by unit costs, prices, savings, life and growth of the organization, etc.; also between combinations of different products or different lines of business and similar measurement of accomplishment.

(By J. D. Black)

The analytical problems involved in the statement of objectives are discussed fully for small independent marketing enterprises in general in Group C of the report on Marketing of Farm Products. The preliminary discussion of "General Methodology of Organization Analysis" covers most of the questions that will arise in similar analysis for small local cooperative enterprises. Furthermore, the major portion of the analysis of local marketing business units thus far has dealt with cooperatives rather than proprietary units. At least, this is true for local grain elevators and creameries. Accordingly very little additional discussion will be needed here.

One aspect needing development will be that of measures of success. In the first place, the success of a cooperative, even considered as a strictly business enterprise, cannot be judged in the same terms as that of private enterprises. Such measures as net income and net return upon investment do not fit a cooperative. In the case of a selling cooperative, net return per unit of product delivered to the cooperative is the nearest equivalent; in a buying cooperative, net cost per unit to the consumer member; in an insurance cooperative, the ratio of loss payments to insurance payments, etc. Even on a business basis, however, such a comparison is not entirely adequate. A private business is willing to sacrifice present profits for future growth and goodwill—to build for the future; but probably not to the same extent as a cooperative. Such measures of success as life of the enterprise and increase in membership and clientele, therefore have unusual significance in the case of cooperatives. Closely akin are values associated with unusual knowledge of the market and market prices, and of the product sold or service rendered, improved attitude toward fellow producers, increased ability to cooperate, and increased participation in community affairs. Success values may be measured by the technique of attitude analysis discussed in the report on Rural Social Psychology (See Project 11 below); others by the technique discussed in the report on Rural Organization (See Projects 12, 14 and 16 especially).

The foregoing may be illustrated simply by raising the question whether a given local enterprise should carry a certain article in stock. If it is a private enterprise, the analysis will run in terms largely of whether it can sell the article at a margin that will pay

the special expenses and contribute a little to the overhead expenses. Some little allowance may be made for the value of possible added goodwill among customers. If it is a coöperative enterprise, the reasoning will run in considerable measure in terms of whether the trouble and expense of carrying this article reduces the service rendered on other articles or raises the average expense ratio; but it should also take cognizance of the effect of this decision upon the place which the coöperative will hold as a community institution.

The analysis should make use of all significant measures and relationships, including those entirely pecuniary in nature; but it should not stop with pecuniary measures. Building the new creamery on a splendid site just off Main Street, and making it an attractive building appropriate to the site, may cost an additional quarter-cent per pound of butterfat over the succeeding twenty years; but it may mean several times this in value of prestige and pride of ownership among the members and people of the community. Such ratios should be worked out to assist the members in making their decision; but the members also need to have their attention called to the incommensurable values. Case study comparisons between coöperatives pursuing different policies with respect to such matters may contribute to more rational decisions. At least, the analysis needed to supplement the statistical comparisons must be largely in terms of individual comparisons.

The studies thus far have been of one type of enterprise in an area at a time. More studies of this sort are needed. But presently, the results of the separate studies, not only of similar types, but also of enterprises as divergent as creameries and elevators, or coöperative stores and livestock shipping associations, need to be brought together to lay the foundations for a general body of doctrine relating to the "economic" basis of coöperative organization.

References:

E. G. Nourse, "History and Structure of Cooperative Livestock Marketing", *American Cooperation 1926*, Vol. I, pp. 71-77.

R. M. Green, "Operating Problems of Kansas Local Elevators", *American Cooperation 1926*, Vol. II, pp. 820-84.

Hutzel Metzger, "Reducing Costs in Cooperative Elevators", *American Cooperation 1926*, Vol. II, pp. 808-20.

H. B. Price, "The Business Set-Up of Farmers' Elevators", *American Cooperation 1926*, Vol. II, pp. 299-308.

Gordon W. Sprague, "Operating Costs of Poultry Producers' Cooperative Association", *American Cooperation 1929*, Vol. II, pp. 654-68.

PROJECT 8. Economic Organization—Combinations

OBJECTIVE: To analyze, for federated and centralized organizations, the same types of problem as outlined under Project 7, but for the local and district (if any) and central units

separately; also the relative economy of having different activities performed by the local, district and central units, and the economy of various forms of horizontal and vertical combination.

(By John D. Black)

Such studies will deal with the economy of the various types of marketing enterprise which combine locals into federations or carry marketing from the farm into the central market itself. Such enterprises usually represent a composition of both horizontal and vertical combination (integration). Locals are combined in order to obtain the volume of business needed to enable the producers to carry their selling or buying into the central market. The problems that need especially to be analyzed are the relative price of maintaining such central office organization *versus* selling to dealers, through commission merchants or by auction; the relative economy of having certain services performed by the local, district or central agencies (control of grading, inspection, carlot assembling, direction of shipments, storing, accounting, pricing); the relative advantage of handling one product by one coöperative organization *versus* combining several related products, or both buying and selling, or selling and credit, in one organization.

The procedure required is obviously nothing less than painstaking analysis of the records and expenses of individual cooperative combinations, selected if possible so as to throw differences in organization into relief. No conclusive answers will be possible on many points. For example, it may be difficult to determine whether a coöperative group has gained by supplanting private butter dealers with its own sales offices, since prices may have been affected as well as expenses, and spreads between grades of butter.

References:

H. Bruce Price, "Group Management for Farmers' Elevators", *American Cooperation 1927*, Vol. I, pp. 172-85.

Earl Elijah, "Cooperative Concentration Plants, Their Advantages and Limitations", *American Cooperation 1931*, Vol. II, pp. 65-74.

John Manley, "Operation of Cooperative Line Elevators", *American Cooperation 1931*, Vol. II, pp. 228-41.

Harry Hartke, "Effect of Centralization of Ownership of Milk Distributing Facilities over Wide Areas", *American Cooperation 1932*, pp. 185-97.

PROJECT 9. Growers' Rights in Combinations

OBJECTIVE: To determine the form of organization, and arrangements as to membership needed; to give the proper degree of freedom of access to membership, with a minimum restriction of or interference in affairs of producers, or producers' local organizations consistent with good market-

ing; to give freedom of action to producers, or intermediate organizations, without fear of discrimination or expulsion on account of attitudes expressed, and to secure equality of treatment among members in large cooperative organizations, particularly those regional or national in scope.

(By John M. Wright)

In large coöperatives involving thousands of farmers member influence becomes particularly diffuse, and tendencies to director or management control are more marked than in smaller combinations. The large coöperatives may acquire some of the aspects of monopolies providing the only coöperative access to markets and in some instances to desirable financing. Positions or contractual relations with the coöperative acquire larger importance. To trace membership interests and rights, in detail and amount, is more difficult. Case histories should be studied to determine the effects of these facts.

Questions for which answers may be desired, may be as follows:

- (1) What are the special weaknesses of the large coöperatives with respect to proper protection of the interests of the growers (or member associations) in the points above indicated?
- (2) To what extent are satisfactory member relationships dependent upon statutory control and to what extent have the large coöperatives developed protection in articles of incorporation, by-laws and marketing agreements?
- (3) What general and specific changes in membership relations will improve members' protection in the affairs of the coöperatives?

The project may be developed in either of two ways. The first may be a critical analysis of the corporate and contract structure of a single coöperative and an examination of its history to note the methods of protecting members' rights. The second may be a comparative analysis of the corporate and contract structures and histories of several large coöperatives for similar purposes and to determine the structural causes and remedies for advantages or disadvantages displayed by the comparison. In the second, the associations examined should include successful and unsuccessful organizations and those operating under a variety of statutes and market conditions. Examination should be narrowed to the purpose of the report—the determination of the legal means of securing the greatest protection to the rights of members. Divergent views and instances of failure adequately to protect the members' interest, and situations of potential danger or difficulty should be studied closely, as should remedies which, in other instances, have been of value.

The study should cover:

- (1) Type of organization in relation to commodities, production

areas, and methods of marketing; centralized as compared with federated types; functions of districting; election, qualifications—farmer or manager—functions and duration of office of district representatives, nature and work of local organizations; powers, duties and functions of federation as compared with members in federated type, with particular attention to facility ownership.

(2) Representation and meetings: basis of representation—minorities, procedure at meetings, qualifications, functions of members or representatives.

(3) Membership relations: qualifications and restrictions—nature and method of enforcement—by statute, charter, by-laws, or by general determination of directors; rights of members in the coöperative, nature and method of evidencing—stock, membership, certificates of indebtedness, termination of membership, publicity, withdrawals, ground for expulsion, effect on equities in coöperative assets; separation of control of membership relations from business management and directorate, use of producers' or advisory committees.

(4) Management and control: number and qualifications of directors, terms of election; publicity for proceedings; authority over membership relations; part played by members in the selection and development of operations involving fundamental policies and theory, information available to members; influence of vested interests; accounting, taking into consideration members' property interest in the combination.

There should be an examination of the corporate papers, including statutes, articles, by-laws, agreements and certificates upon which members' rights are based. Particular points of history and of deviation from the ordinary should be noted. Significant developments should be studied closely. Histories of amendments will be helpful. General information concerning the coöperative should be analyzed to show weaknesses or strength in its organization.

This information may develop suggestions and general outlines of the needs of such coöperatives. There may also be developed a schedule to be used as a guide or basis for interviews with officers, and members of the coöperatives, past or present, more than as a source of statistical data. Interviews may well include counsel for the organizations and representatives of any governmental agents dealing with them.

The report should include a critical analysis of the information obtained with specification of the common and outstanding weaknesses and the accomplishments displayed.

References:

H. J. Ramsey, "Relations between Local and Central Organizations", *American Cooperation* 1927, Vol. II. pp. 498-517.

James S. Hathcock, "Policy-Making in Cooperatives", *American Cooperation* 1930, Vol. I, pp. 385-96.

W. L. Hutcheson, "The Director's Part in Management and Policy", *American Cooperation* 1930, Vol. I, pp. 396-402.

**PROJECT 10. Responsibility to Growers and Grower
Interest, in Combinations**

OBJECTIVES: To determine the type of organization, the method of representation on boards of directors and of determination of membership on boards of directors, and the methods of voting and conducting of referenda, needed to provide proper responsibility to grower sentiment and maintain grower interest, in a large cooperative organization (such as a national).

**PROJECT 11. Employer-Employee Relationships in
Cooperatives**

OBJECTIVE: To determine the methods of hiring managers and other employees of cooperatives needed to offset the circumstance that they do not have stockholder interest in the enterprise as commonly as do employees in ordinary corporations.

GROUP B

Projects Relating to Cooperative Procedure

Most of the details of procedure or operation of coöperative enterprises will need to be studied for coöperative enterprises by the same methods as for proprietary. The procedure may not be exactly the same, but the differences will not require any special research procedure. Projects covering these details are discussed in the reports on research relating to Marketing, Agricultural Credit, etc. For example, in the report on Marketing see Projects 36 and 37 dealing with grading and preparation for market; Project 39, dealing with directing shipments to different markets; Projects 40 and 41 dealing with hedging and advertising. Certain other aspects of procedure, such as determining when to sell and at what price, and accounting, are deemed to offer special research problems for coöperative enterprises, and will be represented in this report by projects. Among the phases of operation peculiar to coöperatives are the following: promotion and enlistment of membership, subsequent membership relations, enforcement of control, improvement of quality, control of production and delivery, pooling, making advances, prorating expenses.

✓ PROJECT 12. Methods of Developing Cooperatives

(By A. W. McKay)

A study of the development of a coöperative should first examine the genesis of the organization. Did it develop from a recognition by the members of their need for special services? In other words, is the organization indigeneous to the region and to economic conditions within the region? Or was the coöperative developed as the result of external stimuli; that is, did recognition of the need come from public agencies, or individuals outside the membership group? Or, finally, was the organization the result of outright promotion? Was it developed by an individual or a group for personal profit or advantage which to them was paramount to the services the organization might perform?

Obviously the genesis of a coöperative may be found in such widely different motives as those arising from the resolve of a group of farmers to improve marketing conditions, or from the ambitions of a machinery salesman. The soil from which the organization grew has a bearing on the methods of cultivation employed and is fully as responsible as promotional methods for success or failure. Small local organizations most frequently develop from local initiative. The federation of pre-existing locals is also likely to be the result of the members' recognition of the need for the coördination and extension of existing coöperative services. The formation of a large-scale centralized organization, on the other hand, may result from a recognition of needs and opportunities, by a few leaders, none of whom may be active farmers. Their ideas must be transplanted, and methods employed gain in importance.

Again, dissatisfaction with price or other conditions may be crystallized by a dynamic individual into a strong demand for coöperation. This discontent might just as readily have crystallized into a demand for government price-fixing or regulation of private trade, and again an examination of methods will throw light on the probable permanency of the organization.

An association may be promoted by a man looking for a job, by individuals with plants or machinery to sell, or by an agency with money to lend. Methods in such instances are guided principally by expediency.

I. What methods were employed to arouse interest among farmers in the proposed organization?

1. Who were the farmers' leaders in the movement and what was their background?
2. Who were the non-farmers who participated; what agencies did they represent; what were their qualifications; their motives?
3. Were committees of farmers formed? What were their duties?

4. Was a pre-organization survey made?
5. Were public meetings held?
6. Was a program of discussion and education undertaken?
7. What mediums of publicity were employed? What was the nature of the material sent out?
8. How completely and accurately were the program and objectives of the proposed organization presented?

In the development of local associations, activities preliminary to organization are usually informal. In other cases, a carefully planned campaign of education and publicity may be undertaken. These activities merge into the solicitation of membership, but as a rule this activity develops after the organization is formed and its business structure determined upon.

II. How were the type of organization and business structure determined?

1. Was a survey made of conditions in the region to ascertain the most suitable type?
2. If so, did prospective members participate?
3. Was the plan determined through conferences with representatives of the farmers?
4. Was technical assistance obtained?
5. Did the directors assume responsibility for the developments of the plan?
6. Was a cut-and-dried plan accepted?
7. What plans were made for financing the organization and to what extent did members contribute to capital?
8. What loans or contributions were made by outside individuals or agencies?
9. What provisions were made for the election of directors and the selection of a manager?

If members participate in the formulation of organization plans, the cooperative is more secure than if a ready-made plan is accepted. Through participation they become thoroughly familiar with the plan and are also ready to accept it as their own and defend it. If the plan is brought into the community methods employed to present it to the members are important. A process of education is involved which too often is neglected in favor of high-pressure methods. Even though a fairly definite plan is presented, it should be studied and if necessary modified by committees of farmers.

Financial participation by members is advisable. J. F. Booth has found a correlation between the success of farmers' organizations and the proportion of invested capital owned by members.¹

Organization plans and business structure vary greatly in complexity, and assistance of attorneys, accountants and marketing specialists may be required to set up the more complex organizations.

(1) *Farmers Cooperative Business Organizations in New York*, Cornell University Bulletin 461. ✓

III. What methods were employed to solicit and maintain membership?

1. Were members obtained principally through the activities of the farmers?
 - a. Were membership committees appointed?
 - b. Were meetings of farmers held?
 - c. Was a farm-to-farm canvass made?
2. Was a definite membership drive undertaken?
 - a. What time was set for the completion of the drive?
 - b. What goal was set?
 - c. Was a director of organization employed to conduct the drive?
 - d. What was the personnel of his campaign organization?
 - e. Were solicitors employed? If so, on what basis were they paid?
3. What mediums of publicity were employed?
 - a. To what extent were local newspapers, circulars, personal letters, the radio, etc., used?
 - b. Was a campaign paper established? How long was it published?
4. What type of appeal was made to prospective members?
 - a. Did it consist entirely or principally of factual material?
 - b. Was it inspirational or emotional?
 - c. Was it an appeal to group consciousness?
 - d. Was it an appeal to prejudice?
 - e. Was monopoly control of price stressed?
5. How is the membership of the association maintained?
 - a. Do the services of the association appeal to farmers to the extent that no special efforts are required to increase or maintain membership?
 - b. In what ways does the association keep members and prospective members informed concerning its activities? House organ? Employees? Directors? Meetings? Conferences? Advertising?
 - c. Is a staff employed wholly or partly in maintaining membership?
 - d. Do these employees perform services for members, or are their contacts with farmers principally as solicitors?

Methods of soliciting membership may consist merely of local meetings or conferences, with solicitation of farmers by their neighbors functioning as members of a committee or on their personal responsibility. If the proposed organization covers a large region, a more extensive membership organization is required. Local or

county groups are organized as sections of a central committee. The work to be performed by each member is definitely outlined. Solicitors may be employed; or certain farmers paid expenses or a *per diem* allowance while engaged in membership work. The assistance of a state or federal specialist is often obtained. Farm papers, business men and others may take part in the campaign.

As a further development, a definite membership drive may be undertaken, an organization director employed and solicitors hired. Usually such a drive is conditioned on obtaining within 30 to 90 days contracts representing a sizeable percentage of the product. Meetings are scheduled; committees and solicitors are drilled and special articles, posters, circulars, etc., prepared.

The type of appeal is likely to vary directly with the pressure under which the campaign is conducted. A leisurely discussion and weighing of facts may be replaced during a drive by appeals to emotion or prejudice and by general predictions as to the success of the new organization. The kind of appeal made to members has a greater influence on the future of an organization than methods used to present it.

Jones, Manney and others have pointed out in several publications of the United States Department of Agriculture that failure of members to support an organization is often directly traceable to the failure of the coöperative to fulfill impossible promises made by its promoters.

IV. What effect have methods of promoting the organization had on its success?

1. Were the methods employed calculated to give the members a clear understanding of the services and objectives of the coöperatives?
2. Do members believe they were fully informed at the time of organization?
3. What specific misconceptions, if any, were created?
4. What do members now know and think about the coöperatives?
5. Do informed, disinterested individuals believe the coöperative has performed the services for which it was set up as they were understood at the time of organization?

The support a coöperative obtains from its members and the volume of business it enjoys may be influenced by organization methods. In brief, success is correlated with the understanding farmers have of the purposes of a proposed coöperative and the extent to which they participate in its development.

References:

- Andrew Cairns, "Organization of Canadian Wheat Pools", *American Cooperation* 1926, Vol. II, pp. 640-49.
Alva H. Benton, "Getting a New Elevator Started", *American Cooperation* 1927, Vol. I, pp. 132-40.

- P. L. Betts, "How to Start a Cooperative Creamery", *American Cooperation* 1929, pp. 111-21.
- D. N. Geyer, "How to Build a Fluid Milk Association", *American Cooperation* 1929, pp. 105-11.
- Henry Arens, "The Story of Land O'Lakes", *American Cooperation* 1929, pp. 86-96.
- Carl C. Taylor, "Factors Entering Into A Membership Campaign in Cooperative Marketing", *American Cooperation* 1930, Vol. I, pp. 196-207.
- A. D. Lynch, "When, Where and How to Organize a Fluid Milk Marketing Association", *American Cooperation* 1931, Vol. I, pp. 877-94.

PROJECT 13. Cooperative Attitudes and Information

Studies of this type are needed, as follows:

- A. Before organization—knowledge of and attitude toward existing agencies and coöperation, and toward specific types of coöperation, as a guide to organization work.
- B. Knowledge of members of an organization about it, and attitudes toward it and its methods, as a basis of handling membership relations and as a guide to policies and practices.
- C. Same for a defunct organization soon after its failure, as a guide to further attempts at coöperation in the same or similar areas.

The knowledge or information part of these projects is fully as important as the attitude part, and more likely to give results that are tangible enough to be of use.

This project is developed as No. 5 in the report on Rural Social Psychology. The technique required is discussed in several other sections of the same report.

References:

- Charles H. Tuck (Leader), "Conference on Membership Problems", *American Cooperation* 1925, Vol. II, pp. 187-52.
- F. E. Stewart, "Membership Policies of the Sun-Maid Raisin Growers", *American Cooperation* 1928, Vol. I, pp. 255-57.
- Carlyle Thorpe, "Selective Membership Policies for Cooperatives", *American Cooperation* 1928, Vol. I, pp. 241-54.
- Verna Elsinger, "Methods of Maintaining Contacts with Members", *American Cooperation* 1929, pp. 834-81.
- J. W. Jones, "Local Representatives as a Factor in Membership Relation", *American Cooperation* 1929, pp. 289-97.
- T. B. Manny, "Some Social Factors in Membership Relations", *American Cooperation* 1929, pp. 807-33.
- T. B. Manny, "Some Ohio Trends in Membership Relations," *American Cooperation* 1930, Vol. I, pp. 177-95.
- Clyde C. Edmonds, "Problems of Membership Relations", *American Cooperation* 1931, Vol. I, pp. 407-16.
- W. L. Stahl, "Relations with Members", *American Cooperation* 1931, Vol. II, pp. 241-51.
- Verna Elsinger (Chairman), "Report of Round-Table Committee on Membership Problems", *American Cooperation* 1932, pp. 610-15.

PROJECT 14. Inter-area Comparisons of Cooperative Attitudes and Information

A project like No. 13 but including sufficient organizations or areas so that factors both causal and consequential associated with differences among them in knowledge and attitude can be determined. The different organizations or areas will need to be treated as cases, and selected according to the principles involved in case statistical analysis.

The project is discussed as Project 5 in the report on Rural Social Psychology.

PROJECT 15. Voting Procedures

A case analysis of the problem of voting by members in large associations—getting members to vote, preventing active minorities from causing trouble, voting by mail, etc. Some reference to these problems will be found in the discussions cited in Projects 2, 3, 4 and 13.

PROJECT 16. Membership Information Service

OBJECTIVE: To determine and appraise the effectiveness of various types of membership information service developed by cooperatives.

(By E. A. Stokdyk)

Four distinct phases are involved in this project: (1) a survey of the information service developed by present coöperatives; (2) a determination of the information which non-members as well as members have concerning the coöperative, together with a determination of its accuracy and the sources from which they acquired it; (3) an appraisal of the effectiveness of specific types of information service; and (4) an estimate of the costs of various types of information service.

The data for the first phase will be obtained by interview and correspondence with officials and employees of coöperatives. The types to be considered are house organs, form letters, personal letters, advertisements, publicity, bulletins issued by public agencies, field representatives, meetings, schools for leaders, radio talks, and personal contact between member and official, employee and another member. The survey may uncover types of service not generally known, yet which may be markedly effective.

After the data from the first phase are obtained, the information services may be classified upon various bases. One possible classification is of those coöperatives which (1) use literature primarily,

(2) rely mostly on field representatives, and (3) employ membership meetings mostly. The purpose of this classification is to furnish a basis for the selection of coöperatives to study in detail with respect to the effectiveness of their information services. Before the organizations are definitely selected, a preliminary survey should be made of the business operations of the coöperatives being considered for detailed study in order to familiarize the investigators with the organizations and to determine whether particular organizations are conducting membership information service extensively enough to warrant detailed study.

The most important part of the project is the examination of members and non-members with respect to their information about the coöperative in their territory. The questions will cover both descriptive and analytical points. That is, questions will be asked to determine whether members know what the coöperative is doing or trying to do, and why it does things one way rather than another, or why it has adopted one policy rather than another; also questions to determine the sources from which information was obtained and which of various sources was believed authentic, whether members and non-members know business details which are of a confidential nature. These questions should be supplemented by others to determine the education and coöperative experience of those interviewed. The questions should be arranged so that previous questions and answers will not suggest answers to the questions which follow.¹

The data thus obtained should be summarized question by question in order to show differences with respect to the various points covered in the inquiry. But they should be further summarized by coöperatives and by individual members. A system of grading or scoring somewhat as used in college examinations can be adapted for this purpose. This will be facilitated if the questions partake somewhat of the nature of the so-called "objective examinations". A summation and comparison of the points scored by members of coöperatives receiving various types of informational service may aid in appraising their relative effectiveness. Combinations might also be made of various types of information service to ascertain if there is any marked relation between combinations of services and members' knowledge of coöperatives.

The data obtained in the replies to questions by non-members should serve as a check on the data obtained in the replies from members, and also aid in an appraisal of the effectiveness of information service. If non-members are as well informed as members, it may be inferred that the information service is of doubtful utility. However, other factors would have to be considered before such an inference could be drawn because non-members might obtain information

(1) See J. W. Jones and O. B. Jesness, *Membership Relations of Cooperative Associations*, U. S. Circular 407 (1927).

from well-informed members, or the education or cooperative experience of members and non-members might differ markedly.

The factors of education and cooperative experience of persons from whom data are obtained will be important in drawing inferences from all data because one type of information service, such as mimeographed and printed material, might be effective with producers who have had considerable education or cooperative experience, while it might be of slight effectiveness with producers with little education or cooperative experience. Other factors which would have to be considered in drawing inferences is the type of organization, that is, whether it is federated or centralized, its size, and the character of the commodity handled.

The data on the costs of services will be obtained from the accounting records of the cooperatives whose information service is being studied. Some difficulty may be met because accounts are not sufficiently detailed; also some employees may divide their time between membership information service and other duties. It may be necessary to reconstruct with the aid of the management an estimate of the cost of various types of service. The data obtained will be subject to considerable error, but should be of value to other cooperatives in determining the type of service that can be utilized economically. It might be found, for example, judged by the knowledge of members, that the employment of field representatives is the most effective kind of membership information service, yet the expense for a given cooperative might be prohibitive.

This subject has been discussed frequently at conferences and institutions of cooperative workers, but not always clearly. For example, in practice, many of the cooperatives in their earlier years have combined information service with solicitation of new members, and have mostly been thinking about the latter. Other cooperatives have interpreted information as "propaganda", that is, as more or less ill-informed or considerably biased statements concerning their organization or its proprietary competitors.

References:

- D. J. Carter, "Keeping the Members Informed", *American Cooperation 1927*, Vol. II, pp. 721-34.
- P. G. Evans, "Reaching the Members through the Mail", *American Cooperation 1927*, Vol. II, pp. 731-48.
- Verna Elsinger, "Methods of Maintaining Contacts with Members", *American Cooperation 1929*, pp. 834-81.
- J. W. Jones, "Local Representatives as a Factor in Membership Relations", *American Cooperation 1929*, pp. 289-97.
- D. O. Thompson, "Utilization of Radio Broadcasting", *American Cooperation 1929*, pp. 721-34.

PROJECT 17. Enforcement of Contracts with Members

OBJECTIVES: (1) To ascertain the precise responsibilities and obligations placed upon members by virtue of their participation in cooperative associations; (2) to examine the legal devices, commercial procedures, or social pressures relied upon in membership contracts for the enforcement of their terms; (3) to study the actual performance of members in such contractual situations; and (4) to appraise the success or failure, together with the reasons, in attaining the objectives of the social effort through such measures.

(By E. G. Nourse)

Much controversy has waged over the desirability or efficacy of membership contracts. A certain amount of agreement on two propositions seems to have emerged: (1) that the formal requirements and restraints of a legal contract will not assure satisfactory performance on the part of coöperatives unless the service rendered is found to be satisfactory and the terms of the contract meet the approval of a majority of the group; and (2) that, in certain instances at least, where service is reasonably satisfactory a moderate and socially approved form of contract may assure more complete and dependable functioning of the members than if their performance or non-performance were left to less formal understandings. These hypotheses should be tested by research.

Sources of data

The actual form and working of coöperative contracts can ordinarily be secured without the slightest difficulty from the associations in question. Such data need, however, to be supplemented by careful analytical statements of precisely what conduct or specific acts are required under a wide variety of different situations which may arise in the course of a marketing enterprise. After getting a clear picture of what is called for or desired by the coöperative, recourse must be had to detailed field work to secure a sufficient sample of their commodity. The next step is to build up a corresponding record of the action taken by coöperative officials or employees to induce desired lines of action or to prevent an unsatisfactory course on the part of members, including the institution of suits or the resort to other of the remedies prescribed in the contract. Where legal action has been carried through, the court record will of course afford the fullest and most trustworthy account of the force brought to bear upon the recalcitrant member. This record must, however, be complemented by a further report showing the degree of compliance eventually secured and all other results, favorable or unfavorable, which appear to have been achieved by the contract and its enforcement or attempts to enforce it: for example, the withdrawal of the disciplined member at his

first legal opportunity, the withdrawal of other members because of disapproval of the measures to which recourse was had to enforce the contract, the cost of policing, legal expense, etc., on the association, the alienation of support among the general public, or other pertinent facts.

Analysis and conclusions

With such historical and descriptive materials in hand it becomes the task of the research worker to analyze, classify and correlate the apparently related facts in such a way as to produce trustworthy or at least persuasive generalizations as to the effectiveness and wisdom of the use of the contract and of the various enforcement devices in particular marketing situations. The task is essentially qualitative and logical and cannot be reduced to any hard-and-fast procedure. The research worker must take into account the total situation, including many factors of individual and group psychology as well as the economic and financial situation of both the member and the association. Careful sifting of the evidence, however, should yield some tentative conclusions as to the extent to which and the manner in which specific contractual relationships between member and coöperative are likely to prove helpful and as to the principal pitfalls of form or procedure which should be avoided.

References:

- John D. Miller, "Cooperative Statutes and Membership Contracts", *American Cooperation 1925*, Vol. I, pp. 800-13.
Robin Hood, "Recent Changes in Cooperative Contracts", *American Cooperation 1927*, Vol. I, pp. 94-105.
I. W. Heaps, "Control and Disposal of Surplus Milk", *American Cooperation 1928*, Vol. II, pp. 885-94.
Edward J. Tracy, "Contracts or other Membership Control Methods", *American Cooperation 1928*, Vol. I, pp. 302-23.

PROJECT 18. Functions and Activities of Local Units

OBJECTIVE: To determine the role of local units in central organizations.

(By O. B. Jesness)

The place and function of local units of central coöperative marketing associations vary in different organizations. In a federated organization, such as the California Fruit Growers Exchange and the Land O'Lakes Creameries, the local units are incorporated organizations which own property in the form of receiving houses or creameries and participate in the processing and handling of the commodity. In a centralized association, such as the cotton coöperatives, wheat pools and milk producers associations, local units are informal groups not participating actively in the handling of

the commodity or having a definite legal control over policies and programs. In the former, the local units constitute the membership of the overhead organization (either directly or through district units). In the latter, the individual farmers hold membership directly in the central and the local units are groupings of convenience for election of directors and carrying on informational and educational work among members.

The problem to be studied and the procedure to follow will vary with the type of organization, local circumstances and the commodity. The aspects to be considered can best be designated for centralized associations and federations separately.

A. Informal local units in centralized associations

1. The place of the local unit
 - a. Its relationship to the central
2. The service of the local
 - a. Maintaining contacts between members and the central
 - (1) Keeping members informed of association affairs
 - (2) Keeping officers informed of members' views
 - b. Advisory to the central in matters affecting the locality
 - c. Nomination of delegates and directors to give individual members a more definite voice in elections
 - d. As an agency for the education of members in co-operative principles and practices
 - e. Securing additional members
3. Its organization
 - a. How should it be organized and operated?
 - b. What type of leadership is needed?
 - c. How is this leadership to be located and selected?
 - d. What program of activity is needed?
 - e. Who shall assume responsibility for outlining, developing and carrying out this program?

B. Local units in federations

1. The relationship of the local to the central
2. Relationship of the member to the local participation in meetings and elections
3. The informational and educational service of locals
 - a. Regarding the central association
 - b. Regarding coöperative principles and problems

This project is concerned more with the functions of local units in maintaining membership support than with their operations as business units in the handling and processing of commodities. The latter are covered in other projects. Research work on phases of this

problem has therefore been approached mostly from the viewpoint of membership relations and attitudes. Examples are found in United States Department of Agriculture Circular 407, *Membership Relations of Coöperative Associations (Cotton and Tobacco)*, by J. W. Jones and O. B. Jesness; United States Department of Agriculture Circular 41, *Membership Relations of Coöperative Associations, (Fluid milk)*, by J. W. Jones; United States Department of Agriculture Circular 144, *Farmers' Experiences and Opinions as Factors Influencing their Cotton-marketing Methods*, by T. B. Manny.

The problems selected for study and the type of approach employed will vary widely with circumstances. A preliminary step should be to consider carefully the circumstances in the situation to be studied in order that the plan of attack may be adapted to the needs of the case. Among the problems may be mentioned the following.

Powers vested in the locals: The first step in such analysis is to ascertain what actual authority is granted the locals, what questions they are given power to decide or to participate in deciding. Distinction should be made between powers granted and powers exercised.

Membership relations and attitudes: The studies mentioned above approached the problem from the viewpoint of ascertaining what representative members think of their organization and what they know about it and its problems. This is important, particularly in ascertaining the need for means of dissemination of information and the maintenance of contacts. This approach also gives some indication of the type of education and information most needed and may be suggestive of the sort of machinery which should be set up.

Study of specific local units: Because this project is concerned not only with the crystallization of the problem, but also with the means of its solution, an important line of procedure is the studying of actual local units. Information needs to be assembled with respect to their plan of organization and their actual functioning. Conditions surrounding the original establishment of the units should be ascertained and as complete a history of their development as possible should be obtained. The amount and kind of guidance supplied local units by the overhead organization should receive careful attention.

Local leadership: Careful attention should also be given to assembling available information regarding the type of leadership found in local units. The training, experience and other qualifications of those placed in positions of leadership should be noted as a basis for setting up certain standards of leadership.

Population make-up: In areas having considerable variation in farm population from the standpoint of race or nationality, comparisons of different local units under these varying circumstances may make possible the drawing of certain conclusions with respect to

the influence of the population make-up on the problems and operations of local units. Variations in the proportion of tenant farmers may be used similarly. If the association includes certain types of producer rather than others, the effect on the local units may be worth considering.

Outside agencies and influences: The part played by other agencies, both favorable and unfavorable, has a place in assaying the work of local units. Have the local units been assisted by educational agencies such as the extension service, Smith-Hughes high schools and rural school? Are other farm organizations present? If so, does their presence help or hinder the local unit? What is the attitude of local business interests? Do they support or oppose the coöperative?

Program of work: An organization is not worth continuing unless it has a program of sufficient merit to justify its existence. Careful attention therefore needs to be given to the programs of local units. What is their nature? Who originates them, the central, the local, the county agent, or some one else? How are the programs carried out? What ends appear to be served? This study should lead to definite conclusions as to what constitutes strong and weak points in building and carrying out programs of locals.

The information will need to be gathered in the field from officers and leaders of local units, individual farmers and representatives of central organizations. Where local units maintain books of minutes or other records of their programs and activities, such records should be used to the fullest extent. Records of the overhead organization of volume of business, membership, membership contacts and materials and suggestions supplied local units bear on this problem. Census records of population make-up, type of farming and tenancy will be useful in comparing conditions in different localities.

Much reliance will have to be placed upon personal interviews and the ability of the field workers to observe significant facts and to draw correct conclusions. Definite schedules may be employed where it is desired to test the information possessed by individuals or to determine their attitudes on certain questions. Studies of membership attitudes such as those referred to above will offer guidance in this aspect of the project. Attitude studies have been discussed in connection with other projects. A somewhat detailed consideration of this method of research has been outlined by Dr. C. C. Zimmerman in Project 43 in the report on Research in Public Finance in Relation to Agriculture, and still more details are outlined in the report on Rural Social Psychology.

The contents of the "house organ" sent to the members are worthy of systematic review because of the information this will supply with respect to the activities of local units and their relationship to the central.

Where possible, studies should be made of different organizations as a basis for making comparisons and verifying conclusions. This project need not be restricted to organizations having local units. In fact, it will be worth while to study organizations where local units are not employed, if they are available. In this event, attention will naturally be centered on determining the reason for the absence of local units and the means which are employed as substitutes for them.

PROJECT 19. Control of Production by Cooperatives

OBJECTIVES: To determine the extent to which cooperatives have been able to influence the volume of production of their members, and develop suggestions as to possible lines of progress in this direction.

(By J. D. Black)

Production control as an aspect of coöperation was discussed rather fully in a round table of the American Institute of Coöperation in the summer of 1932, a report of which is published in *American Coöperation 1932*, pp. 453-562. This discussion considers the following forms of production control:

- A. Outlook and adjustment work, ranging from merely supplying producers with facts as to trends in production, consumption, competition, prices, etc., and educating them in interpreting these in terms of the special conditions in their areas and on their farms, to the other extreme of indicating definitely to the producers in each area or each type of farm the changes in production they need to make. Such a procedure assumes the participation of public agencies.
- B. The foregoing in collaboration with the coöperatives in the region or area, the coöperatives participating in the interpretation of the results and in decisions as to recommendations, if any are made, and finally undertaking to influence their members in the making of the right adjustments.
- C. Production planning by coöperatives for their own members, accompanied by educational work with them. It is to be assumed that the coöperative in this case will make its decisions in terms of advantage to itself and its members.
- D. Diversion by a coöperative of some of its products to lower-order uses—which is production control only in a special sense. See Project 21.
- E. Agreements with members for limiting the harvesting to a fraction of the crop that can be marketed at a reasonable price and paying the members for the crop not harvested.

- F. Basic-rating and surplus plans used by fluid-milk coöperatives.
- G. Compulsory coöperation extending to production limitation, as in the proposed English hop plan.
- H. Government valorization schemes—like those undertaken for coffee, rubber and sisal. Ordinarily coöperatives are not parties in control of such ventures.
- I. Government collaboration with coöperatives in contractual arrangements for the control of production—as is possible under the new Agricultural Adjustment Act.
- J. Control of production through control of credit granted by coöperative credit corporations and the like.

The more important from the standpoint of coöperation are B, C, E, F, and possibly I; some involve coöperation only indirectly.

In analyzing these proposals, distinction must be made between restriction of marketings and restriction of production. Some of the plans named are confined principally to the first. Experience, however, has shown that limitation of the rate of marketing is seldom adequate for long. Even the basic-rating and surplus plans for fluid milk have had difficulty in keeping surplus production from expanding to burdensome proportions.

The principal research in this project will consist of the analysis of the experience of coöperatives that undertake or participate in any of the above types of production control. This should include the aims and thinking of those responsible for such ventures, the actual programs carried out, the immediate and later effects on production and prices, the gains or losses ensuing, other effects, and conclusions as to the form further efforts should take.

The measurement of effects will encounter problems of separating changes due to other influences. For example, the increase in production of walnuts, grapes, lemons and oranges in California for 1920 to 1930 may have been less than would have occurred without educational work with members, and would have been less if prices had not kept up because of expanding consumption. The actual analysis will involve research in prices and elasticity of supply and demand such as outlined in the report on Prices of Farm Products.

The experience of coöperatives with rising production following improved prices also has a bearing on this project, and can be analyzed in connection with it. Comparisons of production response to price within coöperatives and without, with various forms of educational work by the coöperatives and without these, and with other forms of production control in use, may in the end furnish some of the most important evidence as to what has been and can be accomplished.

Lastly, surveys of individual growers, of the sort outlined in Projects 13 and 16, designed to ascertain their points of view regarding

programs of curtailment of acreage, and willingness to participate in them under various circumstances, may be worth undertaking as a preliminary to actual ventures of this sort.

If the administrators of the Agricultural Adjustment Act use the plan of allotments to individual growers, as is provided for in the Act and now being seriously considered, evidence will be available of a far more important nature than any yet produced. Hence this venture needs to be followed closely, and research agencies in the various states may well devote some of their limited resources to projects of this nature carried on concurrently with the administration of the Act.

References:

- I. W. Heaps, "A Cooperative and Production Control", *American Cooperation* 1927, Vol. II, pp. 202-11.
F. F. Lininger, "Seasonal Regulation of Supply of Fluid Milk", *American Cooperation* 1930, Vol. I, pp. 305-16.
C. G. McBride, "Seasonal Regulation of Supply of Fluid Milk", *American Cooperation* 1930, Vol. I, pp. 295-304.
E. G. Nourse, "What Can the Farm Board Do Towards Production Control?", *American Cooperation* 1930, Vol. I, pp. 22-33.
H. A. Ross, "Possibilities of Adjusting Dairy Production to Demand", *American Cooperation* 1931, Vol. I, pp. 263-78.
S. W. Shear, "The California Grape Control Plan", *American Cooperation* 1931, Vol. I, pp. 229-48.
F. F. Lininger, "Basic-Rating and Surplus-Price Plans of Fluid Milk Cooperatives", *American Cooperatives* 1932, pp. 515-20.
Hutzel Metzger, "Some Production Control Attempts", *American Cooperation* 1932, pp. 526-31.
T. G. Stitts, "The Effect of Production Control over a Long Period", *American Cooperation* 1932, pp. 217-27.

PROJECT 20. Improvement of Quality and Standardization of Product by Cooperatives

OBJECTIVE: To analyze the practices of different cooperatives with respect to improving and standardizing the product delivered, together with the results obtained.

(By H. B. Price)

More specifically the purposes of this study are:

- (1) To determine the policies and practices of coöperatives that affect the quality and standardization of products.
- (2) To ascertain the attitude of coöperatives toward improving quality. The attitude of the management, in particular, is a very important factor in the progress of improvement.
- (3) To measure the improvement in quality and standardization attained, and
- (4) To determine the importance of factors affecting quality improvement.

A coöperative marketing association may control the quality and standard of its products by several methods. First, it may exercise influence over farm production practices, as in the adoption by farmers of a uniform breed of chickens or a similar variety of cotton, or in the introduction of more sanitary methods of producing milk and butterfat. Second, it may bring about a change in the methods of processing and packaging either to improve the quality of its products or to obtain uniform quality and package. Third, it may introduce new methods of storing, shipping and handling products. Fourth, it may develop a system of grading and inspection in conjunction with a pooling and price policy that effect greater discrimination in paying farmers for products.

The project may thus involve research in related fields of agricultural economics, depending upon the policy of different coöperatives with respect to control of quality, and it may call for collaboration with commodity and farm management specialists, and perhaps even with price analysts.

Most of the data can be obtained from the coöperatives studied. Where there are central coöperative sales agencies, the collection and classification of data are greatly simplified because much of the desired information is at a central point and already classified, and because field men of the coöperative may be utilized to collect supplementary information from operating units and from farmer members of the organization. Otherwise, the field work is likely to be much more expensive, especially where a selected number of small coöperatives without uniform records are included in the study. The classification of data is also more laborious in this instance because of the non-comparableness of much of the primary data.

Because there are great differences in the opportunities for improving and standardizing quality of various products, and because coöperatives undertake to secure improvement and standardization by various methods, it is impossible to outline the research procedure and the method of analysis in detail. Generally speaking, the nature of the product and the regular methods of marketing must be understood. Comprehensive information will be needed concerning the policies of the coöperatives with respect to improvement and standardization of products, and differences between these practices and those of other middlemen. The results of such policies will have to be stated largely in descriptive terms, but some statistical data will be obtained showing such changes as in the amounts marketed in the different grades, and in the fat content of butter or the length of staple in cotton. A comparison of such data over a period or at regular intervals will indicate the progress of coöperative marketing in handling this problem. If similar data can be obtained for proprietary firms, which is unlikely for most commodities or situations, the conclusions would have greater significance.

It will also be important to secure as many data as possible for the various factors that may affect the progress of coöperatives in improvement and standardization of products. For example, if the federated sales agency of a group of local coöperative creameries employs field men, it will be desirable to know how much time they spend with each member creamery and what they do at each; if field service is given to dairy farmers who patronize creameries, it is important to know its nature or what advice is offered and what practices are recommended; also the number of farmers who have followed the recommendations, in so far as it is possible to obtain this information. Such data will probably not be obtained in sufficient detail, however, (especially for a group of creameries or for a large sales organization) to allow statistical measurement of the relative importance of the various factors, because in most instances factors that determine quality or uniformity of quality cannot be expressed quantitatively.

Very little research has been done on this project and very little has been written. This is very significant in view of the great opportunities open to coöperatives and the large amount of effort they have expended to improve quality and standardize their products. Probably this situation can be explained largely by the lack of data essential to measure quality, particularly among small associations, and to a considerable extent among large organizations. This in turn traces back to the lack of systems of grading farm products that would furnish an adequate measure of quality. Such studies can be made very valuable for extension workers in coöperative marketing and to managers of coöperative associations in pointing out policies and practices that affect quality and in a general way indicating the significance of coöperative marketing practice.

Minnesota Bulletin 244, *Marketing Country Creamery Butter by a Coöperative Sales Agency*, is the only analytical discussion known to the writer of the effect of a coöperative association on the quality of its product. Minnesota Bulletin 211, *Coöperative Central Marketing Organization*, discusses certain phases of the problem, as does also an article by R. W. Balderston on "The Standardization Program of the Agricultural Coöperatives of the United States", in the *Annals* (Vol. 142). Projects 32, 33, 35, 37, 46, 59 and 64 (mostly listed) in the report on Marketing, deal with related phases of the same subject.

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A. A. McPheeters, "Standardizing Eggs from Farm Stocks", *American Cooperation* 1926, Vol. I, pp. 635-58.
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PROJECT 21. Diversion of Products by Cooperatives to Lower-order Uses (Joint with Prices of Farm Products)

OBJECTIVE: To analyze and appraise the experience of coöperatives in the diversion of products to lower-order uses.

(By E. A. Stokdyk)

A coöperative may divert products to lower-order uses for two distinct reasons: (1) to salvage the portion which is of inferior quality and which cannot be marketed to advantage for high-order uses, and (2) to increase the total returns on the portion marketed for higher-order uses. If the former was the only reason for diversion, the scope and method of analysis will be markedly different than if the latter is the primary reason.

An analysis of the gross returns from and the cost of diverting products to lower-order uses will be the principal basis for appraisal of the practicability of engaging in diversion activities if the primary objective is to salvage inferior qualities. Such an analysis is best made on an additional cost basis, that is, only those costs which are incurred by the coöperative as a direct result of the diversion to lower-order uses are charged to do the lower-order products. If gross returns are more than these costs, it will be concluded that diversion is economical. A difficulty which will probably be encountered in an analysis of this kind is the lack of proper accounting records. It may be necessary to ask a coöperative to keep special records for a year or two before such a study is undertaken.

On the other hand, if diversion to lower-order uses is undertaken to increase the total returns on the portion marketed for higher-order uses, an analysis and appraisal of such activities will include: (1) study of the factors affecting the prices of the commodities in question, (2) a determination of the elasticity of demand for them, (3) a series of calculations based upon the data obtained from (1) and (2) to determine the extent to which total returns to growers can probably be increased by diverting varying quantities to lower-order uses, (4) a comparison of such calculations with the amount actually diverted to lower-order uses to determine the extent to which returns to members have been increased compared with the extent to which non-members' returns have been increased (assuming that non-members have marketed all of their products for higher-order uses while

members have marketed less than 100 per cent of the quality they could have marketed in higher-order uses because the coöperative practiced diversion to lower-order uses), (6) an analysis of the effect of the situation outlined in (5) on the membership in and the proportion of the total crop controlled by the coöperative, (7) an analysis of the producers' response to prices, and (8) an appraisal of the effect of diversion to lower-order uses on subsequent production.

From the analysis under (1) and (2), it might be found that the elasticity of demand is such that total returns are lowered by diversion of a portion to lower-order uses; if so, it would be concluded that this practice is unjustifiable. If, however, this analysis shows that total returns can be increased by diversion, the calculations under (3) and (4) will indicate how effective this practice has been in increasing returns, and also whether it will be practicable to divert a large or smaller amount to obtain the highest total returns. The calculations under (5) and the analysis under (6) will indicate whether the coöperative is likely to lose a large portion of its membership and tonnage if diversion of a portion of its members' products is continued. If it is apparent that diversion will result in serious loss of membership and tonnage in the coöperative, it would be concluded that the coöperative should abandon such activities unless competing agencies will divert a proportional share of their marketings.

The analysis indicated under (7) and (8) might be made into a separate project. However, it is of marked significance to an appraisal of diversion activities if their objective is to increase the total returns on the portion marketed in higher-order uses. If the analysis indicated that the coöperative had conducted diversion activities to such an extent that they were responsible for a marked increase in acreage and production, it would be concluded that the coöperative should curtail its diversion activities.

Several difficulties are likely to be encountered in the foregoing analyses, chief of which is the lack of adequate data, particularly in the phases of the project listed under (7) and (8).

References:

- H. R. Leonard, "Marketing By-products of the Whole Milk Organization", *American Cooperation 1926*, Vol. II, pp. 186-47.
J. J. Schmidt, "Finding Markets for By-products", *American Cooperation 1926*, Vol. II, pp. 148-55.
M. B. Goff, "Marketing Door Country, Wisconsin Cherries", *American Cooperation 1927*, Vol. II, pp. 461-70.
T. G. Stitts, "Price Differentials between Products", *American Cooperation 1927*, Vol. II, pp. 235-50.
E. T. Castle, "Plan of Organization and Operation of the Exchange By-products Company", *American Cooperation 1928*, Vol. I, pp. 131-32.
W. H. Bronson, "The Effect on Market Price and Policies of the Widening of Fluid Milk and Sweet Cream Areas", *American Cooperation 1932*, pp. 233-40.

PROJECT 22. Control of Time of Delivery

OBJECTIVE: To ascertain the results obtained from allowing members different degrees of freedom in the delivery of the product to the organization and in the choice of the time of sale.

Research will undertake to ascertain the practices in delivery, the experience with various practices, prevailing trends and the reasons for them. Since it must consider the relation of the different methods to marketing and credit programs, it has many ramifications.

PROJECT 23. A Case Analysis of Different Practices in Pooling

OBJECTIVE: To analyze for the particular commodity and co-operative association under consideration:

- A. Period of the pool;**
- B. Territory to be covered by the pool;**
- C. The handling of differences in the grade, quality and character of the product;**
- D. Prorating the various items of expense among the contributors to the pool;**
- E. Optional pools.**

(By Hutzler Metzger)

The study must be of a particular commodity and coöperative association, especially with respect to the period and territory to be covered by the pool, and in some degree to differences in grade and quality. The project is concerned with the equitable returns to the producers, the competition with non-pooled returns on the average, the satisfaction of the grower with the arrangement and the ability of the grower to secure both quick returns or initial advances and final returns at the earliest date possible. It may also take into consideration the desirability of the pooling arrangement as a source of financing, especially production finance as carried on by an agricultural credit corporation financing through our Federal Intermediate Credit Bank System. It may consider the risk involved where a long-time pool is concerned.

The use of the pool has been confined almost entirely to coöperative organizations. The business of each coöperative association employing the pooling method of marketing its products should constitute the business unit whose practices are to be analyzed; a number of pools organized under substantially similar circumstances should be studied.

The investigator should first determine what have been the practices in a particular coöperative business unit and then proceed to

analyze their effect: on the organization's selling prices and policies with special reference to the tendency to offer at a lower price where a well-organized market for the commodity does not exist; on equitable returns to the growers; whether the practice has tended to increase the supply of the commodity, if sold in a particular market; whether the pooling system tended to take away from certain producers some economic advantage which, because of their location, experience and proximity to market, they possess and realize if they market individually on a non-pooling basis; and if so, whether there is a tendency for them to leave the organization for such an individual system of sales.

A. Period of the pool

The length of the period over which the pool should extend will depend on the commodity to be marketed, and in some degree, on the necessity for prompt payments to the producers. Competition with commercial organizations may also be a factor. In a market milk organization, if for years payment by all dealers has customarily been twice a month it may be necessary to pool by 15-day periods although there is no other reason. The expense may be greatly increased by too frequent pooling. The practice may have been initiated by the coöperative and be unnecessary, and a monthly pool may be less expensive and just as satisfactory to producers. On the other hand, in a dairy organization the pool should not be of such duration as to give the producer, whose output is increased in a surplus period at a time when a decline in prices may be expected, the advantage of pooling the commodity produced in that period over that produced and sold when prices are normally higher. Nor should the duration of the pool penalize the producer who increases his output when it is most wanted.

Generally the pooling period for an annual non-perishable crop is likely to be greater than for a perishable crop or one that is produced intermittently throughout the year. Where a large part of the crop may be delivered from the farm within a relatively short period but its marketing is to be spread throughout the succeeding 12 months, as in wheat or cotton, if the pool is to eliminate the risks to the grower of fluctuating prices, it may extend over the marketing period. If the peak of the marketing period occurs near the time of delivery, as for example, in dried prunes where over 50 per cent of the crop normally moves to the trade by January 1, it may be advisable to close the first pool by early spring. This will encourage early delivery, make possible an earlier settlement on a greater portion of the producers' output, and place more directly on the producer the risk of holding until the late season, which may be largely dependent on the outlook for production during the ensuing year. Such a practice has a tendency to lessen carryovers. On the other hand, it may be impossible to close out the first pool at an early date

if the portion remaining unsold is large. The investigations of problems of this character must necessarily be confined to fewer pools than when the pooling methods and operations of organizations such as coöperative creameries, where pooling in many instances takes place under substantially similar circumstances are studied.

B. Territory to be covered

The territory to be covered by the pool may depend on the product to be marketed. If the commodity is fluid milk it should include those areas from which the prices in the market naturally attract the product. If more distant localities that are not economically competitors for a given market with those nearer it are brought into the pool the total supply is increased and the prices are lower than they otherwise would be. If too small a territory is included in the pool, unless the coöperative is organized and possesses facilities for the purchase of milk outside the regular milk-shed to supply distributors whenever necessary, the distributors may be expected to buy milk outside the usual shed whenever there is a shortage. Once this outside supply gains access to the market, to prevent it from continuing to come into the market is difficult, although it may be needed for only a short period. The final result is an over-supply, except during the low production periods, and a lower average price to producers. Any study of the territory to be covered by a pool for a commodity of this kind should determine the optimum area from which a supply should be drawn for a given and associated markets; also whether this can be most adequately handled by means of a single pool, or whether the milkshed should be divided into a number of pools associated with secondary as well as with primary markets. A careful study of the supply, consumption, uses and transportation costs and facilities for the product in the particular milk-shed is involved. For commodities, such as butter, cheese or grain, which enjoy a countrywide market, the territory to be covered may be dependent on transportation and other costs if there is a physical pooling of the product at concentration points. If not, it is likely to be limited only by the territory in which a product of a given grade, quality and character is produced, as for example, the Southwide pool of the American Cotton Coöperative Association which covers the Cotton Belt.

C. The handling of differences in the grade, quality and character of the product

The proper handling of differences in the grade and quality of the product may be a deciding factor in the success or failure of the pool and the coöperative organization sponsoring it. The pool returns should reflect to the producer the differences in actual returns for different qualities and grades of product delivered. It must recognize competition. It must be based on what these qualities and grades bring in the market. Generally, competition will have forced

commercial operators buying on a cost basis to tend to reflect these differences in prices at which they buy from producers.

Where a system of grading has been established and recognized the problem is not so difficult, providing the grades adequately describe differences in quality and market value. In some commodities the pooling is done by grades. In others, as in certain Pacific Northwest Apple Coöperatives, pools are by varieties with predetermined differentials between grades. These differentials are of course based on probable differences in selling prices for the different grades. Where an attempt is made to pool each grade, quality, class and character of product the number of pools may become so great as to complicate seriously the operation and practicability of the pools. The larger the number of pools the greater the difficulty in financing, particularly since some of the government agencies require joint responsibility of all producers, unless it is provided that the proceeds of one pool may be applied to repay indebtedness incurred by another pool.

Studies of existing pools or looking toward the establishment of pools should seek to determine the most probable values for differences in grade and quality of a commodity in the market. The aim should be to set up pools so that the producer would receive the net differentials his product returns to the pool, and at the same time retain any advantages of such collective selling. The practical operation of the pool must, however, always be kept in mind.

D. Prorating expenses

In prorating various items of expense among contributors to the pool the attempt should be made to allocate the costs to the producers equitably and as nearly as possible wherever incurred. Each instance must be considered on its merits with this in view. Direct expenses can of course be charged where incurred, and an approximation should be attempted in the distribution of indirect expenses. At times it may be on a physical unit basis, or on a value or other basis. Units of a commodity may incur the same storage costs regardless of value, as in the case of bales of different grade and staple of cotton or boxes of different varieties or grades of apples, yet the value of one may be almost double that of another. Storage charges are the same on either grade and should be so reflected back to the producer. Sales expenses of a high-grade product may be less than of a lower grade. A value distribution of expenses may or may not be equitable. In some instances competition may make necessary a change in the method of allocation of expenses.

It is often impracticable to pool actual expenses in short-time pools since money expenses cannot be determined by the end of the pooling period. Many coöperatives have kept pools open for a longer time than necessary because of this fact. A common practice is to fix a definite charge per unit which it is deemed is fully adequate to cover the cost of performing the services. Any saving derived

from the excess of the estimated cost over the actual is returned to the producers at the end of the year as a refund.

E. Optional pools

Until recent years pooling of annual crops such as wheat or cotton involved only seasonal pools. The opposition to this long-time pool, unsatisfactory returns in periods of declining prices, and competition for volume with commercial agencies have forced some of the coöperatives to adopt the so-called "optional pool". This is in effect a very short-time pool in which the producer names the time of sale. That is, a producer of wheat or cotton who does not wish to place his product in a seasonal pool or to sell it for cash at date of delivery places it in the optional pool. On delivery the grade and quality is ascertained and the producer given a warehouse receipt. On any day he desires he can order the product sold, and all sales for the particular day are pooled. After deducting the cost of handling he receives the average for the day's sales in the pool.

In some instances all premiums are determined at the time of delivery, and only changes in price are accounted for at a later date. The "optional call pool" of the American Cotton Coöperative Association is of this character. Under this option the member places his cotton in the association and fixes the basis or premium as of the date of delivery, but leaves unfixd the base price. If the association can sell his spot cotton at the time of delivery it can then more adequately protect itself through a hedging operation since it has only to be protected against fluctuations in the base price and not against fluctuations in premium.

Only where an organized futures market exists is it practical for a coöperative association to offer the privilege of "optional pooling" to its members. To do so without this method of protection would mean that the association was carrying all the risk of speculation in the product placed in the pool. If the calling of these options were continuous throughout the marketing season this might be feasible without an active futures market but such continuous exercise of options is hardly probable for any commodity.

The literature on studies of pooling operations is rather meager. The following publications discuss various phases. The first discusses principles and practices of coöperative associations in the operation of their pools. The second has as a basis pooling operations of California coöperatives and indicates that no single pooling plan may prove best for all coöperative marketing associations.

✓ *Pooling as Practiced by Cooperative Marketing Associations*, United States Department of Agriculture, Miscellaneous Publication 14 (1929).

✓ *Some Economic Problems Involved in the Pooling of Fruit*, California Bulletin 432 (1927).

"Agricultural Pools in Relation to Regulating the Movement and Price of Commodities", *Academy of Political Science*, New York, *Proceedings*, Vol. II (1926), pp. 785-88.

"The Early Wool Pools", *Cooperative Marketing Journal* 2: 175-80 (May 1926).

✓ "Wool Marketing Through Regional Pools", Missouri State Board of Agriculture, Bulletin V, No. 10 (1921).

PROJECT 24. Pro-rating Expenses

OBJECTIVE: To compare the practices of non-pooling cooperatives in the allocation of expenses between members, and to determine the adaptabilities of each.

(By J. D. Black)

The intent is not to define the term non-pooling in any narrow sense, but to include in the project the practices of all coöperatives operating short-period pools (daily, weekly or monthly). Only the expense phase of the pooling will be considered. Problems of pooling differences in quality, or of changes in price over a short period, will not be considered.

Pooling expenses constitute a major problem of such coöperatives as creameries, grain elevators, and livestock- and fruit-shipping associations. Minnesota Bulletin 201, *Organization and Management Problems of Local Livestock Shipping Associations in Minnesota*, describes five methods that were used by these associations at that time (1922), and presents some comparative expenses for different items of livestock such as might be delivered by a farmer on any day—a calf, three calves, a light cow, a heavy steer, a load of hogs—according to the different prorating methods and according to the kind of car in which shipped—whether mixed or straight, whether a full car or a lightly loaded car, etc. All told, seven different items of local expense, eight items of central market expense, and freight, totaling about 50 per carload, were involved, to be computed in terms of single shipments or averages over the year, per head, per hundredweight, per carload or percentage of value. The differences in the results obtained might easily under some circumstances be sufficient to drive a member out of an association—for example, as much as a dollar or two per head of cattle, or fifty cents per head of swine, at prices in 1922. The method of prorating expenses in many Minnesota creameries in 1925 were such as to make dairymen with cows freshening in the autumn pay too large a share of the overhead expenses.

The principal lines of research for this problem are as follows:

A. Analyze the records of a selected number of associations representing the important variations in conditions involved, to ascertain how the prorating methods used have affected charges to different classes of items and different members; work out the results with other prorating methods that might be used; compare results and determine the procedure which would make for the most equitable distribution; weigh equity against cost and other considerations.

B. Develop improved systems, if possible, and try them out in practice in several associations for a year or two, keeping record of the time and expense involved, effects on distribution of expenses, etc.

References:

- Frank Robotka, "Prorating Problems of the Local Manager", *American Cooperation 1926*, Vol. I, pp. 96-166.
- Sam H. Thompson, "Major Problems of Local Shipping Associations", *American Cooperation 1926*, Vol. I, pp. 78-95.
- Gordon W. Sprague, "Operating Costs of Poultry Producers' Cooperative Associations", *American Cooperation 1927*, Vol. II, pp. 654-68.

PROJECT 25. Cooperative Accounting and Records for Cooperative Organizations

OBJECTIVE: To develop principles to be followed in setting up systems of records for cooperative businesses.

(By F. A. Harper)

The criterion of the best system of records for any coöperative would be the availability of the greatest amount of valuable information at frequent intervals with a minimum of time and expense in keeping records.

The purpose of financial records in a coöperative organization differs from that in a non-coöperative business because of differences in ownership and distribution of benefits. In the regular business corporation, ownership in the net worth is in proportion to the financial contributions as represented by shares of stock. In a coöperative, on the other hand, ownership in the net worth is based not on financial contributions, but on either patronage or membership. Another difference is that most coöperatives sell produce for members according to some pooling plan, whereas in a non-coöperative business corporation each purchase is a unit. Because of these differences, a coöperative should usually keep more records than a non-coöperative business. Furthermore, adequate records are particularly needed in a coöperative because responsibility is usually less centralized than in a non-coöperative business corporation.

The details of the system of records most suitable for a particular organization depend on its needs. Its size is generally a determining factor. A complex system of accounts is usually more essential for a large organization than for a small one, because of the necessity for detailed information and a division of labor in keeping the records. The system for smaller organizations should be complete, but ordinarily need not be as comprehensive. Some form of multi-columnar journal generally best fulfills their needs, because of its simplicity and compactness and its adaptability where one person keeps all records. The number of columns depends on the frequency of the different types of transaction.

The nature of the organization's operations is another factor in determining its accounting system. The special books of original entry depend upon the number of business transactions of different sorts. Many similar transactions may be combined into one book entry.

Special features of the plan of operation also affect the system of records. For instance, if the organization sells produce for its members according to some plan of pooling, the income and expenses for each period involved must be segregated.

The ability and training of those who are to keep the records may influence the system that should be adopted. Their ability and training is seldom so poor that a simple but complete system cannot be used if outside help is given in starting it. In certain instances, however, the limitations of training and experience may postpone indefinitely the time when features in addition to the minimum requirement for a complete system should be added.

Certain features that would not be desirable if the organization had been operating for a time with some other plan might well be included in a system for a new organization. The advantages to be gained by changes in some minor details from the system in use may not be sufficient to justify the change if those keeping the records are slow to adopt it because of their attitude or lack of ability.

But whatever the adjustments for particular organizations, records should be sufficient for (1) the preparation of financial statements, including a statement of income and expense, financial condition and changes in net worth; (2) the provision of information at regular or irregular intervals during the year that will serve as an aid to management; (3) furnishing a check on important accounts such as cash, accounts receivable, accounts payable, and notes payable; (4) determination of the amounts due the producers when products are pooled; and (5) calculation of each member's share in the net worth.

Additional information may be recorded and is often desirable. For instance, cash and credit sales may be recorded separately. Sometimes it is desirable to classify sales and purchases by types of product or merchandise. Some organizations may need a perpetual inventory of merchandise on hand. If figures on costs or the results of operations in certain divisions of the business are desired, special records must be incorporated in the system. These additional features should be built around the fundamental accounting system, so that later they may be dropped or added to without disrupting the whole scheme.

A double-entry system usually gives sufficient internal check on the business to justify the small amount of extra time required in keeping the records.

A general ledger is desirable but not absolutely essential. Summaries may be made directly from the books of original entry, and sometimes the opening of a general ledger should be postponed until those keeping the records have become thoroughly familiar with the other elements of the system.

If the organization does business only for cash with its members, obviously no members' ledger is needed. But if credit transactions with members are numerous, a ledger containing the indebtedness of

each member to the organization is required for a permanent record in a form that is readily accessible for reference.

A ledger for accounts payable may be desirable if purchases and expense bills are numerous, and payment is not made promptly. The need is less than for a members' ledger with the same number of transactions, however, because the bills themselves can be filed so as to serve essentially as a ledger.

The need for other special record forms, such as a notes receivable ledger, is dependent on the frequency with which such transactions occur.

The value of an accounting system increases with the length of time that it is used by each organization, and with the number of similar organizations using a similar system. Large organizations that have ownership or control of several local units should use essentially the same system of records for each, because thereby comparative analysis as a means of improving the efficiency of the local units can best be made. The opportunity of comparative analysis is open to independent local organizations in so far as a uniform system of records can be adopted, and the results periodically made available to each. The advantages of such a program among independent local organizations are such that most individual whims regarding the best system of records might well be ignored in order to obtain as much uniformity as possible.

A system of financial records, simple but adequate, with as high degree of uniformity as possible between similar organizations provides the means whereby managements may be aided and the success of the organization more definitely assured. The accounting system has no appreciable direct effect on efficiency of operation, but its indirect effect is almost limitless. Failure of many coöperatives can be traced to those things that an adequate accounting system should protect against. The success or failure of many coöperative organizations depends upon the accounting system and the use made of records obtained therefrom.

The foregoing discussion is in terms of financial records only. Coöperative associations handling any appreciable value of business will need in addition a careful set of operating records giving rather complete information as to physical volume of deliveries by members or member associations, as to grades and quality of product delivered, as to in-shipments and out-shipments, as to hedging operations, if any, as to the activities and accomplishments of the different field men, as to sales and prices received in different markets, and a score of other important subjects. In general coöperatives have been more deficient in the keeping of such records than in keeping financial records. A coöperative association working upon a campaign of improving quality may have no records to show whether any improvement has been made, or which locals have made improvements and which not.

Research on the problem will probably consist of the following steps:

A. Analysis of the needs which records must serve in this type of coöperative enterprise.

B. Analysis of the financial and other records actually in use to determine their form and condition and their adaptability to the needs of the organization.

C. Development of tentative systems of records, financial and operating.

D. Installation of these on an experimental basis, followed by further development and testing.

References:

George R. Wicker, "The External Audit as a Guide to Management," *American Cooperation 1925*, Vol. I, pp. 487-500.

F. F. Burchard, "Office Management and Accounts," *American Cooperation 1925*, Vol. I, pp. 480-87.

George R. Wicker, "The External Audit as a Guide to Management," *American Cooperation 1925*, Vol. I, pp. 465-80.

Budd A. Holt, "Some Problems of Elevator Accounting," *American Cooperation 1926*, Vol. II, pp. 399-409.

PROJECT 26. Loan Practices—Short-term (Joint with Agricultural Credit)

OBJECTIVE: To analyze the experiences of cooperatives in obtaining short-term financing from various sources.

(By J. D. Pope)

This project is designed to answer the following questions:

(1) What are the most economical and satisfactory sources of short-term credit for coöperatives?

(2) How is short-term financing influenced by (a) the financial set-up, and (b) the financial practices and policies of the coöperative?

In setting up the project, it is important to distinguish between the various types of short-term credit used by coöperatives, since the purpose of a given loan, its inherent liquidity, its basis of security, and other factors, affect the cost and readiness with which it may be obtained. Following is a brief statement of some of the principal types of short-term financing employed by coöperatives. This list is not intended to include all possible categories, but to illustrate the need for differentiation.

1. *Commodity loans*, based on commodities in storage or transit, are usually made in order that all or a part of the proceeds to be derived from the sale of the commodity may be paid to the producer in advance of final sale by the coöperative. Such loans are often

secured by warehouse receipts or bills of lading. Loans of this type may also be made for the purpose of financing the purchase of goods or supplies for members of a cooperative. Commodity loans may be classified into two sub-groups, (a) those on commodities whose price is fixed immediately, as by hedging, so that there is practically no risk from possible changes in price, and (b) those based on commodities held in pools for a period, during which time the price may fluctuate. (Discussed in Project 28.) In the case of pooling operations a much smaller percentage of the market price of the commodity is loaned. Commercial banks and the Federal intermediate credit banks have constituted the most important sources of such loans to cooperatives. The Farm Board has made many loans of this type to cooperatives, but they have usually represented secondary advances in addition to primary advances already made by commercial or Federal intermediate credit banks.

2. *Harvesting and marketing loans* are made to producers for the purpose of aiding them in harvesting the commodity or in carrying it through the final stages of the production process, as in the case of pre-shearing advances on wool, or finishing cattle in the feed lot. Such loans differ from the ordinary production loans in that they do not cover the entire production process. They are based on the commodity in process and are, in a sense, self-liquidating. All agencies have made loans of this type to cooperatives either directly or through financing institutions affiliated with the cooperatives.

3. *Production loans* are made for the purpose of aiding the producer in financing the process of production, as for example, seasonal crop production. They are often subject to the hazards of weather and price. They have been made by commercial banks, the Federal intermediate credit banks and the Farm Board, usually through affiliated credit corporations. A leading study of this type is W. H. Rowe's *Agricultural Credit Corporations Affiliated with Cotton Cooperative Marketing Associations*, U. S. D. A. Technical Bulletin 322 (September 1932).

The project should either be limited to certain definite classes of short-term financing, or it should include representative samples of each type of loan so as to provide an adequate basis for comparative study. Comparisons of production loans with commodity loans, for example, would not afford a basis for evaluating cooperative experiences with different lending agencies. A comparison of commodity loans made from commercial banks with similar loans made under similar conditions from Federal intermediate credit banks would afford a basis for useful analysis. Sufficient cooperatives operating under comparable conditions should be included to afford a basis for dependable conclusions.

The data on loans obtained from cooperatives should include the date of the loan, the amount, the maturity date, the security, and

the rate of interest and other costs involved. A record of installments paid on the loan, renewals, and date of final liquidation should be available from the records of individual coöperatives. Generalized data on loans may possibly be obtained from lending agencies, but information on individual transactions is ordinarily held confidential. Since the cost of money in the central markets fluctuates, a series of quotations of money rates which would be applicable to the group of coöperatives and the type of short-term financing under consideration should be obtained. For example, the rates of bankers' acceptances, of Federal intermediate credit bank debentures, and the customary rates on given types of loan ordinarily charged by commercial banks and applicable to the area included in the study would be useful in studying the loan experiences of a given group of coöperatives.

Data on the financial set-up and policies of the coöperatives will include such factors as capitalization, working funds, reserves, sales programs, method of price determination, and practices with respect to settlements with members.

That phase of the analysis which is directed to a study of comparative costs of obtaining financing from different sources will consist of comparisons of interest rates and other charges made by the different lending agencies for given types of loan made under comparable conditions. The size of the loan, its security and duration are factors associated with the costs. The assets of the coöperative and the previous experiences of lending agencies with short-term advances made to it will also affect the costs and services obtained in connection with such financing. Such factors as the percentage of the market price of the commodity advanced, the ease with which renewals and extensions may be obtained where needed may likewise be evaluated in terms of their significance for the coöperatives. The availability of given sources of credit to coöperatives at all times when needed is another factor which should be taken into account. From the foregoing analysis, generalizations may be reached which will give the coöperative a basis for choosing the best sources for its short-term financing.

The features of financial organization of different coöperatives which may have a bearing on short-term financing need also to be analyzed. For example, if an organization depends too heavily on borrowings for its requirements for permanent capital, its ability to negotiate short-term loans satisfactorily may be affected. The relative soundness of the policies and practices of the coöperatives with respect to sales programs, pricing, etc. will likewise influence short-term financing and should be evaluated from that point of view.

The analysis may well include a study of how coöperatives may improve the quality of the "paper" they seek to sell to financial agencies with a view to lowering costs of credit. Practices and pro-

cedures followed among different coöperatives as they affect the kinds of financial services obtained will throw light on this problem. The points of view of the lending agencies themselves, and their experiences with coöperatives should be helpful in arriving at significant conclusions for the coöperatives studied.

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PROJECT 27. Credit Needs of Cooperatives

OBJECTIVE: To analyze the uses and needs of credit in tobacco marketing.¹

(By James M. Tinley)

The purpose of this project is to analyze the credit requirements of coöperative associations marketing tobacco with a view to ascertaining:

- (1) Purpose and length of time for which various types of credit are required.
- (2) Nature, cost and source of credit.
- (3) To what extent credit elements have been responsible for the non-success of several coöperative associations handling various types of tobacco.
- (4) Whether it is possible to devise some more satisfactory means for meeting the credit requirements of coöperative associations marketing tobacco.

Such a study should deal preferably with only one type of tobacco

(1) Tobacco marketing is taken merely as an example. Dr. Tinley thinks that at present there would be little value in working out such a project with tobacco, since its marketing is so largely in the hands of large corporations able to provide all the funds needed.

or similar types of tobacco, but need not be confined within the boundaries of any particular state.

A knowledge of some important facts concerning the marketing, use and manufacture of tobacco is essential; for example:

(1) The uses to which some types of tobacco are put make them virtually non-competing commodities, e.g., cigar tobacco is not used in the manufacture of cigarettes.

(2) Most types of tobacco (especially flue-cured and burley) are bought by a more or less restricted group consisting of a few big manufacturing companies and a few independent leaf dealers. Four or five big concerns probably buy over 80 per cent of the annual production.

(3) Tobacco (other than that handled from time to time by coöperative associations) is usually sold for cash either on the farm or over an auction warehouse floor.

For tobacco sold in this way, marketing credit is not an important consideration. Tobacco farmers as a whole have to be paid enough to call forth the needed volume of production. The prices farmers are paid probably depend mainly on the size and quality of the crop and the requirements of the manufacturing and exporting companies. It is possible, however, that for any particular year, difficulty experienced by any of the big companies in obtaining credit may affect the prices paid to producers.

(4) Auction warehouses are usually erected by individuals, partnerships or joint-stock companies. It is believed that most markets are well supplied with warehouses. The commission and other charges of warehouses are more or less established by custom or fixed by state regulation.

(5) Tobacco is not required immediately after purchase from growers for manufacture into cigarettes, cigars, snuff, pipe tobacco, but is held to mature for a year or longer. Before being put into storage most tobacco has to be "redried" so that excessive moisture may be expelled from the leaf.

A coöperative association that undertakes to market tobacco (especially flue-cured and burley) is confronted with several difficult problems involving long-term and short-term or intermediate credit:

(1) It is necessary to purchase or rent receiving warehouse space and sometimes redrying plants.

(2) If all tobacco is not to be sold for cash under the auction system, loans have to be obtained for advances to members to pay charges on tobacco and to meet the operating expenses of the main association, and where they exist, of subsidiary warehouse corporations.

(3) Tobacco held for later sale has to be redried either at a pro-

proprietary or an association redrying plant. Loans are necessary to meet redrying costs.

As receiving warehouses have to be rented or purchased in most producing areas and tobacco has to be carried for one or more years, the volume of intermediate and long-term credit required will be considerable—probably running into many millions of dollars.

Subsidiary corporations financed by the issue of bonds and shares have in the past been formed to finance the purchase or erection of receiving and storage warehouses and redrying plants. Payments of advances to members on leaf tobacco delivered, and also for current operating expenses, have been met by loans from banking institutions.

It will be valuable to analyze how existing and defunct tobacco marketing associations financed their operations and the purchase or erection of buildings.

The principal sources of data or information are as follows: Records and financial statements of existing and discontinued associations (if records of the latter are still available); records of state departments of agriculture and experiment stations; bankers, officials of associations, and other persons connected with associations; Federal Trade Commission reports, etc., books of independent warehousemen and tobacco buyers, owners of redrying plants.

The study could include all methods adopted at one time or another to obtain credit for all associations that market different kinds of tobacco, or could be restricted to credit requirements for one type or more or less similar types of tobacco. The larger study would give a more complete picture of the problems involved, but the more restricted problem would make it possible to place greater emphasis on the peculiar difficulties and details involved in obtaining credit for marketing of one type or similar types of tobacco.

The study should show whether these difficulties of financing, building or purchasing warehouses or redrying plants, and of advances on tobacco and operating expenses, are such as to make coöperative marketing of tobacco impracticable except on a cash basis. It is the opinion of the writer that in the case of burley and flue-cured tobacco, coöperative associations should restrict themselves to the operation of auction warehouses for the cash sale of green leaf tobacco. The big manufacturing companies have the necessary storage facilities and capital necessary to carry and mature tobacco and will oppose any movement which might lead to the inadequate utilization of their warehouse facilities. It is even possible that it would be unwise for coöperative associations to acquire warehouses—especially if it were practicable to put the proposal contained in U. S. D. A. Circular No. 100 (pp. 123-24) into operation.² In such an event, the mar-

(2) J. J. Scanlon and James Tinley, *Study of Management and other Problems of Tobacco Growers' Coöperative Association*. This study goes, in some detail, into difficulties connected with credit needs of such associations.

keting association would act largely as a bargaining body representing growers' interests.

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PROJECT 28. The Amount of Commodity Advances (Joint with Agricultural Credit)

OBJECTIVES: To determine the factors affecting the amount of the advance to be made on commodities in season pools at time of delivery.

(By John D. Black and Mordecai Ezekiel)

This problem is analyzed in some detail in a paper read before the 1932 American Institute of Coöperation.¹ A type of analysis that has sometimes been undertaken is to compare the average prices of the delivery months (April and July) for a considerable period of years with the average of prices in the lowest months in these years. This assumes that the coöperative would have been so stupid as to sell all its wool in the lowest months each year. On this basis, taking wool for the last 31 years (to 1932), an advance of 100 per cent would have been safe in 2 seasons, or 6 per cent of the years; of 95 per cent in 16 seasons, or 52 per cent of the years; of 90 per cent in 22 seasons, or 71 per cent of the years; of 85 per cent in 26 seasons, or 84 per cent of the years; of 80 per cent in 29 seasons, or 94 per cent of the years.

In one of the remaining years, 1920, the price dropped 53 per cent after the delivery months.

Similar figures for cotton for the last 25 years, assuming the even more preposterous action of selling on the day when prices were lowest in the January-to-July period, would indicate that an advance of 100 per cent would have been safe in 5 seasons, or 20 per cent of the years; 90 per cent in 15 seasons, or 60 per cent of the years; 80 per cent in 21 seasons, or 84 per cent of the years; 70 per cent in 23 seasons, or 92 per cent of the years; 60 per cent in 24 seasons, or 96 per cent of the years; 50 per cent in 25 seasons, or 100 per cent of the years.

(1) J. D. Black, "A Cooperative's Credit Policy as to Commodity and Facility Loans", *American Cooperation* 1932, pp. 147-65.

Two obvious and readily admitted deficiencies in those figures are that they do not include carrying charges, amounting to $1\frac{1}{4}$ to $1\frac{1}{2}$ cents per bushel per month for wheat, and 20 to 30 cents per bale per month for cotton, and the expenses of operating the coöperatives.

Another deficiency is that they are largely affected by the fact that from 1900 to 1919, and again from 1921 to 1929, the price level for farm products was definitely rising, and rose appreciably even within any one year. These figures therefore will not do for a period of level or declining prices, such as may develop for any one commodity, as it has recently for wheat or for all farm products combined. Moreover, even in a period of rising prices, breaks will occur which in a year or two will offset all the gains of a long period of rise. In three seasons, 1920-21, 1929-30 and 1931-32, occurred price declines that fully equalled the gains of all the other years.

Counting these experiences as only 3 seasons out of 31 greatly misrepresents the facts. Operating a season pool on wheat or cotton in this period, on the basis of an 80 per cent advance, a coöperative would have been reasonably safe, allowing for carrying charges and operating costs, and assuming a normal selling program, in all but one or two of these years, other than the three bad years above named. But in almost any one of the three bad years the decline in price was severe enough to wreck any coöperative making an 80 per cent advance. If the price history of all farm products is studied, several will be found to have been more affected by severe price declines than even wool and cotton. The Minnesota potato coöperative ran into this kind of season in the first year of its operation, and was wrecked almost before it started.

The losses in such times are commonly so severe that from 3 to 10 years of deductions from future returns are required to make them up—and until the Farm Board was created, seldom was a credit agency willing to wait so long. The banks were fearful, and with reason, that the members would desert before all the collections were made.

Accordingly it behooves every coöperative to be especially watchful for the bad years, and to reduce its advances to very low percentages whenever they are in prospect. They are most likely to occur in connection with a general business depression. But they occur at other times also for certain commodities, especially for minor or special crops, like beans, grass seed and nuts, for which a small increase in absolute acreage or yield will produce a severe market glut.

At this point, however, a difficulty arises. It is just at this time that the members of the coöperative are likely to feel, and feel strongly, that the price is too low, and to want their coöperative to come to their rescue, give them a large advance, hold the crop for a higher price and stiffen the market. Indeed such tactics frequently

do stiffen the market. The non-members may then follow either of two courses of action: they may flock to join the coöperatives to secure the high advance, or sell to the private buyers at the higher prices that have developed. Presently, however, the private buyers will have bought up what they can and have hurriedly disposed of it while the market is still holding firm; the coöperative finds itself holding the surplus of the crop, which must be sold at a low price or carried over to another year, ordinarily at a still greater loss.

It is thus evident that any program of withholding a crop from the market to raise the price seriously jeopardizes the safety of a commodity loan. If it accomplishes its purpose, a price decline later in the year is almost inevitable. Any bank will certainly take this into consideration in passing on a loan. Any coöperative that hopes to continue in business and serve its members year after year can think in no other terms.

The other serious difficulty with the kind of analysis outlined above is that it fails to take account of the carryover from year to year. Any year that production is above normal, there will be a larger carryover than normal, and the coöperative will ordinarily have to handle its share. In the past, it has commonly handled more than its share. On this carryover, first of all, carrying charges will have to be paid, in effect for an extra year. Second, the risk is incurred of low prices the second year also, or even the third. To be complete the analysis must follow the price hazard through to the second and even third year for any part of the crop that the coöperative must carry over.

The following outline of the plan of analysis indicates what is involved in the problem. Any coöperative should have such an analysis made for the commodity which it handles. Until it has done so, it has no proper basis for a loan policy.

Procedure for analyzing a loan policy

Start with a particular year—1910 will probably be a good starting point for most commodities—and make an 80 per cent advance on the basis of current market prices during the principal marketing season.

Assume that the entire product is sold through the coöperative; that the coöperative carries over all the amounts which actually were carried over, according to available reports (perhaps excluding minimum mill stocks, etc.); that the coöperative sells at the normal rate of marketing for the portion sold within the crop year. (Use data of Bureau of Agricultural Economics if available.)

In making the calculations, apply storage costs to whatever is stored for the part of the year that it is stored. Combine price movements for the year with the storage costs and determine the margin of safety on the loan.

Follow the same procedure for each year since 1910. In some in-

stances there will be a lower price in the year following, with a still larger net carryover.

Where the commodity does not deteriorate perceptibly, assume that the stored quantities are held until the year when actual carryovers began to diminish; that the carryovers were reduced as fast as they actually occurred; that the products longest in storage were sold first; and that the sales were distributed through the marketing season in proportion to sales by farmers. Where the commodity deteriorates somewhat in storage, so that long storage is undesirable, assume that the carryover from each year is sold out the following year, but that fresh quantities are stored as shown by the actual record of carryover. Where carryovers were increasing, the new amounts put into storage would exceed the old amounts taken out and sold.

Combine results by sections of the period (say 1910-15; 1915-19; 1920-22; 1923-28; 1929-31) to show total losses from over-advances, and net profits or losses from storage. Repeat the above procedure for 70 per cent loans, possibly also for 85 and 75 per cent.

Work out differences from the above results if the pool includes one-half of the crop only, and sells all of it by the end of the season, distributing its sales according to the normal rate of marketing. Assume first that changes in carryover are reduced one-half from what they were, and second that carryover is maintained as it was.

Again work out differences if the pool carries over twice its share of the carryover. This may be modified by assuming that the pool carries twice its share when prices are low, and only half its share when prices are high.

Some definite quantitative basis should be established for high or low. Perhaps the percentage departure of the current price from the average for the three previous seasons, and the standard deviation of these departures might be calculated. Then when the current price exceeded the average of the five previous seasons by one unit of deviation (which would be roughly one year out of six) the coöperative would sell more freely than usual, and when it fell below the average by one unit or more, it would sell less freely than usual, and hold instead. If this does not give satisfactory results in given commodities, other criteria of highness and lowness might be developed—such as whether the price declines during the marketing season (hold) or advances during the marketing season (sell).

In any case where the carryover at the end of the season is assumed to be different from that which actually occurred, the following points will require examination: (1) How much would the price during the season have been raised in consequence of the increased holding? (2) How much would the production during the next season be increased as a result of the higher price? (3) How much would the price during the subsequent season or seasons be reduced by the presence or sale of the increased carryover and increased production?

(4) How much would production in the subsequent season be reduced by the lower price? And so on, *ad infinitum*. (See article by Ezekiel in *Journal of Farm Economics*, April 1929.)

This type of analysis should be supplemented when possible by a study of the experience of coöperatives in pooling the product, made along the following lines: Develop a history of the pooling and selling practice of the coöperative pools handling the product, including an estimate of the extent to which the pools have sold less rapidly than is normal for the product, or more rapidly, and of the consequences in making advances more or less safe; and point out the bearing on present advances in pooled products, assuming a continuation of former selling policies. In this analysis, one should watch for instances in which with-holding has made prices higher in the earlier part of the season, and lower later, than under more normal marketing conditions; and similarly higher one year and lower the year following. This is no doubt an important factor in making pool advances unsafe.

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PROJECT 29. Price Policies of Cooperatives

OBJECTIVE: To determine the proper bases for price policies of cooperatives under various circumstances.

This important project is outlined very sketchily as Projects 59 and 60 in the report on Prices of Farm Products.

References:

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GROUP C

Projects Relating to the Economic and Other Social Bases of Cooperation

The objective of the projects in this group is to determine the economic and other social factors which explain the existence of the coöperative mode of economic functioning and control or limit its development. Special circumstances that apply to coöperation in particular lines of activity will be discussed in Section Two.

PROJECT 30. Competition between Cooperatives

OBJECTIVE: To determine the extent of competition between cooperatives and the degree of unification which will maximize returns to producers.

(By W. P. Mortenson and A. C. Hoffman)

The Agricultural Marketing Act of 1929 set up greater unity in marketing as one of its objectives, and the Federal Farm Board interpreted this as an instruction to work for such unity to the extent of eliminating competition between coöperatives so far as possible. Accordingly the Board proceeded to use its various powers, including its authority to make loans, to the end of having one coöperative and one only handle one product in a given territory. This policy aroused considerable opposition from some of the coöperatives and criticism from many students of coöperation. The controversy came to a head at the 1932 Annual Meeting of the National Council of Coöperatives, and the debate between the Honorable Carl M. Williams and Dr. E. G. Nourse before the 1932 meeting of the American Institute of Coöperation is reported in full in the proceedings.¹

This project is concerned mainly with competition as such, that is, with effects upon prices received. But in practice it is not possible to divorce from price effects two other aspects of the problem, namely, (a) the effects upon costs of marketing services (assembling, grading, packaging, transportation and processing) of having the product handled by a few or by many coöperatives; and (b) the effect on programs of selling, including use of brands, advertising and setting up sales agencies in outlet areas, of having the product concentrated in large volume under one management. On many occasions in the last year or two of the operation of the Farm Board its member spokesmen set forth possible advantages of these two sorts as

(1) *American Cooperation 1932*, pp. 77-146.

the major reasons for concentrating a large volume in one coöperative. But as often did these same or other spokesmen members also stress the importance of control of a large "fraction of the supply". This practice is reaffirmed in the debate cited above. The project as here outlined deals primarily with this fractional control and its effect on prices; but the other two aspects will be mentioned at the end to furnish a basis for complete evaluation of the issue.

I. *Effects on prices.*

Monopoly control of price rests upon control of the supply. The supply of agricultural products is in the hands of large numbers of competing producers, or of coöperative marketing organizations handling so small a fraction that they can have at the most only a limited amount of monopoly power. So far as price enhancement is concerned, the fraction of the commodity commonly handled by one coöperative is so small as to be of no great consequence. However, for short periods (during which producers cannot materially increase the supply) and in isolated markets, a substantial degree of such power may be present. The Canadian Wheat Pool and the stabilization corporation for wheat set up by the Farm Board, by reason of the substantial part of the crop under their control, were able at times to raise the price of wheat. Associations of fluid-milk producers around cities are able to obtain higher prices for their product in so far and as long as they can exclude outside milk. In cases of the latter sort, the price obtained by producers may depend upon the number of competing coöperative marketing agencies and the policies followed by each. If the fluid milk supply of a city is handled by a single producers' bargaining association, it may seek to establish a price for base milk which will maximize the average price received for both base and surplus milk. Part of the supply may be diverted to cheese and butter in order to maintain the price for fluid milk. If the same producers are organized into two rival organizations (duopoly), each organization will attempt to get a larger share of its milk into fluid uses at the expense of its competitor, thus increasing the proportion of the total supply going into fluid milk and lowering both the base and the average price. As the number of competing agencies increase (oligopoly), the price, according to Cournot, is lowered still further toward that which would prevail under conditions of complete competition.²

The situation in the Canadian Wheat Pool was somewhat different. The nature of the competition between rival fluid milk organizations is such that each is likely to hold its *supply* fixed and let

(2) This discussion is based upon Edward Chamberlin's *The Theory of Monopolistic Competition* (Harvard University Press, 1933). Dr. Chamberlin's analysis furnishes an excellent basis for study of this problem; see also J. D. Black and H. B. Price, *Coöperative Central Marketing Organization*, Minnesota Bulletin 211. ✓

its *price* be encroached upon by its competitors; the Wheat Pool, however, held for a fixed *price*, and its competitors encroached upon its *sales*.

The problem of monopolistic competition is further complicated by the retaliations of the competing agencies to one another's actions, and the extent to which retaliations are anticipated. If, under duopoly, a seller believes that a cut in his price will be met by a more drastic one from his competitor, he may refrain from making it. The price will then be a monopoly price, even though the sellers are entirely independent, each following his own interests. Uncertainty as to whether competitors will hold their amounts or their prices constant, the nature of the retaliation and the extent to which it is anticipated, will make the outcome different in almost every instance of monopolistic competition. Quantitative analysis of the problem is therefore extremely difficult and must be tempered by careful consideration of the qualitative elements involved.

The research upon the problem may include mathematical treatment such as suggested by Cournot, Edgeworth and Bowley, if the necessary data are available.⁹ Preliminary to such treatment the slope and character of the demand curve of the commodity must be determined. Simpler projects might be set up involving price comparisons in different markets operating under varying degrees of monopolistic competition. The effect upon price of a changing degree of monopolistic competition in the same market might also be a means of attack, but instances in which these effects can be clearly isolated are rare. Moreover, great care must be exercised in drawing conclusions from the foregoing comparisons. Other factors may account in part or in full for such differences and irregularities as appear. Further details of method are discussed in the report on *Prices of Farm Products*.

II. *Effects on costs of marketing services*

The problem in this phase of the project is to determine the extent to which competition between coöperatives results in waste and duplication in performing the functions of marketing, and in setting up units too small to avail themselves of the economies of large-scale operation. Where instances of increasing costs obtain for one service (for example, assembling) and decreasing costs obtain for another (processing), the problem becomes one of determining the point at which the increasing cost of the one function offsets the gains from decreasing costs in the other. This problem applies particularly to a local coöperative, although it may apply with equal force in some instances to regionals. Adequate cost data for such analysis will not, generally be available. To illustrate, in determining the extent to which competitive local coöperatives duplicate processes in assemb-

(9) See Chamberlin's discussion, *op.cit.*, Chapter III and Appendix A.

ling, hauling costs will be difficult to obtain since few if any haulers keep accurate data and only in rare instances are truck operating costs available. However, case studies might be made of a limited number of trucks which would afford some criterion of the cost per mile of operation on various types of road. Duplication in hauling can be worked out by the use of a small plat map indicating the farm and section lines. If this problem were analyzed on a regional basis, the increased trucking cost due to hauling less than a full load, or railroad transportation costs of hauling less than carlots would also figure as part of the competitive costs of a system. In general, three different factors need to be considered separately: the technological factors, including the use of machinery; the use of specialized labor and administrative ability; and intangible factors such as membership relationships. Such factors as the type, availability, adequacy and effectiveness of services rendered can in most instances be studied only qualitatively. Likewise the supply of facilities to care for the product, the speed, and care in assembling, transporting and handling the commodity at the terminals do not as a rule lend themselves to quantitative measurement.

The importance which competition plays in the foregoing services varies appreciably with the type of the commodity. For instance, in the problem of marketing perishable fruits and vegetables, a careful analysis would be necessary to determine the gains from the technological improvements which would probably accompany larger volume of business up to a certain point, and the losses from deterioration which would result from the extra distance and delay in assembling accompanying larger volume.

III. *Effects on selling*

Only when a coöperative seeks to carry its products farther towards the consumer, to distinguish its product by a brand or trademark, to seek to increase its sales at the expense of its competitors will this third phase of the project be significant. So far relatively little attention has been given to selling as the term is here used, and research is needed to assist the coöperative movement in formulating a policy with respect to it. If coöperatives are to engage in advertising and merchandising practices, they must know how much regional and national unification is necessary for best results. Organizations along the lines of a single commodity may or may not make for the utmost efficiency in jobbing and wholesaling operations. New developments in the field of market distribution, notably the chain stores, are to be reckoned with, and the coöperatives must decide whether they will go through, or around, these agencies. If advertising is to be done, decision must be made whether to advertise along *brand* or *commodity* lines. To be effective, advertisement by brand must be based upon differences in the product which the consumer considers significant and which he can, or thinks he can, detect. Research on

consumer habits and preferences, as outlined in the report on Marketing of Farm Products, will therefore fit into this project.

In general, the analysis of this phase of the project will be along lines of least-cost and highest-profit combination. Selling costs, like production costs, may be analyzed into outlays for the economic factors, and the most effective combination of these factors will be sought for any given expenditure and for the performance of any specific marketing function. The ultimate aim, of course, is to ascertain the type of marketing organization and the degree of vertical and horizontal integration which will make possible the most efficient use of these cost factors in performing the sales functions. The best type of organization is not an absolute, but will vary with the nature of the commodity, the scope of the market, and the functions to be performed. Several factors must be taken into account. In the first place, consideration must be given to the possible economies of large-scale operation which admit of greater specialization in all phases of selling activity (administration, selling and advertising). Second, markets and buyers are not all equally accessible. Those markets in which unit selling costs are lowest will be exploited first, and coöperative must then choose whether to go into other markets or attempt to reach the less accessible buyers in the present markets. Decision must also be made whether one or several commodities are needed for an efficient sales program. Cost analysis involving complementary and supplementary relationships can be used in treating these problems. Projects 22, 38 and 58 in the report on Marketing of Farm Products contain pertinent discussion.

The final decision as to the advantage of concentration of larger or smaller fractions of a product in one coöperative must be based upon a combination of the conclusions from the three foregoing lines of attack. The conclusions reached will vary with the commodity, the market and the immediate situation; and no conclusion stated in highly positive terms can safely be ventured. At best, too many unknowns will be present.

PROJECT 31. The Genesis of Cooperative Enterprises

OBJECTIVE: To discover the circumstance connected with the inception of cooperatives and the conditions which are conducive to their success or failure.

(By B. H. Hibbard)

It is unlikely that a thoroughly definitive treatise will ever be written on the origin of each and every phase of agricultural coöperation. For one thing, the evidence in many instances is not

wholly convincing. Coöperation involves the working together of human beings, and the motives which underlie the plans by which this union of forces is brought about involves psychological attitudes. Such motives do not lend themselves to statistical measurement, yet they do distinctly lend themselves to discussion through which one may arrive at an understanding of practical import. The following discussion is intended to serve as a guide in studies which may aim to cover the whole field as a major undertaking, or a limited part of it as occasion may arise in connection with specific studies, the main emphasis of which more than likely will be centered on the present activities of the coöperating groups rather than on their origin. However, an understanding of the genesis of coöperative enterprises already in existence may have a salutary influence on the very vital matter of how, why, or why not, to undertake new ones.

It has been customary in treatises and farmers' bulletins on agricultural coöperation to outline certain circumstances as favorable or unfavorable to the development of coöperatives.¹ It is indeed time that these statements be checked against actual experiences. The coöperative history of the past two years probably furnishes a basis for considerable revision. A project should therefore start with these statements as tentative hypotheses.

No doubt agricultural coöperation has developed for the most part from: A, industrial or consumers' coöperation; B, propaganda, i.e., from an organized movement; and C, spontaneously from circumstances. The research will therefore consist in determining to what extent particular coöperatives and coöperatives in general have arisen from these three and other possible circumstances.

The first approach to the problem is to examine the literature on coöperation and coöperatives. Not much is available on the early history of agricultural coöperation. For Europe the writings which in more recent years have been a source of inspiration to other students of the subject and to farmer coöperators are H. W. Wolff, *Agricultural Coöperation*, and C. R. Fay, *Coöperation at Home and Abroad*. Fay gives a carefully selected bibliography which will be useful to any student interested in the genesis of coöperation. For the United States and elsewhere, bibliographies are available in United States Department of Agriculture Miscellaneous Publication 150, and Federal Farm Board Bulletin No. 6.

So far as one who has given passing attention to the literature as it has appeared can judge, the earliest farmer coöperatives appear to have been the simple, unorganized groupings of neighbors in the manufacture of cheese. Possibly the first instances pertaining to dairy manufacture were nothing more than the community use of the

(1) See *Agricultural Coöperation*, Wisconsin Bulletin 238 (1917); *Farmers' Coöperation in Minnesota*, Minnesota Bulletin 284 (1919); *Possibilities and Limitations of Coöperative Marketing*, California Circular 298 (1925).

utensils. Coöperative cheese-making, as now understood, seems to have started in Switzerland, and from there spread to northwestern Europe. It was a manifestation of mutual helpfulness, not unlike the working together of pioneers in building houses and roads. In Wisconsin an instance of coöperation in cheese-making is recorded for the year 1841.² This undoubtedly grew out of the immediate circumstances of the neighborhood.

However, not much progress was made in the way of farmer coöperation in the United States until the advent of the Grange. During the next few years, i. e., from 1870 to 1875, under Grange inspiration, coöperation attained much prominence. Under Grange leadership many coöperative undertakings were started: stores, exchanges, creameries, cheese factories, livestock shipping associations, insurance companies, and even factories and banks.³ That Granger thought was influenced by earlier efforts in Europe may be gathered from many sources.⁴ The Alliance a few years later started many similar organizations.⁵ The Farmers' Union has also started many cotton, grain and livestock marketing companies, including commission companies in many cities. The American Society of Equity has fostered tobacco and livestock companies.

The Farm Bureau was instrumental in starting and reorganizing many coöperative ventures. The Grange Dairymen's League and the Bureau have organized, and are running in Ithaca, New York, the largest coöperative distributive company dealing with farmers in the United States.⁶

While a considerable proportion of the agricultural coöperative companies trace their origin to propaganda organizations, the instances of spontaneous beginnings are many and unmistakable. European evidence concerns cheese factories in Switzerland and France, credit banks of Germany and of other countries, and the development of coöperation in Denmark.⁷ The American evidence is the rapid extension of coöperative elevators from 1902 to 1915 in the United States and later in Canada, the rise of the fruit-marketing coöperatives, and the rapid growth of cheese factories and creameries subsequent to the period of Grange and Alliance influence.

The analysis will of course not be complete unless it considers the influence of individuals, e. g., of F. W. Reiffeisen, Schulze-Delitzsh, Horace Plunkett, T. L. Haecker, G. Harold Powell.

✓ (2) *Wisconsin Dairymen's Association*, Vol. I, Report 5, p. 95.

(3) See, especially, S. J. Buck, *The Granger Movement*.

(4) See early proceedings of the National Grange; *Proceedings of Wisconsin Grange, 1874*; *Wisconsin Grange Bulletin, 1878 and 1874*.

(5) See J. D. Hicks, *The Populist Movement*, and E. Wiest, *Agricultural Organization in the United States*.

(6) See *Agricultural Cooperation*, November 23, 1925.

✓ —(7) See C. L. Christensen, *U. S. Bulletin* 1266.

It must also consider the influence of commercial propagandists, such as the creamery promoters of about 1890 to 1905.⁸

The second step is to study the circumstances under which a large number of individual coöperatives have arisen, and their later success or failure. There is rich field of such study in the history of the coöperative movement in the United States since 1920—all of the Sapiro coöperatives, the Farm Bureau Federation ventures and the Federal Farm Board ventures were made in the period. Much information concerning existing coöperatives can be obtained by correspondence; but in most instances, from a day to a week must be spent in interviews and examining records on the scene of the coöperative's activities. Important information can also be obtained from public officials in Washington and in the states who have worked with coöperative organizations, and from officers of national associations of coöperatives.

This second phase represents so large a volume of work that one person could not expect to encompass it in less than five to ten years. It may, however, be feasible to obtain assistance from persons in the states who are in contact with the coöperatives, and in this way be able to cover the subject in two or three years. Project 32 contains many suggestions that will be helpful in the study of individual coöperatives.

PROJECT 32. Factors Associated with the Success of Cooperatives

OBJECTIVE: To analyze cooperatives with a view to determining the reasons for success or failure.

(By I. G. Davis and Lauren H. Brown)

The important studies of this kind that have been carried out were the work of members of the staff of the Division of Coöperative Marketing of the Bureau of Agricultural Economics of the United States Department of Agriculture. *The Business Analysis of the Tobacco Growers' Association*, by John J. Scanlan and James Tinley (Circular 100 of the United States Department of Agriculture), should be read by anyone contemplating work in this field. The breadth of the study, the integration of qualitative and quantitative methods, the inclusion and careful weighing of institutional factors and the use of judgment in arriving at conclusions all stamp it as containing

(8) See Ph.D. thesis, *Organization of Creameries and Cheese Factories in the United States*, unpublished, by Theodore Macklin, University of Wisconsin; also files of *American Creamery*, Vol. VI, and later issues; *Hoard's Dairymen*, Vol. 35; and *Rural New Yorker*, Vols. 53 and 54.

valuable suggestions for economists who wish to analyze the factors making for successful coöperatives. A similar study is *The Staple Cotton Coöperative* by A. V. Swarthout (Department Circular 397). The studies dealing with success or failure which have been conducted by the states, or are in the course of presentation, are intensive studies of one or more specialized phases of coöperative policy or operation. The researcher, in preparing for a study of this kind, should review carefully the projects dealing with coöperative structure, policy and operating practices as set up in this report and in the report on Marketing of Farm Products. He should be thoroughly familiar with the literature of coöperative marketing, should have a broad experience in coöperative problems and the maturity and saneness of judgment which grows out of such experience.

Criteria of success

In approaching this project, it is essential to define what we mean by a successful coöperative. Survival may but does not necessarily mean success. Coöperatives may have survived over a considerable period and nevertheless have failed. A coöperative may have been successful in attaining any one of a number of objectives or functions which it was set up to perform and nevertheless have failed to achieve the broad general objectives which it should have been expected to attain. Such limited objectives may include, among others, the following:

1. To perform certain services at the least possible cost.
2. To effect an improvement in the farmer's position with relation to the marketing system and his market. For example, to improve the farmer's bargaining position.
3. To stabilize successfully a given industry in respect of production and price for a limited or longer period.

In general the criterion of success which we shall use is the effect of the association on the net income of its members or of producers in the industry over a considerable portion of the time it has been functioning. If the objective is to determine the factors associated with success rather than the factors associated with survival, then it is necessary, first, to establish the fact of success or the nature of failure. In determining this, the effects of the association both on net money incomes and on the welfare or convenience of the farmer must be considered.

Measures of success

To measure the success of relatively small local associations, fairly definite quantitative methods may be employed. The best seem to be those of price comparison. However, the error of comparing prices paid by the coöperative with other prices paid on the same market

over the same period of time must be avoided, Very seldom is a coöperative so insignificant that its price policies and the product which it controls do not have an appreciable effect on the general level of market prices or of farm prices for that product. The prices of different units of the same commodity on the same market move in such close sympathy that we may accept it as a fact that if the association affects prices, the price change will be transmitted to all other units of the same commodity in the same market in greater or less degree. We may, however, make comparisons between different markets over a long period, including both the period during which the association has operated and that prior to its operation. We may, for example, set up price series for markets A, B and C. Let us assume that a given coöperative association is in operation in market A and that the comparability of conditions in these markets with respect to other factors that might affect changes in price has been established. If, under these conditions, the prices in markets A, B and C move together in a certain fairly definite relation during a period when the association has not been in operation, then during the period of association operation in market A, the movement of prices in A relative to the other two markets has showed a pronounced change, a very strong presumption is created that changes in market A have been the results of the operation of the given association. Care must, of course, be exercised to be certain that grades have not been changed in the three markets over the period of study, and that the product in market A is the same product relative to the other two markets that it was in the period before the operation of the association in that market; also that transportation rates and the like have not changed in such a way as to affect relative prices.¹

Incommensurable factors

The services which must be performed by the farmer, the inconveniences to which he is subject, and the extra costs which are involved both in selling through the association and in independent selling must be taken into consideration. The changes in price which are deemed to have occurred as the result of the operation of the association must be corrected by these factors. It is also necessary to consider the effect of the association on the business organization of farms within its influence. A changed volume of business or a different proportion of enterprises may have been made possible as a result of the merchandising program of the association. To establish correctly the effect of such an association on the farmer's net income, it is desirable to have not only historical price series on the given and comparable markets as noted above, but also farm business

(1) For example, such a comparison as of cheese prices in Wisconsin and Oregon before and after the freight changes of the War period would scarcely serve as evidences unless corrected for the transportation factor.

records for a few typical farms of various types covering the period prior to the operation of the association and during its operation, and to have similar records, if possible, on non-association farms employing other methods of marketing, and in other supply areas.

In many, perhaps the majority, of instances, it will be impossible to make acceptable quantitative measurements which would establish the fact that a given association has been successful, success being defined in the above terms. This will be true of commodity-wide associations and of larger associations operating over a wide series of markets. No quantitative method suggests itself by which in such larger associations the effect of technological change, of change in demand, of changing methods of merchandising, and of the impact of new competitive situations can be isolated clearly from the effects on price imputable to the association. General conclusions may be arrived at by the exercise of good judgment, thorough-going qualitative analysis of an economic character, combined with such quantitative analysis as may be possible or desirable. In such analysis our objective is still to determine the net value of the association to farmers constituting its membership and to the industry as a whole. Some of the considerations which must be appraised and duly weighted are as follows:

1. Has the association enlarged or changed the demand for the given commodity, increased rates of consumption and built up an efficiently integrated and organized system of merchandising?

2. Has the association succeeded in eliminating unfair and objectionable trade practices which would otherwise have the effect of unduly or unnecessarily depressing prices?

3. Has the association succeeded in freeing producers from the domination of those undesirable or unsocial types of credit and supply agencies which in periods of stress tend to exploit the producer?

4. Has the association succeeded in cushioning the industry and its members against the full effects of seasonal and accidental supply changes and in working out a price policy which has tended to stabilize the relationships of production to demand? This is particularly important in the milk industry.

5. Has the association succeeded in giving its members intelligent understanding of the economic forces underlying the movements of price in the commodity involved and a thorough appreciation of the principles of business management and of coöperative organization which must be employed and supported by them if the association is to succeed?

6. Has the association established and maintained an efficient system of business organization and operation?

Factors associated with success

The nature and extent of success or failure having been appraised or established, the next step is to determine those elements in organization and management or in the environment which can be associated with the success or failure found. This phase of the project does not lend itself to mass treatment. A complete study of one enterprise represents a rather extensive piece of work and in most instances the case method should be followed. The general procedure consists of a rather complete historical study of the industry or segment of industry involved and of the association, including the facts leading up to its organization as well as the history of its existence and operation. The character and attitude of farmers and the extent of their education and economic condition and limitations and other institutional factors may be traced throughout pre-association and association periods. The history of the association should be carefully and critically analyzed from the following points of view:

1. **Structure:** Structural organization should be examined critically with reference to the objectives of the association, the community of interests that may exist between different elements in the membership, centralization of control, and its flexibility and responsiveness from the standpoint of ability, on the one hand, to meet desires of the membership, and on the other, to concentrate control in order to meet the business situation effectively.

2. **Membership relationships and membership attitudes** within the organization throughout the period of its existence. Particular attention should be given to reasons which led its members to join it at its inception, the functions which they believe it will be able to perform and their original expectations regarding it. The membership's attitude towards price policy is particularly important. Every effort should be made to trace its evolution throughout the history of the association. For example, an association may have been committed to an uneconomic price policy in the original membership campaign. This or any similar circumstance may have colored the members' attitude towards the association and may prove to be the significant element accounting for success or failure.

3. **Price policy** in itself is very often responsible for either success or failure. The relationship may sometimes be traced directly, but more often it is obscure and must be worked out through careful, logical qualitative analysis using the quantitative facts available with good judgment and the greatest care. The price policy and price and production history of the association and the relationship of price to production and demand must be studied carefully and with a view to identifying its remote as well as its immediate consequences. The history of the price policy of an association can probably be studied best through the records of its board of directors,

its current press releases, and if litigation has been involved, through court records. The accounting records of associations, where available, are of course, valuable first-hand evidence. The price and production history of the commodity must be traced through the best statistical price and production series available. It may be necessary to construct such series through securing the special cooperation of dealers and through a study of association records. Production history is usually best studied in the regular crop or livestock reports of the United States Department of Agriculture or of the states, and in census data. Such reports, however, are not always accurate and must be scanned critically.

If the association handles only a portion of the commodity rather than controlling its volume, studies should be made of the relationship of member prices to non-member prices; particular attention should be given to the association's surplus control plans where its disposal of surpluses or storage operations tend to raise the average price of the commodity for the whole industry at the expense of its membership. The seeds of membership dissatisfaction and the eventual disruption of an association may often be found in a surplus disposal or storage policy.

4. *Operating practices.* It often happens that certain practices, such as methods of payment, stipulations as to delivery, practices in pooling, or attitudes of the association towards its membership constantly irritate the members or create the feeling that injustice is being done. The accumulated effects may constitute the seed of dissolution or may lead to eventual failure. Probably the best way to secure clues to such factors is to obtain a picture of the basic misconceptions in the minds of the membership concerning the purposes and policies of the association. Through interviews with members and others familiar with the association the attitude of the membership and its notion of and belief in what the association is trying to accomplish and why and how it is trying to put its program into effect may be ascertained. The attempt should be made to get reactions not in terms of people's opinions of the association, but of their conception of what its policies are, its purposes, the ways in which it operates and the mistakes which it is actually making. Survey record blanks must be carefully framed to register attitudes rather than opinions. ¶

5. *Operating efficiency.* In studying the functioning of a co-operative association over a long period, efficiency is an important factor in success or failure. A group may organize and operate with relative inefficiency for a period of a year or so on the strength of membership loyalty, but to survive in the long run it must reach a plane of efficiency comparable with competition, or lose business and fail.

In general the data for studying operating efficiency may be ob-

tained from the accountant's records or by careful surveys. This implies adequate accounts. When they are lacking, careful surveys are necessary and must be used cautiously. Operating ratios, carefully applied, afford a basis of comparison with similar competing enterprises in which like ratios are available. They may be used to test the efficiency of labor and capital units as well as of management. When comparisons are made it is of prime importance that the researcher should assure himself that the amount, character and quality of the services performed and the conditions of operation are similar and properly comparable. The ideal study would be carried out along these lines over several accounting periods.

6. Character and amount of competition. In attempting to explain the reasons for the success (as defined above or in terms of survival), or failure of a coöperative association, it is important to consider carefully the nature of the competitive situation which it has faced.

a. The association may be operating in competition with large, highly organized, financially competent and well-established corporations, capable of using political influence, intrigue, propaganda and questionable trade practices to defeat its program.

b. The association may have entered a field which is relatively disorganized, operations being conducted by numerous marketing functionaries—country buyers, shippers, truckers, brokers—and in which important economies and improvement can easily be effected without powerful or organized opposition.

c. The association may have been set up for purposes which are not in any important way competitive, but are supplementary and useful to existing trade agencies and likely to enlist their coöperation. A study of the character and amount of competition entails a study of the business organizations with which the coöperative must compete or integrate its activities. An appraisal of the competitive situation and of the interaction of competitive forces and association policy, an estimate of the wisdom of the management's policy with respect to competition involves historical research requiring mature judgment, well-balanced analysis and discrimination.

7. Financing and merchandising policy. Financing must be scrutinized from the standpoint of its adequacy and flexibility to meet the exigencies of the business and needs of the members. Merchandising policy must be studied from the standpoints, among others, of its effect on price, demand and the continued satisfaction of the trade served.

In studying the history of the association in the foregoing and in other respects, special care must be taken that the researcher fully understands the inter-relationships of the different factors; price policy, operating efficiency, and association practices, etc., are all

very closely associated with membership relations policy and other factors. A sound and well-organized membership relations program on the other hand, may reinforce price policy and facilitate, operating practices. While the details of such a study run into quantitative measurements at many points, the final objective is attained largely through the exercise of careful analysis and the best judgment of the person conducting the research. Frequently, conclusions cannot be made too definitely or in too rigid a form. They are often implicit in the description of fact and the analyses which constitute the study.

PROJECT 33. Economic Benefits from Cooperatives

OBJECTIVES: To determine the direct pecuniary or business gains derived from successful cooperatives, classifying them by source or type—e.g., higher prices, better quality, lower costs.

(By Paul L. Miller)

Relatively few of the published studies of coöperatives in the United States deal very fully and adequately with business gains. One obvious reason is that investigators have thus far been more concerned with the legal, organizational and financial aspects of cooperation, with the operating methods and general importance and progress of coöperatives. The demand for information has run along these lines. Perhaps, though, the most important reason is the difficulty of discovering these gains from the data readily available, and the highly dynamic conditions and complex circumstances surrounding the conduct of many of these enterprises. This is especially true of coöperative marketing enterprises, even the simplest of which present difficulties to the investigator interested in the sources and extent of pecuniary gains. Studies of coöperation in the United States have dealt for the most part with specific types of coöperative marketing agencies. *The Coöperative Marketing of Livestock* by E. G. Nourse and J. G. Knapp. *Coöperative Marketing: Its Advantages as Exemplified in the California Fruit Growers' Exchange* by W. W. Cumberland, *Grain Growers' Coöperation in Western Canada* by H. S. Patton, are outstanding critical economic studies of this type.¹

(1) The following are also valuable references on this topic:

R. S. Vaile, "Some Long-time Effects of Cooperative Marketing," *Journal of Farm Economics* (January 1927).

✓ E. G. Nourse, *Fifty Years of Farmers Elevators in Iowa*, Iowa Bulletin 211.

✓ J. F. Booth, *Coöperative Marketing of Grain in Western Canada*, U. S. D. A. Technical Bulletin 68.

E. G. Nourse and C. W. Hammans, *Coöperative Livestock Shipping Associations in Iowa in 1920*, Iowa Bulletin 200.

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Nature of the problems

Invariably when authors discuss the question of benefit, they recognize the inherent difficulties. Dr. Nourse well states the case in Iowa Bulletin 211, page 256, when he raises the question of "what has been accomplished" by the coöperative elevators of Iowa. Difficulties arise because the financial and competitive success or failure of marketing agencies is no indication of their business benefits to farmers. Coöperatives have frequently failed because they could not outpay the traders, which at the same time have been of such pecuniary benefit to the producers in the area. Even though returns from a coöperative are no greater than those from local sales to dealers, the coöperative may be profitable to farmers, as pointed out in Project 32, by virtue of its effects upon the level of prices in the locality. If price comparisons are unreliable for this purpose, so also are comparisons of the margins and costs of coöperatives with those of independent operators.

But pecuniary advantages in themselves are far from adequate as a measure of economic gains from coöperation. Such a measure assumes that the farmer's relationship to his coöperative is the same as his relationship to the independent operators, which is not true in a properly formed coöperative. Where it is true, we may say that farmers in reality have not organized to function coöperatively, but rather have only gone into business in competition with independent operators. Where this is all that coöperation amounts to, pecuniary gains will suffice as a measure, if demand over a sufficiently long period is considered. The appraisal of economic benefits must be analyzed in terms of the services rendered the members, or which the members are able to render themselves through the coöperative. The valid comparison is really between the performance of the association and that of the farmers acting separately; it is not between the performance of the association and that of independent operators.

The sources of gain depend upon the functions of the coöperatives in question. Where the functions are simple the sources of gains, if any, are fairly evident. Where they are complicated and involved

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B. H. Hibbard, et al., *Wisconsin Livestock Shipping Associations*, Wisconsin Bulletin 814.

H. B. Price, *Marketing Country Creamery Butter by Cooperative Sales Agency*, Minnesota Bulletin 244. ✓

Hutzel Metzger, *Cooperative Marketing of Fluid Milk*, U. S. D. A. Technical Bulletin 179. ✓

G. O. Gatlin, *Cooperative Marketing of Cotton*, U. S. D. A. Bulletin 1392.

B. M. Gile, *The Status of Cooperative Marketing in Arkansas*, Arkansas Bulletin 245. ✓

O. B. Jesness, *The Cooperative Marketing of Tobacco*, Kentucky Bulletin 288.

L. G. Foster, *A Business Study of the Ohio Poultry Producers' Cooperative Association*, Ohio Bulletin 427. ✓

C. F. Clayton and J. T. Horner, *Farmers' Cooperatives Buying and Selling Organizations in Michigan*, Michigan Bulletin 171. ✓

the sources of gain may be quite obscure and difficult to locate. To find the economic gains from cow-testing associations is easy compared with the problem in the case of marketing associations. In either case, however, the process consists in (1) a discriminating analysis of the functions or services performed, (2) determination of the net returns to farmers, and (3) a comparison of these results with an estimation of those that farmers might secure without the assistance of the coöperative.

Even under most favorable circumstances for conducting a study of coöperative selling, final results in many instances cannot be highly precise. Conditions do not remain constant. In a measure results are cumulative. Even where a program has been continuously well conducted, its effectiveness will appear to vary. Certainly any progress toward increasing the merchantability of the product is likely to be gradual and the results during any particular period more or less uncertain. After all, farmers who achieve much success in coöperative selling must learn how to improve their efforts as they proceed. The process and the conditions surrounding it are dynamic. Yet, business judgment concerning coöperatives justify themselves and sometimes they do not. Where results are obscure, all the more need exists for the services of the investigator.

Method of study

The case method seems most appropriate to this project—of single enterprises, if the enterprise is unique, as for example, Land O'Lakes Creameries, Inc., or the Western Cattle Marketing Association; of several well-selected examples if there are many to choose from. The member must be sufficient to indicate the range in performance of those that are successful. The intent of this project is not to answer the question whether farmers have gained from coöperation in general, but rather to discover what growing coöperative concerns are accomplishing. The period of observation should be from two to five years, or long enough for adequate observation of the elements of value in the services performed.

Care is required in analyzing the services or functions of a coöperative sales agency. Important aspects or elements of the service may be overlooked. Coöperative marketing is a very general designation. Programs may vary widely, even among associations of the same type and form. For example, some coöperative elevators store grain when they are able to sell a future against it at a satisfactory premium over spot prices. Such companies have a wider service than those that do not undertake such operations. Some local livestock-marketing coöperatives assume full responsibility for the decision when to market a lot of stock from a particular farm. Others do not even pretend to advise farmers on this matter. Still others do not even require farmers to list their stock in advance of delivery. The majority of local grain and livestock-marketing agencies confine

their services to that of finding outlets for such products as farmers deliver. The farmers themselves, unassisted by their coöperatives, decide the important questions concerning the kind and quantity of the commodity to be produced and the time for marketing it. Coöperatives that undertake a full-fledged marketing program offer services that may perhaps be said to fall into the following categories: (1) Broaden market outlets or widening and perfecting market contacts, including collective bargaining, (2) developing and standardizing the product in effective form for selling, and (3) deciding upon the quantity to be sold at a given time or within a given period.

The next step is the determination of net returns to farmers from coöperative functioning. In the case of a marketing agency, net returns are prices at point of delivery realized by farmers through the coöperative. These prices are the function of two variables: (1) prices secured by the coöperative less (2) the cost of the coöperative service. Data required for this analysis are records of sales by grades and accurate data on operating costs. It is necessary to distinguish sharply between actual expenses and deductions for capital requirements. So-called "sinking fund" deductions by creameries and outlays for sales promotion work by many coöperatives are examples of items sometimes treated as current expenses, although they may be, in whole or in part, in the nature of capital investment. Expense analysis is as important as price analysis. A coöperative may secure excellent prices but incur expenses that make gains to farmers doubtful. Under such circumstances perhaps costs can be cut. Revealing the essential costs of the service will do much to clarify the character of the functions performed and benefits secured.

The final step of the analysis is to show the net benefit to farmers, i.e., to interpret the achievements of the coöperative in the light of impinging conditions and circumstances. The question in the case of coöperative selling is how much better are farmers doing by means of their coöperative than they could do without it. First, it is necessary to show just how the coöperative secures its results. Did they derive from new and better outlets or from better contacts and relations with the old or regular outlets in the community? What part did any improvement in the form of the commodity, better grading and more uniformity in lots, have to do with prices secured? In so far as the coöperative had jurisdiction over the quantity sold during a given period, how well did it time its sales to price fluctuations? For the answer to these and similar questions, an analysis of sales, showing prices received by grade, and outlet, and the distribution of sales with reference to the course of market prices, will furnish a basis.

The second part of this analysis deals with results farmers can secure without the coöperative. Some of the questions to be answered

are: What outlets are there for individual farmers? How many do farmers contact in making a sale? What is the price relation of these outlets to those secured and maintained by the coöperative? What is a fair estimate of marketing expenses of farmers who do their own selling? Do the farmers sell on the rise or the fall of prices? How does the time distribution of sales compare with that of the coöperative? What information and reports do farmers who do their own selling rely upon? To what extent are farmers able to grade and sort so as to take advantage of variations in buyers' prices by grades and kinds of products? Is the basis of buying in the locality such that individual farmers are able to secure what appears to be full market premium for quality in the product? What effects does the coöperative appear to have had upon competitive buying in the locality?

To answer these questions, much information is required in addition to that secured from an analysis of the business of the coöperative. It can be drawn in part from sales records of representative farmers as well as from records of purchases by representative buyers. From farmer's records of sales data may be secured giving the period of sale, prices received, manner of pricing with reference to quality, and the character of the lots sold, whether mixed or well sorted. Dealers can supply schedules of buying prices, a record of purchases and information concerning their grading and pricing practices.

Such data and other information concerning trade conditions and practices in the locality furnish a basis for evaluating the effectiveness of farm selling. Such an evaluation, together with an analysis of the business of the coöperative, makes possible a well-considered estimate and explanation of the pecuniary gains from coöperatives.

References:

- J. D. Black, "Economic Possibilities of Cooperation," *American Cooperation 1926*, Vol. I, pp. 85-91.
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- O. B. Jesness, "An Evaluation of the Grain Program of the Federal Farm Board," *American Cooperation 1931*, Vol. II, pp. 148-59.
- E. G. Nourse, "An Evaluation of the Livestock Marketing Work of the Federal Farm Board," *American Cooperation 1931*, Vol. II, pp. 12-17.
- M. R. Benedict, "An Evaluation of the Cooperative Wool Program," *American Cooperation 1931*, Vol. II, pp. 265-86.

PROJECT 34. Social Benefits of Cooperation (Joint with Rural Social Psychology and Rural Organization)

OBJECTIVE: To determine the non-pecuniary and indirect gains from successful cooperatives, classified by source or type.

(By Carle C. Zimmerman)

Work upon this particular project should be an extension of investigations already outlined in other reports in this series. Project 40 in the report on Rural Social Psychology and Nos. 12, 12B, 17, 20 and 23 in the report on Rural Organization deal directly with major aspects of this problem. The project involves a combination of the methods and technique used in several fields of investigation.

The general procedure to be followed is similar to that outlined under Project 16 in Rural Organization. An attempt must be made to determine the relative differences between communities which do and which do not have a number of business coöperatives as the institutional basis for many of their extra-family organizations. The social organizations of these communities may be classified into those built about the family, the church, the political parties, the commercial interests of the towns and the business coöperatives. There will probably be in addition a great amount of spontaneous and random group action having very little institutional basis. A study of these various communities according to the distributions of their out-fits of social organizations should give a quantitative and qualitative social organization profile for each. The object of the investigator will be to differentiate in a quantitative and qualitative manner between the profiles of those communities or areas in which the organizations are centered around successful coöperatives and those of other communities in which these organizations are not so segregated or do not exist.

Once the investigator has secured a definite understanding of the differences in social profile between these two types of community, he must go further and try to ascertain how much of this difference is due to the economic gains ordinarily connected with successful coöperatives. Only by so doing can he isolate the indirect and non-pecuniary gains which are the objects of attention in this investigation.

A quantitative measurement of the differences is very difficult for the simple reason that the economic and non-pecuniary gains, if they exist, always seem to appear together, and the method of concomitant variations does not seem to apply. This problem may be solved through the use of the historical method, as outlined in Project 17 in Rural Organization. If there is a direct causal-functional relationship between successful business coöperative organization in a community and its profile of non-pecuniary organizational behavior, this will have developed only by accretions associated with the growth of the business institution. The successful business coöperatives ordinarily reach their period of greatest efficiency by the process of development described by Alfred Marshall in his discussion of the "representative firm". By comparing communities in different stages of their development of successful business coöperatives, the investigator should be able to differentiate the influence of these organiza-

tions upon the non-pecuniary forms of behavior.

The investigator cannot assume that an organization or a community type of behavior which is associated with a coöperative association is due to it. They may have existed previously and have become attached to the new organization. Furthermore, the investigator should not make the fallacious assumption that quantity of social contact is a valid measure of the influence of the social organization.

The classification of coöperatives should be the same as that used earlier in this report. It may be found that differences between many types are not in the pecuniary gains associated with the coöperative, but in the non-pecuniary results. Furthermore, the non-pecuniary gains may make the pecuniary organization successful by building up the *esprit-de-corps* of the community.

Only highly qualified investigators should undertake such a project. It should grow with the investigator. The results in the field of this research are exceedingly complicated and difficult to untangle. However, when one visits among communities with well-organized business coöperatives, one soon has a feeling that something exists there in addition to the economic success. The person undertaking this project should try to discover the objective basis of this feeling.

PROJECT 35. Cooperative vs. Competitive Behavior

OBJECTIVE: To determine the differences between human behavior in cooperative and in competitive forms of human activity.

This project is included in a general way in Project 40 in the report on Rural Social Psychology. The methodology is of the sort outlined in that report, but persons undertaking the project should acquaint themselves with coöperative methods and practices or collaborate with others who are already familiar with the field. There are those who maintain that coöperation never succeeds until it becomes as much of a customary way of functioning as competition now is in most countries. This hypothesis is supported by the general tendency of coöperative countries to become more coöperative. Clearly the subject is well worth examination.

PROJECT 36. Comparison of Cooperative Functioning in Different Fields of Economic Activity (Joint with Rural Social Psychology)

OBJECTIVE: To compare functioning in different lines of economic activity with a view to determining its special adaptability to each.

PROJECT 37. The Effect of Social Environmental Factors upon Cooperation (Joint with Rural Organization)

OBJECTIVE: To determine the effect of factors in the social environment—population type, education, land systems, credit, traditional attitudes, etc.—upon the form of cooperative and progress in cooperation.

PROJECT 38. The Relation of Farmer Movements to Cooperation¹ (Joint with Agricultural Policy)

OBJECTIVE: To analyze the experience of farmer organizations in promoting cooperative developments, and the relation of farmer movements to cooperative activity.

GROUP D

Projects Relating to the Legal Basis of Cooperative Organization and Procedure

The discussions in this group do not outline specific projects and suggest methods to be followed in executing them, as is usual in the other groups in this report. Instead, they present the writer's analysis of the existing legal situation with respect to the subjects named in the titles. They may serve to assist research workers in this field in that:

1. They outline the development of the problem up to the present, making it possible to proceed from this point in the analysis of future developments.

2. The methods of analysis presented will serve as guides to analysis of future developments.

3. They furnish the general principles involved which may be applied to particular situations that constantly arise. For example, a group of producers in California may be considering the establishment of a cooperative with certain features in its by-laws intended to stabilize production. Project 39 furnishes the basis for an analysis of their proposal. A state may be engaged in revising its cooperative statute; Project 44 will be useful in devising the proper form.

It should perhaps be pointed out that frequently other forms of analysis need to be combined with the strictly legal as here outlined.

(1) Lucius Wilson, "Services A General Farm Organization Can Render Cooperatives," *American Cooperation* 1927, Vol. I, pp. 73-83.

This is clearly indicated in Dr. Stevens' discussion of Project 46, but is nearly as true for most of the other projects. For example, the economic implications and effects of compulsory pooling and the like need to be considered together with the legal.

PROJECT 39. Legal Limitation upon Price and Production Policy of Cooperatives

(By L. S. Hulbert)

How far may coöperative associations go for the purpose of influencing or controlling the prices of the products marketed by them, or of the services which they perform?

The following propositions will be considered:

(1) May a coöperative association enter into agreements with its members to restrict production?

(2) May a coöperative association determine the price at which it will offer its products for sale and the rate at which its products will be offered for market?

(3) May a coöperative association refuse to sell to a particular person or refrain from making shipments to a particular market?

It was early established that an agreement among the producers of a particular product to restrict production thereof was illegal.¹ Numerous cases have come before the courts involving the legality of coöperative associations that have been organized under the so-called "Standard Coöperative Marketing Act". These associations have been repeatedly attacked on the ground that they constitute monopolies and were engaged in the unlawful restraint of trade. The courts have uniformly upheld the associations against such attacks.

In so doing the courts have in many cases pointed out that the association in question was not engaged in restriction of production.² In this connection it should be remembered that none of the coöperative marketing acts authorize associations formed under them to restrict acreage or production, nor have any of the states adopted other statutes for this purpose. Certain southern states in 1931 and 1932 enacted "statutes" restricting the acreage of cotton, but these "statutes" were not to become effective until other states enacted similar legislation, and as a sufficient number of states did not

(1) 41 C. J. 152.

(2) *List vs. Burley Tobacco Growers Cooperative Association*, 114 Ohio St. 361, 151 N. E. 471; *Lee et al vs. Clearwater Growers Association et al*, 98 Fla. 214, 111 So. 722; *Tobacco Growers Cooperative Association vs. Jones*, 185 N. C. 265, 117 S. E. 174, 83 ALR 231.

enact like legislation the statutes remained inchoate and never became operative. A number of the states have provisions in their anti-trust statutes, or in other acts, designed to exempt farmers and other organizations from their anti-trust laws but, as indicated, no state has passed a statute authorizing or sanctioning restrictions on the production of agricultural products. Section 6 of the Clayton Act, and the Capper-Volstead Act, contain no provisions which in any way authorize restrictions on the production of agricultural products. In fact, the Capper-Volstead Act, which goes much further than Section 6 of the Clayton Act, applies only to agricultural commodities that have been produced. It contains not one word with respect to production. There has been no case presented to the Supreme Court of the United States involving a cooperative marketing association, in which the right of the association to restrict production was involved; but there have been many cases passed upon by that court, arising under the Sherman Anti-Trust Act, in which the federal courts have held that agreements entered into by competitors engaged in interstate commerce which operated to limit or restrict production violated that Act.³ The Supreme Court of the United States has held that an agreement among competitors concerning the prices to be charged for the articles manufactured by them in and of itself constitutes a violation of the Sherman Act regardless of the reasonableness of the prices named.⁴ In my opinion the federal courts would hold all agreements having for their object the restriction or the reduction of the production of agricultural commodities, entered into by a sufficient number of producers to accomplish results, to be in violation of the Sherman Anti-Trust Act, regardless of the reasonableness of the reduction in production that might be involved. In this connection it will be remembered that the Sherman Anti-Trust Act applies to cooperative associations of producers when they are engaged in doing things that are not authorized by the Capper-Volstead Act.

In the recent case of the *Appalachian Coals vs. United States*, decided by the Supreme Court of the United States on March 13, 1933, in which the Supreme Court upheld a common selling agency formed and operated by a number of independent producers of coal as legal, the court said:

"We agree that there is no ground for holding defendants' plan illegal merely because they have not integrated their properties and have chosen to maintain their independent plants, *seeking not to limit but rather to facilitate production.*"⁵

In the light of state and federal law at this time there is little, if any, justification for the view that a cooperative association may

(3) *Addyston Pipe & Steel Co. vs. United States*, 175 U. S. 211; *United States vs. Keystone Watch Co.*, 218 F. 502; *Gibbs vs. McNeeley et al*, 118 F. 120.

(4) *United States vs. Trenton Potteries*, 278 U. S. 392.

(5) *Appalachian Coals vs. United States*, 58 S. Ct. 471.

legally reduce production effectively, so as to bring about an increased price for the agricultural product involved.

An individual or a commercial corporation engaged in a private business is free to determine the prices at which it will offer its products for sale. The Capper-Volstead Act, which was approved February 18, 1922, expressly authorizes farmers to associate together in associations incorporated or otherwise, for the purpose of processing or marketing the products of their members in interstate or foreign commerce. This statute leaves associations entirely free to determine the prices at which they will offer their products for sale, except that if the Secretary of Agriculture, who is charged with the administration of the Act, is of the opinion that any association has unduly enhanced the price of the product which it is engaged in marketing, he may file a complaint against such an association, calling upon it to show cause "why an order should not be made directing it to cease and desist from monopolization or restraint of trade." To date the Secretary of Agriculture has not filed any such complaint against any association, although hundreds of coöperative associations are operating in interstate and foreign commerce. The Capper-Volstead Act may be said to specifically confer on associations meeting its terms the power to determine the prices at which they will offer their products for sale, subject only to the restriction that such prices shall not be unduly enhanced by reason thereof. The statutes that have been enacted in the various states, providing for the incorporation of coöperative associations, show on their face that it is contemplated that associations formed under them may control the marketing of all of a particular agricultural product that may be produced in a given area or state. No appellate court to date has found that an association was illegal because of the prices it was obtaining for its agricultural products. The fact that a state specifically authorizes the incorporation of an association which may control the marketing of all of a particular agricultural commodity produced in a given area or state should be accepted as conferring upon the association the same rights and powers with respect to determining the prices at which it will offer its products for sale, as would be possessed by an individual or commercial corporation.

Subject to the restriction heretofore discussed, contained in the Capper-Volstead Act, regarding the enhancement of prices, an association may determine the rate at which it will market its products. It may decline to market any of a particular grade, subject to this restriction, if the prices offered therefor are not satisfactory, or an association may divert a part of its supply to one use and a part to another, just as a private corporation might do. In this connection attention is called to Section 13 of 15 USCA:

"It shall be unlawful for any person engaged in commerce, in the

course of such commerce, either directly or indirectly to discriminate in price between different purchasers of commodities, which commodities are sold for use, consumption, or resale within the United States or any Territory thereof or the District of Columbia or any insular possession or other place under the jurisdiction of the United States, where the effect of such discrimination may be to substantially lessen competition or tend to create a monopoly in any line of commerce; PROVIDED, That nothing herein contained shall prevent discrimination in price between purchasers of commodities on account of differences in the grade, quality, or quantity sold, or that makes only due allowance for difference in the cost of selling or transportation, or discrimination in price in the same or different communities made in good faith to meet competition: AND PROVIDED FURTHER, That nothing herein contained shall prevent persons engaged in selling goods, wares, or merchandise in commerce from selecting their own customers in *bona fide* transactions and not in restraint of trade. (Oct. 15, 1914, c 323, s2, 38 Stat. 730).” This section is as applicable to coöperative associations as it is to other sellers, but the general character of this law, plus the fact that it specifically states that those engaged in the selling of goods in commerce may select their own customers in *bona fide* transactions, where such selections are not made for the purpose of restraining trade, has operated to restrict the application of the law.

. Consideration will now be given to the proposition whether an association may refuse to sell to some parties and may refuse to supply certain markets with its products. The courts universally hold that one engaged in a private business at common law may arbitrarily refuse for any reason to sell or to buy from others. The United States Supreme Court has said:⁶

“It is the right, ‘long-recognized’, of a trade engaged in an entirely private business, ‘freely to exercise his own independent discretion as to parties with whom he will deal.’” There is no basis in law up to this time for the conclusion that a coöperative association is not engaged in a private business. In a well-known case the Great Atlantic and Pacific Tea Company brought suit against the Cream of Wheat Company to sell cream of wheat on its standard terms, but the court held that although the Great Atlantic and Pacific Tea Company was willing to purchase on the same terms under which others bought cream of wheat, that it had no legal right to do so.⁷

Even a druggist or a doctor, in the absence of a statute requiring

(6) Federal Trade Commission vs. Raymbnd Co., 268 U. S. 565.

(7) Great Atlantic and Pacific Tea Company vs. Cream of Wheat Company, 227 F. 46.

him to serve all who come, has the right to determine arbitrarily with whom he will have dealings.⁸

It may, therefore, be accepted as established that, in the absence of a statute requiring coöperative associations to sell to all on like terms, a coöperative association has the legal right to decline to sell to any person for any reason. Likewise, an association may refuse, for any reason satisfactory to itself, to make shipments to a particular market.

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- John D. Miller, "Cooperative Statutes and Membership Contracts," *American Cooperation 1926*, Vol. I, pp. 800-18.
Reuben Hall, Leader, "Conference on Legal Problems," *American Cooperation 1926*, Vol. I, pp. 879-93.
W. E. Rumble, "Legal Problems of Cooperative Price Making," *American Cooperation 1926*, Vol. I, pp. 840-52.
Frank Evans, "The Trend of Judicial Divisions in Cooperative Marketing," *American Cooperation 1926*, Vol. I, pp. 269-99.
L. S. Hulbert, "Present Legal Status of Membership Contracts," *American Cooperation 1926*, Vol. I, pp. 324-45.
L. S. Hulbert, "Legal Status of Plans for Production Control," *American Cooperation 1932*, pp. 504-15.

PROJECT 40. The Legal Status of Cooperatives as Distinguished from Other Types of Corporation

(By L. S. Hulbert)

In 1914 the Clayton Act was passed by Congress;¹ Section 6 reads as follows:

"That the labor of a 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."

This was the first legislative action by Congress for the purpose of specifically authorizing organizations of farmers. As will be observed from a reading of the Section, it applies only to non-stock organizations and has no application whatsoever to organizations of farmers that are formed with capital stock. Only a few cases involving this Section have come before the courts, and although the courts have not specifically so decided, this Section would appear to prevent the dissolution of an organization meeting the conditions it prescribes, namely, that it is a "labor, agricultural, or

(8) *Urrutia vs. Patino*, 297, S. W. 512.

(1) 38 Stat. 730.

horticultural organization"; that it is "instituted for the purposes of mutual help" and does not have "capital stock" and last, is not "conducted for profit". If an organization of farmers meets the conditions of this Section, in so far as interstate and foreign commerce is concerned, it would appear to permit the organization to exist and function in a normal manner. In a case² decided by the Supreme Court of the United States, involving the legality of a secondary boycott by a labor organization the court said, with reference to Section 6 of the Clayton Act:

"It seems to us its principal importance in this discussion is for what it does not authorize and for the limit it sets to the immunity conferred. The section assumes the normal objects of a labor organization to be legitimate, and declares that nothing in the anti-trust laws shall be construed to forbid the existence and operation of such organizations or to forbid their members from lawfully carrying out their legitimate objects; and that such an organization shall not be held in itself—merely because of its existence and operation—to be an illegal combination or conspiracy in restraint of trade. But there is nothing in the section to exempt such an organization or its members from accountability where it or they depart from its normal and legitimate objects and engage in an actual combination or conspiracy in restraint of trade. And by no fair or permissible construction can it be taken as authorizing any activity otherwise unlawful, or enabling a normally lawful organization to become a cloak for an illegal combination or conspiracy in restraint of trade as defined by the anti-trust laws."

In a certain case³ the Aroostock Potato Shippers' Association, acting through a committee, blacklisted certain buyers of potatoes. Members of the association were forbidden, under penalty, to deal with such buyers. Persons outside the association who dealt with persons so blacklisted were also blacklisted and boycotted. The defendants, members of the association, were indicted for a conspiracy in restraint of trade and were fined. The court said with reference to the contention that Section 6 relieved the defendants:

" I do not think that the coercion of outsiders by a secondary boycott, which was discussed in my opinion on the former indictment, can be held to be a lawful carrying out of the legitimate objects of such an association. That act means, as I understand it, that organizations such as it describes are not to be dissolved and broken up as illegal, nor held to be combinations or conspiracies in restraint of trade; but they are not privileged to adopt methods of carrying on their business which are not permitted to other lawful associations."

In 1921 Congress passed the Packers and Stockyards Act.⁴ This Act, among other things, prohibits a livestock-marketing agency from rebating any part of its commissions. In order to avoid the contention that the payment of patronage dividends constituted the

(2) Duplex Printing Press Co. vs. Deering, 254 U. S. 443; see also Buyer vs. Guilan, 271 F. 65.

(3) United States vs. King, 229 F. 275, 250 F. 908.

(4) 42 Stat. 159.

making of a rebate, the Act specifically provides that "this shall not prohibit a cooperative association of producers from *bona fide* returning to its members, on a patronage basis, its excess earnings on their livestock." Up to the present time the courts have not had occasion to pass upon the language to which attention has been directed.

In 1922 the Capper-Volstead Act⁵ was passed by Congress. It read as follows:

"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 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.

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

(5) 42 Stat. 886.

of trial may, for cause or by consent of parties, be changed as in other cases.

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."

No case involving the validity of provisions of the Capper-Volstead Act, or the proper interpretation to be placed thereon, has been decided by the courts. It is interesting to note that in a case⁶ decided by the Supreme Court of the United States involving provisions of the Bingham Coöperative Marketing Act of Kentucky, the Supreme Court of the United States said:

"It is stated without contradiction that cooperative marketing statutes substantially like the one under review have been enacted by forty-two States. Congress has recognized the utility of cooperative association among farmers in the Clayton Act, 38 Stat. 730; the Capper-Volstead Act, 42 Stat. 383; and the Cooperative Marketing Act of 1926, 44 Stat. 802. These statutes reveal widespread legislative approval of the plan for protecting scattered producers and advancing the public interest."

In 1922 Congress enacted the Grain Futures Act.⁷ This Act provides that the Secretary of Agriculture is authorized and directed to designate any Board of Trade as a "contract market", when the Board of Trade meets certain conditions, one of which is:

"When the governing board thereof does not exclude from membership in, and all privileges on, such board of trade, any duly authorized representative of any lawfully formed and conducted cooperative association of producers having adequate financial responsibility which is engaged in cash grain business, if such association has complied, and agrees to comply, with such terms and conditions as are or may be imposed lawfully on other members of such board: PROVIDED, That no rule of a contract market shall forbid or be construed to forbid the return on a patronage basis by such cooperative association to its *bona fide* members of moneys collected in excess of the expense of conducting the business of such association."

This provision has been passed upon by the Supreme Court of the United States⁸ and upheld in accordance with its tenor.

The Federal Reserve Act⁹ was amended in 1923 to authorize any federal reserve bank to discount "notes, drafts and bills of exchange issued or drawn for an agricultural purpose or based upon livestock and having a maturity at the time of discount, exclusive of days of grace, not exceeding nine months."

(6) Liberty Warehouse Company vs. Burley Tobacco Growers' Cooperative Marketing Association, 276 U. S. 71.

(7) 42 Stat. 998.

(8) Chicago Board of Trade vs. Olsen, 262 U. S. 1.

(9) 42 Stat. 1479.

"Notes, drafts, bills of exchange or acceptances issued or drawn by co-operative marketing associations composed of producers of agricultural products shall be deemed to have been issued or drawn for an agricultural purpose, within the meaning of this section, if the proceeds thereof have been or are to be advanced by such association to any members thereof for an agricultural purpose, or have been or are to be used by such association in making payments to any members thereof on account of agricultural products delivered by such members to the association, or if such proceeds have been or are to be used by such association to meet expenditures incurred or to be incurred by the association in connection with the grading, processing, packing, preparation for market, or marketing of any agricultural product handled by such association for any of its members: PROVIDED, That the express enumeration in this paragraph of certain classes of paper of cooperative marketing associations as eligible for rediscount shall not be construed as rendering ineligible any other class of paper of such associations which is now eligible for rediscount."

To date the courts have not passed upon the provisions referred to above.

In 1923 Congress amended the Federal Farm Loan Act¹⁰ so as to provide for the organization and operation of the Federal Intermediate Credit Banks. Such banks are authorized to make loans to coöperative marketing associations formed by agricultural producers, if the notes or obligations representing such loans are "secured by warehouse receipts and/or shipping documents covering" staple agricultural products or livestock. No such loans or advances may exceed seventy-five *per centum* of the market value of the products covered by said warehouse receipts or shipping documents.

The 1926 Congress enacted a statute¹¹ providing for the establishment of the Division of coöperative Marketing in the Department of Agriculture. The greater portion of this Act is taken up with provisions defining the duties and functions of the Division of Coöperative Marketing, but there is a provision in this Act which reads as follows:

"Persons engaged, as original producers of agricultural products, as farmers, planters, ranchmen, dairymen, nut or fruit growers, acting together in associations, corporate or otherwise, in collectively processing, preparing for market, handling, and marketing in interstate and/or foreign commerce such products of persons so engaged, may acquire, exchange, interpret, and disseminate past, present, and prospective crop, market, statistical, economic, and other similar information by direct exchange between such persons, and/or such associations or federations thereof, and/or by and through a common agent created or selected by them."

Up to the present time the courts have not been called upon to construe any of the provisions of the statute just referred to.

In 1929 Congress enacted the Agricultural Marketing Act¹² which created the Federal Farm Board and authorized it to make loans to coöperative associations of producers for purposes and on terms therein specified. The Act also authorized the Board to recognize corporations meeting certain conditions, as stabilization corpora-

(10) 42 Stat. 1454.

(11) 44 Stat. 802.

(12) 46 Stat. 11.

tions, and authorized the making of loans to them for stabilization purposes. The courts have not had occasion to pass upon this Act.

There is no federal statute providing for the incorporation of coöperative associations and those interested in forming such an association must do so under the laws of one of the states. All states except Delaware have statutes specifically enacted for the purpose of providing for the formation of coöperative associations. The business corporation laws of the various states were not sufficiently flexible to admit of the formation under them of associations that would meet the needs of coöperators. It is true that many coöperative associations have been formed under the business corporation law of the various states, but there are obstacles and handicaps in many instances to the proper formation and operation of a coöperative association under such laws. An obvious objection to most business corporation statutes is that they were drawn for the formation of commercial corporations, rather than coöperative corporations. In the case of coöperative associations it is highly important that they be authorized to issue voting stock only to producers and that they be empowered to prevent the transfer of voting stock to persons who are not producers. This illustrates the necessity for a special incorporation act for coöperative associations of producers. Many of these coöperative statutes have been before the courts in numerous cases and in each instance the coöperative statute has been upheld. A few of the states have statutes comparable to the federal Capper-Volstead Act.

Inasmuch as the liability of coöperative associations for income taxes under federal and state statutes is being considered under another heading no discussion of this matter will be indulged in here.

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- Alvin C. Reis, "Cooperative Legislation," *American Cooperation 1925*, Vol. I, pp. 325-40.
Louis M. Cohn, "Legal Liabilities of Directors," *American Cooperation 1925*, Vol. I, pp. 367-78.
Stanley Reed, "Legal Phases of the Grain Cooperatives," *American Cooperation 1931*, Vol. II, pp. 251-54.

PROJECT 41. The Liabilities of Parties in Pooling Arrangements, Both Formal and Informal

(By L. S. Hulbert)

If a group of farmers, without incorporating an association, coöperate together for the purpose of pooling and marketing their products the responsibility of the farmers to others is substantially

that of partners. In an Arkansas case¹ in which a number of farmers joined together in a sweet potato venture a suit was brought against two persons who signed notes on behalf of the unincorporated association and also against sixty other persons who were alleged to have been interested. The question for decision was—who are liable on the notes? The Supreme Court of Arkansas in passing on this question said:

“It was a voluntary unincorporated association, in effect a partnership, and * * * * the only question in the case was the identity of the persons who composed the association at the time the notes in the suit were executed.”

The fact that the names of the sixty odd persons did not appear on the notes was entirely immaterial, because under the principles of partnership if a man is a partner it is entirely immaterial that his name does not appear on a partnership note. In relation to the world, all producers who may be interested in an informal pool for the marketing of any products are personally responsible for all acts which they directly or indirectly authorize or sanction in connection with the pooling arrangements to which they are parties. As between themselves, the intentions of the parties to any such arrangement, after they have been ascertained, will be enforced. It would be a rare case indeed in which there was not some previous understanding with respect to the manner in which the pooled products were sold, expenses deducted and the net proceeds divided. In any case in which it appeared that the parties had no understanding, oral or otherwise, as to how pooled products were to be handled, sold and accounted for, the court would effect an equitable adjustment as between the producers concerned. If the “manager” of an informal pool incurred obligations for and on behalf of the pool, unless he specifically contracted that he would not be personally liable, the parties with whom he entered into such obligations could hold him personally responsible therefor.² If the association through which producers pool their products is incorporated and has written agreements with the producers prescribing the terms and conditions under which the products will be pooled and accounted for, this contract controls as between the members and as between the members and the association. Pooling is, of course, an averaging proposition, an averaging with respect to products, prices, expenses, returns, or all of them. Any pooling arrangement regarding any of the foregoing matters is valid, provided that the producers have agreed thereto.³

Nearly all formal pooling arrangements give the association the

(1) *Harris vs. Ashdown Potato Curing Association*, 171 Ark. 399, 284 S. W. 755.

(2) *Fuller vs. Reed et al.*, 55 N. D. 707, 215 N. W. 147.

(3) *Washington Cooperative Egg and Poultry Association vs. Taylor*, 122 Wash. 466, 210 p. 806.

power to determine the grade of products which it receives from its members and, as has been established, if an association is given this authority it may conclusively determine the grade of the products involved.⁴ In the case of formal pooling arrangements through an incorporated association, neither the officers, directors nor members are personally liable to third persons. As between the association and its members, there is no responsibility on the part of the association, if it can show that the products have been pooled and handled in accordance with its marketing contracts and by-laws.

Reference:^{*}

Wilfred E. Rumble, "Some Legal Problems of Cooperative Shippers' Associations," *American Cooperation 1926*, Vol. I, pp. 121-27.

PROJECT 42. The Legal Status of Compulsory Pooling and Production Allotment Arrangements in the United States

(By L. S. Hulbert)

Up to the present time (March 1933) no statute providing for the compulsory pooling of agricultural products has been enacted by Congress or any state. The decisions of the Supreme Court of the United States do not justify the belief that a state or federal statute for compulsory pooling would be upheld. The state of Oregon passed a statute requiring all children of school age to attend the public schools of that state. The Supreme Court¹ held that this statute was unconstitutional, that it interfered with the rights of parents to educate their children in such schools as they might choose, and with the rights of those engaged in the conduct of schools. In other words, the Supreme Court held that the compulsory educational pooling of school children was contrary to the federal constitution. It is difficult to believe that that court would hold that a state had more control over the marketing of agricultural products produced therein than it had over the matter of who should attend its public schools. The fixing of prices for products is less revolutionary than compulsory pooling and yet our Supreme Court has repeatedly denied the power to do so. In one case² it said: "the fixing of prices for food, clothing, of house rental or of wages to be paid, whether minimum or maximum, is beyond legislative control."

Up to this time no "statutes" have been enacted compelling or au-

(4) *McCauley vs. Arkansas Rice Growers' Cooperative Association*, 171 Ark. 1155, 287 S. W. 419.

(1) *Pierce vs. Society of Sisters*, 268 U. S. 510.

(2) *Ribnik vs. McBride*, 277 U. S. 350 48 S. Ct. 545 and cases therein cited.

thorizing requirements restricting the production of agricultural products. In Project 39 reference is made to the attempts along this line in the Southern states in 1930-31. No reason is apparent why a state could not adopt a statute which would authorize the producers of a given agricultural product to enter into agreements among themselves or with an association, for the purpose of determining the amount of an agricultural product that each farmer might produce. In other words, a state could adopt a statute authorizing the producers of a given agricultural product to adopt and put in force an allotment plan with respect to production. This, of course, is totally unlike a compulsory reduction in production because it would be purely voluntary. Because it would be voluntary, such a plan could have no effect on parties who refused to cooperate. If a statute were enacted by a state for the purpose of making compulsory production allotments among producers, provided that a majority or some other number of the producers in a given state or area were in favor thereof, it is not believed that such a statute would be upheld. Our courts have held that the right to contract is property, likewise the right to produce is property, and in my opinion, the courts would hold that any compulsory allotment plan which restricted the amount that a given producer might produce would be held to be the taking of property without due process of law.³

PROJECT 43. Synthesis of Cooperative Law

(By L. S. Hulbert)

During the last fifteen years the appellate courts of the various states have passed upon scores of cases involving cooperative marketing associations. Nearly all involved cooperative marketing associations that were formed under the so-called "Standard Cooperative Marketing Act." On fundamental questions the similarity of the holdings in these cases is obvious. These cases establish certain basic propositions. Among them is the right of farmers to unite in an association for the collective handling and marketing of their products. The right of such associations to provide for and recover reasonable liquidated damages on account of the failure of a member to abide by his marketing contract, the right of an association to compel a member to perform specifically his agreement and to enjoin him from breaching the same are established. The Supreme Court

(3) The Voluntary Domestic Allotment Plan as contemplated in the Agricultural Adjustment Act since passed contains no compulsory feature; it does, however, include inducements to participate in such allotments that are expected to cause most producers to do so.

of Minnesota declared invalid a provision¹ in the Coöperative Marketing Act of that state which made it a misdemeanor for any person knowingly to induce a breach of a marketing agreement, and which authorized an association to recover a penalty for each such offense; but the Supreme Court of the United States² upheld a similar provision in the Bingham Coöperative Marketing Act of Kentucky. Coöperative marketing associations now have a status and a standing comparable to that of any other type of business organization.

PROJECT 44. A Cooperative Statute for a State

(By L. S. Hulbert)

Acts providing for the incorporation of coöperative marketing associations of producers are a relatively recent development. The form of these statutes has been improved from time to time. A coöperative marketing statute should be so drawn as to (1) permit of the formation under it of associations of producers possessed of all the powers that are desirable to enable such an association to accomplish its purposes; (2) enable associations to be formed easily, with no undue restrictions on their operations, or the manner in which they are required to function; (3) give latitude for the reflection of any plan or device that may be deemed helpful in a particular case. It may be that in the case of a given association it will be advisable to have special provisions included in its charter that are not necessary in the case of an association formed for the marketing of a different product, and the statute should authorize the inclusion in the charter of such special provisions. In view of the fact that it is frequently desirable either to increase or decrease the number of directors that an association has, the statute should permit the number of directors to be increased or decreased by action of the members, without amendment of the charter. In view of the fact that associations frequently operate in a number of states it is desirable to include a provision in the statute authorizing meetings of members and of the directors in states other than that of incorporation. The statute should authorize associations formed under it to become members or stockholders of other associations, whether formed under the same act or an act of another state. Some coöperative acts specifically authorize associations formed under them to become stockholders or members of other associations that are incorporated under them, but

(1) *Minnesota Wheat Growers' Cooperative Marketing Association vs. Radke*, 168 Minn. 408, 204 N. W. 314.

(2) *Liberty Warehouse Company vs. Burley Tobacco Growers' Cooperative Marketing Association*, 276 U. S. 71, 48 S. Ct. 291.

do not contain authority for associations formed under other statutes to become stockholders or members of them. This is a distinct handicap to the development of a national association composed of co-operative associations. A co-operative act should authorize associations formed thereunder to enter into marketing contracts with its members, either of the agency or purchase and sale type. Such statutes should authorize the formation of associations, either with or without capital stock and should permit the issuance of preferred stock that does not carry the voting privilege. This permits the sale of stock to those who are not engaged in agriculture, while the control of the association will be maintained by the producers who are members thereof through ownership of the common stock. Without intending to minimize the high importance of incorporating a co-operative association under a carefully prepared and well thought out co-operative marketing act, it should constantly be borne in mind that sound management has more to do with the success of a co-operative association than any other factor.

PROJECT 45. The Liability of Farmers' Cooperative Associations to Pay Income Taxes

(By Lawrence Dumas, Jr.)

FEDERAL INCOME TAX

Even in the absence of a specific exemption a co-operative marketing association would not be required to pay a net income tax if it had no net income. As explained by Attorney General A. Mitchell Palmer, in the Houlton Grange Association case:¹ "The tax, however, is levied not on the gross income but the net income—that is, upon the profits which it makes by buying and selling merchandise. If it operates under a plan by which it sells to members at actual cost, no profits are realized, there is no net income, and no tax is paid. If, on the other hand, it sells at a profit, like any other dealer in merchandise, it has a net income and must pay the tax on it." Obviously this is also true of marketing associations so long as they sell as agents for their members and turn over to them the proceeds of the sale, less operating expenses. Now, if the association purchases the products of its members from them and resells them, the only net income it has will be the excess of the selling price over the purchase price and the operating expenses. Ordinarily the purchase price will be the amount the association received on the sales, less operating

(1) 31 Opinions of Attorney General (1919) pp. 403, 406.

expenses, and consequently there will be no net income. However, if deductions are made to be used for paying dividends on stock, for accumulating a reserve fund for future contingencies, etc., there will be a net income to this extent.

Under the Revenue Acts of 1913 and 1916, Congress exempted "farmers", fruit growers, or like associations, organized and operated as sales agents for the purpose of marketing the products of members and turning back to them proceeds of sales, less the necessary selling expenses, on the basis of the quantity of products furnished by them", from taxation, although as above indicated these associations would have had no net income in any event. In 1918 the exemption was extended to include associations purchasing for producers. The Revenue Act of that year covered the following:

"Farmers', fruit growers', or like associations, organized and operated as sales agents for the purpose of marketing the products of members and turning back to them proceeds of sales, less the necessary selling expenses, on the basis of the quantity of products furnished by them; or organized and operated as purchasing agents for the purpose of purchasing supplies and equipment for use of members and turning over such supplies and equipment to members at actual cost plus necessary expenses."²

As has already been seen, these associations would have had no net income and so would not have been taxed, even had not this exemption been granted. The ostensible purpose for granting this exemption was to remove a supposed penalty placed on the coöperative method of marketing agricultural commodities, which would have resulted from the fact, that, if the association had a net income, it would, in the great majority of cases, be greater than the total income taxes of its members. It was intended that these associations should be assured of an exemption and that they should not have to depend on the possible interpretation of the meaning of net income by the courts to secure that exemption.

Congress granted no bounty to the farmers because the individual members of a coöperative association will still have to pay a tax on their profits, including those derived from goods marketed through coöperatives, if any. Of course, if the individual receives no net income over \$1,000 (under the Revenue Act of 1932) no income taxes will be due.

The wording of the exemption of farmers' coöperatives was not changed in the Revenue Acts of 1921 and 1924, but the regulations under the 1924 Act were greatly liberalized, so as to exempt those coöperatives which the Commissioner of Internal Revenue considered true non-profit farmers' associations. The courts have recognized the fact that the Bureau did permit exemptions not strictly allowed by the Act, and although they did not disapprove of the exemptions they indicated that only Congress and not the Commissioner had

(2) Section 231 (11) of the Revenue Act of 1918.

power to grant them.³ Congress, however, recognized the wisdom of the Commissioner's liberalization, and to prevent a possible retrenchment, embodied the liberalization in Section 231 (12) of the Revenue Act of 1926, which reads as follows:

"Farmers', fruit growers', or like associations organized and operated on a cooperative basis (a) for the purpose of marketing the products of members or other producers, and turning back to them the proceeds of sales, less the necessary marketing expenses, on the basis of either the quantity or the value of the products furnished by them, or (b) for the purpose of purchasing supplies and equipment for the use of members or other persons, and turning over such supplies and equipment to them at actual cost, plus necessary expenses. Exemption shall not be denied any such association because it has capital stock, if the dividend rate of such stock is fixed at not to exceed the legal rate of interest in the State of incorporation or 8 per centum per annum, whichever is greater, on the value of the consideration for which the stock was issued, and if substantially all such stock (other than non-voting preferred stock, the owners of which are not entitled or permitted to participate, directly or indirectly, in the profits of the association, upon dissolution or otherwise, beyond the fixed dividends) is owned by producers who market their products or purchase their supplies and equipment through the association; nor shall exemption be denied any such association because there is accumulated and maintained by it a reserve required by State law or a reasonable reserve for any necessary purpose. Such an association may market the products of non-members in an amount the value of which does not exceed the value of the products marketed for members, and may purchase supplies and equipment for non-members in an amount the value of which does not exceed the value of the supplies and equipment purchased for members, provided the value of the purchases made for persons who are neither members nor producers does not exceed 15 per centum of the value of all its purchases."

There has been no change in this phrasing in the Revenue Acts of 1928 and 1932.⁴

In order to be exempt it is clear that a coöperative association must be one of *producers*,⁵ whether it markets or purchases for them. It can purchase and sell for non-members to the extent of fifty per cent of the value of its total business,⁶ but it cannot make more than fifteen per cent of the value of the purchases for non-members who are not producers. There is no such limitation on its marketing activities, but that is unnecessary because ordinarily the association will only market the products for the persons who produce them.

The association must not accumulate profits or distribute them as dividends on capital stock except to the extent of eight per cent, or the percentage which represents the legal rate of interest in the state, whichever is greater. No profits are allowed on non-member business.

(3) See: *Riverdale Cooperative Creamery Association vs. Commissioner of Internal Revenue*, 48 Fed. (2d) 711 (C. C. A. 9th, 1931); *South Carolina Produce Assn. vs. Commissioner of Internal Revenue*, 50 Fed. (2d) 742 (C. C. A. 4th, 1931).

(4) See: Section 108 (12) of the Revenue Acts of 1928 and 1932.

(5) One who produces any kind of product ordinarily associated with farming, such as cattle, eggs, poultry, fruit, would be regarded as a *producer*, and it would probably not be necessary that he produce the articles marketed by the association, *sed quæro*.

(6) See: *Riverdale Cooperative Creamery Assn. vs. Commissioner of Internal Revenue*, 48 F. (2d) 711 (C. C. A. 9th, 1931).

The association must market only on a patronage basis, turning back the proceeds of the sale, less necessary marketing expenses, and this is true whether the goods marketed are those of members or of non-members.⁷ Supplies must be furnished members and non-members alike on the basis of cost plus necessary expenses.⁸ Thus it seems that patronage dividends must be paid to non-members on the basis of their business done, but the commissioner has ruled that such dividends need not be paid immediately but may be payable out of a reserve fund set up for such dividends at a future time.⁹ When the by-laws make no provision for payment of patronage dividends to non-members, but a specific credit to the individual account of each non-member is set up on the books of the association, when the by-laws make no provision for the payment of patronage dividends to their members and/or non-members, but it is shown to be the consistent practice of the association to make such payments to members and non-members alike within a reasonable period, and when the patronage dividends are not payable until the non-member becomes a member of the association, either through the payment of the required amount in cash or the accumulation of dividends in an amount equal to the purchase price of a share of stock or membership, the exemption is not denied.¹⁰

Deductions may be made for the limited dividends (eight per cent or the rate allowed as interest by the state) and for any reserves *required* by state law (the fact that the state law permits a certain reserve fund is not sufficient), or which are reasonably necessary. Whether a reserve fund is reasonably necessary is a question of fact in each case, but it has been ruled that having a reserve fund to purchase facilities or machinery, to retire the indebtedness of the association or to cover losses by depreciation, does not exclude the association from the exemption.

An association may issue capital stock instead of membership certificates and still retain its exemption, provided (1) that the dividends on all this stock are limited to the legal rate of interest in the state or eight per cent *per annum*, whichever is greater,¹¹ on the value of the consideration for which the stock was issued (not on the par value of the stock), and (2) that substantially all of the stock is owned by producers who market their products or purchase their

(7) *Producers Creamery Co. vs. U. S.*, 55 F. (2d) 104 (C. C. A. 5th, 1932); *Riverdale Cooperative Creamery Assn. vs. Commissioner of Internal Revenue*, 48 F. (2d) 711 (C. C. A. 9th, 1931) held that a deduction to pay debts was not a necessary expense of selling.

(8) *Fruit Growers Supply Co. vs. Commissioner of Internal Revenue*, 56 F. (2d) 90 (C. C. A. 9th, 1932).

(9) X-30-5150, Min. 3886 (1931) (*Internal Revenue Bulletin*, Vol. X, No. 30).

(10) *Id.*

(11) An association paying ten per cent dividends was denied an exemption. *South Carolina Produce Assn. vs. Commissioner of Internal Revenue*, 50 F. (2d) 742 (C. C. A. 4th, 1931).

supplies and equipment through the association (else any surplus accumulated would go as profits to non-producers and the association would be a profit-making enterprise). What is "substantially all of the stock" depends on the facts of each particular case. No general rule has been announced. It is required that the association affirmatively show that its stockholders are producers, and it will be called on to explain any non-producer stockholding. It has been ruled that if by *statutory* requirement all officers of an association must be shareholders, the ownership of a share of stock by a non-producer to qualify him as an officer will not destroy the exemption. Likewise, it has been ruled that the association retains its exemption where a *small amount* of stock is held by those who have ceased to be producers after the stock was issued and, because of a constitutional inhibition or other reason beyond the control of the association, it is unable to purchase or retire this stock.

An association may issue *non-voting preferred stock* to anyone, without compliance with the foregoing restrictions, and still retain its exemption, provided that the owners of this stock are not entitled or permitted to participate, directly or indirectly, in the profits of the association, upon dissolution or otherwise, beyond the fixed dividends.

The Commissioner of Internal Revenue has provided in Regulation 77, Article 532, that an association will be allowed an exemption on either its marketing or its purchasing activities if it complies with the requirements of the exemption as to the one of the two activities (marketing or purchasing) but not the other. Where an association sold boxes to non-members, making a profit on such sales, it was taxed only to the extent of this non-member activity,¹² but the question of legality of allowing an exemption was not considered by the court.

Article 532 (c) of Regulations 77 provides that corporations organized by farmers' cooperative marketing or purchasing associations, or the members thereof, for the purpose of financing the ordinary crop operations of such members, or other producers, are exempt, provided the marketing or purchasing association is exempt under section 103 (12) and the financing corporation is operated in conjunction with the marketing or purchasing association.¹³ The provisions concerning reserve funds, surplus and capital stock, are held to apply to such financing corporations.

The last mentioned provisions of the Commissioner, as well as others, are extremely liberal interpretations of the Revenue Act,¹⁴

(12) See: *Fruit Growers Supply Co. vs. Commissioner of Internal Revenue*, 56 Fed. (2d) 90 (C. C. A. 9th, 1932).

(13) Cf: *Burr Creamery Corp.*, 23 B. T. A. 1007 (1931) holding that a corporation, all of whose stock is owned by an exempted cooperative association, is not entitled to claim an exemption.

(14) *South Carolina Produce Assn. vs. Commissioner of Internal Revenue*, *supra*.

and this, despite the general rule that exemptions from taxation are strictly construed.¹⁵ Inasmuch as the coöperative will not object, so long as they are allowed a greater exemption by the Bureau than they would be by the courts, the legality of the Commissioner's extreme liberalizations is not likely to be passed on by the courts. The rulings of the Commissioner have been upheld by the courts in every case, except one, a very recent decision by the Federal District Court of Missouri, as yet unreported.

STATE INCOME TAXES

In the following states there is no income tax applicable to corporations: Alabama, California, Colorado, Connecticut, Delaware, District of Columbia, Florida, Illinois, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Montana, Nebraska, New Hampshire, New Jersey, New Mexico, Ohio, Rhode Island, Tennessee,¹⁶ Texas, and Utah. Most of these states have franchise taxes on business corporations, but inasmuch as the ordinary farmers' coöperative association is not regarded as a business corporation it is not subject to these taxes.

All of the other states have income taxes imposed in language sufficiently broad to include coöperative associations. The usual type of farmers' marketing or purchasing coöperative association has no net income and so is not affected in any way by a net income tax. Even so, some states have specifically granted an exemption, perhaps because the legislatures wished to make assurance doubly sure or perhaps because the legislatures have blindly copied the provisions of the Federal Revenue Act of 1913. "Farmers', fruit growers', or like organizations, organized and operated as sales agents (agent) for the purpose of marketing the products (produce) of its members and turning back to them the proceeds of the sales, less the necessary selling expenses, on the basis of the quantity of products (produce) furnished by them", are exempted from net income taxes imposed in the following states: Arkansas, Georgia, Missouri, North Carolina, Oregon, South Carolina, Vermont (franchise tax measured by net come).¹⁷

Idaho has a net income tax on all corporations, but there coöpera-

(15) See: *Riverdale Cooperative Creamery Association vs. Commissioner of Internal Revenue*, *supra*; *Producers Creamery Company vs. United States*, 55 Fed. (2d) 104 (C. C. A. 5th, 1932).

(16) An income tax providing for an exemption for cooperative marketing associations which complied with certain provisions was enacted but the whole statute was held unconstitutional.

(17) Arkansas, Act 118 of 1929, p. 573, Sec. 6 (7); Georgia, E.S.L., 1931, Act No. 13, Sec. 5 (h); Missouri, R.S. 1929, Sec. 10116 (Eleventh); North Carolina, Rev. Act of 1931, Sec. 314 (8); Oregon, Code 1930, Sec. 69-1311 (G.L. 1927, 427, Sec. 11); as amended by G. L. 1931, c. 273, Sec. 7 (h); South Carolina, Acts 1927, No. 1, Sec. 6 (7); Vermont, P. A. 1931, No. 17, Part II, Sec. 18 (k).

tive associations are specifically exempted in the following language (copied from the latest provisions of the Federal Revenue Acts):

"Farmers' fruit growers', or like associations organized and operated on a cooperative basis (a) for the purpose of marketing the products of members and turning back to them the proceeds of sales, less the necessary marketing expenses, on the basis of either the quantity or the value of the products furnished by them, or (b) for the purpose of purchasing supplies and equipment for the use of members and turning over such supplies and equipment to them at actual cost, plus necessary expenses. Exemption shall not be denied any such association because it has capital stock, if the dividend rate of such stock is fixed at not to exceed the legal rate of interest in the State, on the value of the consideration for which the stock was issued, and if substantially all such stock (other than non-voting preferred stock, the owners of which are not entitled or permitted to participate, directly or indirectly, in the profits of the association, upon dissolution or otherwise, beyond the fixed dividends) is owned by producers who market their products or purchase their supplies and equipment through the association; nor shall exemption be denied any such association because there is accumulated and maintained by it a reserve required by State law or a reasonable reserve for any necessary purpose".¹⁸

Wisconsin exempts the following coöperative associations from paying the income tax: ". . . coöperative associations or corporations engaged in marketing farm products for producers, which turn back to such producers the net profits of the sales of their products; provided, that such corporations or associations have at least twenty-five stockholders or members delivering such products and that their dividends have not, during the preceding five years, exceeded eight per cent *per annum*; also . . . associations and corporations engaged solely in processing and marketing farm products for one such coöperative association or corporation and which do not charge for such marketing and processing more than a sufficient amount to pay the cost of such marketing and processing and eight per cent dividends on their capital stock and to add five per cent to their surplus."¹⁹

The most simply worded exemption of all was adopted recently by the Arizona legislature. From its net income tax is exempted "the income of coöperative associations or corporations engaged in marketing farm products for producers, as defined by Chapter 13, Revised Code of 1928."²⁰ The administration of this tax statute will be easy, but it will make the exemption hinge on the form of the association rather than on its method of operation, which is probably inadvisable.

New York places a tax on the exercise of the corporate franchise measured by the net income of a corporation, but in lieu of this tax

(18) Idaho Ex. Sess. L. 1931, c. 2, Sec. 26 (10). Not only are omissions to adapt the statute to state purposes made, but also the last sentence of the Federal provision, pertaining to non-member business, is left out. The Idaho Regulations No. 2 require the filing of an affidavit by the association as a prerequisite to its exemption from making a return.

(19) Wisconsin statutes (1931), 11th Ed., Sec. 71.05.

(20) Arizona Laws of 1933, c. 39, Sec. 9 (f).

it is provided that "farmers', fruit growers', and other like agricultural corporations organized and operated on a coöperative basis for the purposes expressed in and as provided under the coöperative corporation laws of the State of New York, shall annually pay in advance an annual tax to be computed upon the basis of the amount of its capital stock within the state during the preceding year, and upon each dollar of such amount."²¹ However, this provision for taxation applies only to coöperative associations organized with capital stock. If the association is a non-stock corporation it is specifically exempted from the payment of this tax.²² It should be noted that the tax on coöperatives with capital stock is not measured by net income and so the tax is due whether there is any net income or not.

The following states have income taxes, but the provisions for exempting certain corporations do not include farmers' coöperative associations: Mississippi,²³ Oklahoma,²⁴ North Dakota,²⁵ Virginia,²⁶ Washington.²⁷

Two states, Indiana and South Dakota, impose gross income taxes on corporations. This is a more serious situation for the farmers' coöperative associations, because although under ordinary circumstances they have no net income they certainly have gross income. The exemptions from the Indiana and South Dakota gross income taxes could not be construed to cover the ordinary farmers' coöperative association.²⁸

(21) C. L. New York (Cabill) c. 61, Sec. 188 (Art. 9a).

(22) C. L. New York, 1931, supp. (Cabill) c. 61, Sec. 188 (7), (Laws 1931, c. 289, Sec. 1).

(23) Mississippi G. L. 1924, c. 182, Sec. 18 (Code of 1927, Sec. 5666, Code of 1930, Sec. 5040) exempts "labor, agricultural or horticultural . . . Farmers', fruit growers', or like associations, Federal Land Banks and Farm Loan Associations, when organized and operated for public purposes and when no part of the income inures to the benefit of any private stockholder or member." It seems that the requirement that the association be for a public purpose and that none of the income inure to the benefit of any private stockholder or member modifies "farmers', fruit growers', or like associations", as well as "Federal Land Banks and Farm Loan Associations." This was no doubt, an oversight.

(24) Oklahoma L. 1931, H. B. 480, Sec. 24, But cf.: Rules and Regulations, Income Tax, Art. 186.

(25) North Dakota C. L. Supp. 1913-1925, Sec. 2346a30, allows a deduction to patrons, whether stockholders, members, or not, for amounts distributed by coöperative companies on a strictly patronage basis. As to other corporations there seems to be a tax on both the net income of the corporation and on the income of the stockholder derived from corporate dividends.

(26) Virginia Tax Code, Sec. 52.

(27) Washington Initiative Measure No. 69, Sec. 5(d) exempts corporations not organized or conducted for pecuniary profit. Farmers' coöperative associations would be regarded as such provided the court looked at the nature of the corporation itself and not at the function it performed for stockholders or members. So query whether farmers' coöperative associations are exempted from the Washington income tax.

(28) Acts of Indiana, 1933, c. 50, Sec. 7(b) (effective May 1, 1933); South Dakota Laws of 1933, Sec. 3, Senate Bill 101, which includes Sec. 6670 of the 1919 Revised Code and amendatory acts by reference. South Dakota Compiled Laws of 1929, Sec. 6670, include only agricultural and horticultural societies.

PROJECT 46. Fair and Unfair Competition

OBJECTIVE: To determine fair or unfair competition in a given situation.

(By W. H. S. Stevens)

In the field of agricultural marketing as elsewhere, the question of fair and unfair competition must be approached from both the legal and economic angles. The reason is that these two concepts are not always in agreement. The legal theory is of course important as determining what acts may be regarded as fair and unfair and hence as lawful or unlawful under the existing law. The economic concept, which is broader than the legal, is even more important, however, in providing a sound theoretical test for competitive methods.

The present legal concept of the distinction between fair and unfair competition is substantially set out in the statement of Mr. Justice McReynolds in the Gratz case (253 U. S. 421), though this rule has been somewhat modified by more recent decisions. This statement is as follows:

"The words 'unfair method of competition' are not defined by the statute, and their exact meaning is in dispute. It is for the courts, not the Commission, ultimately to determine as matter of law what they include. They are clearly inapplicable to practices never heretofore regarded as opposed to good morals because characterized by deception, bad faith, fraud, or oppression, or as against public policy because of their dangerous tendency unduly to hinder competition or create monopoly. The act was certainly not intended to fetter free and fair competition as commonly understood and practiced by honorable opponents in trade."

For further developments and modifications of the legal rule, the student should examine the court decisions involving Section 5 of the Federal Trade Commission Act in the Federal Trade Commission decisions, Vol. 1 to 14. These decisions of the Circuit Court of Appeals and the United States Supreme Court will be found in the back part of these volumes. Particular attention should be paid to the Winsted Hosiery, Sears Roebuck, Gratz, Butterick, Pearsall Butter, National Biscuit, Mennen, New Jersey Asbestos, Beechnut Packing, Wholesale Grocers of El Paso, Pacific States Paper Trade and Raladam cases. The decision of the Supreme Court in *Van Camp vs. American Can Company* (278 U. S. 245) should also be carefully examined, Statutes and Decisions, Federal Trade Commission, 1914-1929, and Federal Anti-Trust Decisions (Vols. 1-10) are also valuable.

From an economic point of view as distinct from the legal, the question of fair and unfair competition must be examined with reference to our long-established public policy of competition. Competition, or the competitive process in trade and industry, consists primarily in the struggle of producers and distributors to secure the patronage of customers for their products. The basic reason for the adoption of the competitive principle as a general rule of public policy

in the United States is the assumption that the interests of consumers in prices, quality and incidental services rendered by the seller will be better protected thereby than by any other system of business or industrial organization. In any given situation, therefore, the test to be applied is whether the acts in question do or do not constitute a competition of price, quality and service. Obviously not all kinds of competition are of this character, but fair competition is. Fair competition in the economic sense may be described as a competition of producing and selling efficiency, in other words, competition which is so organized and directed that each organization competes with the other upon the basis of its efficiency in production and sale, obtaining that proportion of the total business which this efficiency enables it to obtain in competition with the producing and selling efficiencies of other units. When competition is conducted on any other basis injury to the public inevitably results. By the introduction of other methods, competitors are able temporarily or indefinitely to interfere with the operation of the competitive process and the consequent elimination of the less efficient organizations. Thus the public is deprived of this competition of efficiency and hence of the resulting protection in price, quality and service. By methods of this character, inefficient concerns may be able to remain in business even though on account of high costs or other factors they would otherwise be unable to survive the competition of more efficient organizations. In extreme instances, moreover, these methods may reverse the situation and make it possible for the concerns using them actually to destroy the more efficient organizations. Illustrations of the application of these principles to concrete cases will be found in ✓ *Stevens' Unfair Competition*, and also in various sections of Federal Trade Commission briefs in the United States Circuit Court of Appeals and in the United States Supreme Court dealing with the economic aspects of various methods of competition in the following cases: *Sears Roebuck, Gratz, Beechnut Packing, New Jersey Asbestos, Kinney-Rome and Raymond Bros.-Clark.*

GROUP E

Projects Dealing with the Public Relations Aspects of Cooperation

The projects in the group are joint with Agricultural Policy, and need very much to be considered in the light of the general discussion of agricultural policy in the introduction to that report.

PROJECT 47. Diffusion of the Benefits of Cooperation

OBJECTIVE: To determine the diffusion of benefits from cooperation among members, non-members, consumers, and the general public.

(By H. E. Erdman)

The study designed to determine the diffusion of economic benefits resulting from cooperative endeavor would in most instances be confined to a single cooperative or to a group of cooperatives handling mainly the same commodity or group of commodities. There is, however, a wide range of possibilities. Such a study might be confined to a single cooperative, such as a local creamery, operating in a single community. It might, on the other hand, be concerned with a large group—the cooperative creameries of an entire state or region. Again, it might apply to a given cooperative holding a dominant position in an industry. But whatever the unit studied, the period covered should be sufficient to allow results to become evident, or else the project should be restricted to those aspects on which results might be expected to be immediately discernible.

So many statements are made concerning the benefits of cooperation or their absence that it seems desirable in so far as possible to ascertain the facts quantitatively as well as to develop qualitative analysis more fully on the basis of such quantitative analysis as is feasible. Furthermore, there are times when it becomes desirable to reason on the basis of the probable diffusion of benefits which may be expected to follow re-organization of the marketing facilities of a region.

The way benefits are diffused will, of course, vary, as may be illustrated by a brief consideration of five cases:

Case I—Such handling by a large dairy cooperative that relatively more of the product falls into the higher grades than prior to the establishment of the cooperative. It is assumed that the improvement consists partly in better care of the cream on the farm and partly in improved practices at the creameries.

Case II—A large fruit-marketing association increases the demand for its products by standardizing on a high plane, branding, advertising, etc.

Case III—A local cooperative creamery decreases costs of operation substantially without curtailing service.

Case IV—A regional cooperative feed-purchasing association makes substantial savings by reduced costs of operation and reduced prices resulting from large-scale buying.

Case V—A cooperative having 90 per cent control of a crop processes a part of it, substantially raising returns on the whole crop but with no net return on surplus.

In the first three cases there would be higher prices to members. In the fourth lower costs. Non-members would doubtless share the gains promptly as a result of a sacrifice of profits by competitors of the coöperative in order to hold business. Frequently such benefits to non-members continue when the new competition stimulates competitors to develop or adapt methods that make it profitable for them to meet the coöperative prices. In the first case, the methods adopted by members to produce superior quality are likely to spread to non-members, though the latter may not at first find it possible to get quality premiums on the open market. Benefits to producers would tend to disappear to the extent that they were ultimately passed on to consumers and to landlords or were capitalized into land prices by the sale of lands to new producers.

Consumers of the products in question will share the gains in varying degree and more or less tardily. In the first case, they would share the gains when (a) the supply of the higher grade product becomes relatively great enough to narrow the premium over the lower grades, or (b) when the stimulus of better prices leads to such an increase of supplies that the general price structure is lowered for the commodity.

In the second case, consumers would benefit only when supplies were increased so as to lower prices, unless, of course, one considers that they are getting a better product.

In the third case only local consumers are involved and they would ordinarily not be benefited unless the coöperative method were to become general, and with similar results, so that enhanced returns would lead to a sufficient increase in supplies to lower the price level. Local consumers might, however, benefit substantially if an increase in supplies changes the locality from an "import" to an "export" basis.

Certain groups of the general public not included above would benefit if competing products (nut margarine or competing fruits) were lowered in price to meet the intensified competition. Land-owners generally would benefit if increased profitability of farming led to increased rentals and higher land prices. Owner-operators producing the commodity in question would not, of course, obtain an additional benefit though they might more advantageously retire from active farming or land ownership.

The fifth case is quite different from the others in that, although the total returns to members are increased, the non-members get the same gross returns but bear none of the costs of the surplus control plan. It differs also in that consumers may actually suffer, except as they may benefit in certain cases by stabilized business or even improved business resulting from increased purchasing power placed in the hands of one group substantially prior to the time any price enhancement reaches consumers. Concerning benefits to land-owners

the situation would be similar to that discussed above except that there would ordinarily be avoidance of a decline instead of positive appreciation. The result would, however, all be temporary if the arrangement were voluntary, since production outside the association would increase if the control price were such as to make production profitable for non-members. The result might be lower prices ultimately if and when the scheme broke down.

To indicate the leading sorts of data to be collected and methods of analysis only Case I will be considered in any detail:

The first question to be asked is the extent to which production has shifted to the higher grades. This should be readily ascertainable if sales records of the coöperative are available for the period in question, or for earlier, intermediate and later portions of it. Simple percentage comparisons should suffice. If similar data are available for private firms as well, it may be possible to determine the extent to which non-members have shifted to the higher grades.

Any change (other than ordinary seasonal changes) in differentials between grades which may have arisen out of altered proportions of the several grades sold should be ascertainable by a study of quoted prices at the leading market through which the product moves.

Gains to consumers from lower prices either of the higher grades from returns to members, or to member creameries. Data on returns should be obtainable from the records of the coöperative. If there has been a narrowing of the quality differentials note should be made of the portion of the period under study when the quality shift was taking place and when the differentials were narrowing, and account taken of the net results of the two changes. If prices paid by private firms for various grades are obtainable as well as quantities of each grade purchased gains to non-members can be similarly ascertained.

Gains to consumers from lower prices either of the higher grades alone or of commodities in general would be more difficult to ascertain. If there has been no measurable narrowing of differentials between grades it may be assumed that there has been no change in the level of the general price structure sufficient to pass measurable parts of the benefit on to consumers. A further check would lie in an analysis of the relation of price to supply during various portions of the period. A noticeable change in the trend of production coinciding with the period of coöperative effort might suggest the influence of enhanced prices.

It would seem that ordinarily changes in price at the wholesale market where detailed quotations are available would serve to indicate whether the benefits have been passed on to consumers. This is on the assumption that there is relatively little lag in retail price changes over wholesale.

The degree to which the benefits of coöperation are ultimately capitalized into land prices would be most difficult to ascertain. Unless

detailed land value studies are available dependence may have to be placed on census data available every five years and not wholly comparable even for those periods. Farm management research data may in some instances be available and usable. Resort may, of course, be had to original land transfer records though at considerable expense.

The difficulties of quantitative analysis of such inadequate data as are likely to be available for the type of study contemplated should lead to particular caution in making inferences. It should not be necessary to point out that positive correlation does not necessarily indicate cause and effect. Moreover, other influences than coöperative endeavor may either obscure or exaggerate the apparent results of coöperation. Qualitative analysis is therefore of particular importance in such a project.

References:

- T. N. Carver, "The Incidence of Costs", *Economic Journal* (December 1924), 34: 576-88.
R. S. Vaile, "Some Long-Time Effects of Cooperative Marketing", *Journal of Farm Economics* (January 1927), 9 (1) 82-93.
H. E. Erdman, "Who Gets the Benefit of Improvement in Agriculture?", *Journal of Farm Economics* (January 1929), 11 (1) 24-43.
Geoffrey Shepherd, "The Burden of Increased Costs of Distribution", *Journal of Farm Economics* (October 1932), 14 (4) 650-661.
B. H. Hibbard, "Who Pays Tariff Duties?", *Journal of Economics* (October 1931), 13 (4) 547-553.

PROJECT 48. Public Representation on Cooperative Boards

OBJECTIVE: To determine the circumstances under which and the extent to which the public needs representation in the management of cooperatives or upon collective bargaining boards.

(By John D. Black)

Coöperative organization of some commodities has reached the point where the public interest as well as the producer's interest must be specifically represented. This is most conspicuously true in collective bargaining between producers and distributors as to the price of milk. The distributors have for the past ten or fifteen years recognized that in normal times it is simpler to pay the producers what they want and raise the price of milk a cent a quart to consumers than to follow the opposite policy, in any market where outside competition from other producing groups and other distributing agencies (such as chain stores) does not interfere. The protection of the consumer thus consists only in the fact that if the price to producers is too high a surplus will develop. But even in this event, the surplus may be devoted to lower-order uses and the price to consumers maintained for a while.

The three most likely procedures for dealing with such a situation are: (a) Have the city or state appoint representatives with voting powers upon the boards of the coöperatives, or on collective bargaining boards; (b) give a public authority power to establish the prices; (c) set up a public welfare board of some kind to observe and analyze conditions and report its conclusions to the public.

The Capper-Volstead Act was supposed to provide the third of these arrangements. This feature of the Act has never worked entirely as was intended. In practice, those responsible for its administration have assumed that potential increase in production protects the consumers sufficiently. In several instances the producers' associations themselves would have been greatly benefited if the foregoing assumption had not been made, since the price policy they followed resulted later in disaster.

The legislation of the spring of 1933 has granted new powers to the Department of Agriculture, and it is too early to determine possibilities.

Public welfare boards have not ordinarily functioned very effectively. They have been disposed to pursue easy courses so long as they were not under pressure. Consumers are seldom organized and hence exert little pressure.

Research upon this problem could take the following lines:

A. Ascertain the needs for such protection of the public interests by studying the situation with various commodities in different markets. Several projects discussed elsewhere offer suggestions as to procedure—Nos. 27, 28 and 47 in this report, and several in the report upon Prices of Farm Products.

B. Review the analysis made by the Federal Trade Commission of situations involving coöperatives.

C. Make case studies of any available experiences along any of the foregoing four lines, but more particularly along the first. Some significant foreign experiences should probably be analyzed.

D. Outline plans that seem adapted to American conditions and endeavor to have them tried and tested.

PROJECT 49. Public Relations Maintenance

OBJECTIVE: To determine the effectiveness of the practices and procedures of various cooperatives for attaining and maintaining desired relations with the public.

(By M. R. Benedict)

Before even the objectives of such a study are set up, it is desir-

able to define, or to indicate possible definitions for, certain of the terms. The public may be thought of as the whole of society other than the members of the cooperative under study. This, however, embraces a number of groups which may have very different views on and reactions toward the program of the cooperative. We may mention, for example, those people who are primarily concerned as consumers of the product handled; other handlers of the product; non-member producers of the product; and even groups of business men or consumers who are not directly affected but who have pronounced views, fears or prejudices which cause them to favor or oppose cooperative activities. Possibly even more often the person speaking of research of this type has in mind, not studies of public relations but of relations between the cooperative and its members and prospective members.

Nor is the concept of "desired" or, as sometimes stated, "proper" relations very accurately used. This means ordinarily, so far as the cooperative is concerned, an attitude favorable either to working through the cooperative or to allowing it to do as it wishes, constraint being at a minimum. This attitude on the part of the cooperative may even go so far as to include the disparagement of all information except that supplied by the cooperative itself, thus tending to build up a blind and semi-fanatical loyalty to itself, a development which could hardly be called "proper" from a broader public point of view.

In the light of these comments we may indicate objectives of the study, in part at least, as follows:

1. To ascertain what various cooperatives regard as desirable public relations and what constitutes the public they visualize.
2. To identify and analyze the various groups which have significant attitudes toward the cooperative. (For example, its competitors may be a very small group, but may, if thoroughly aroused, be more important in affecting the fortunes of the cooperative than a much larger group consisting of rather inactive consumers.)
3. To identify the practices of the cooperative which are carried on with a view to influencing the attitudes of one or more of the above groups.
4. To appraise the effectiveness of given practices and programs in attaining certain identified ends.

This is primarily a study in attitudes and in advertising methods. The methodology indicated for Project 43 in Bulletin No. 1 of this series (Research in Public Finance in Relation to Agriculture) and in several projects in the report on Rural Social Psychology will be found helpful. The methods used in studying the effects of given types of advertising will of course apply. See Project 41 in the

report on Marketing of Farm Products. In considering possible objectives of the cooperative's program in public relations, much food for thought will be found in Bulletin 211 of the Minnesota Experiment Station, *Coöperative Central Marketing Organization*.

References:

- J. Clyde Maquis, "Keeping the General Public Informed," *American Cooperation* 1927, Vol. II, pp. 749-58.
Robin Hood, "The Policy of a Cooperative Paper," *American Cooperation* 1927, Vol. II, pp. 787-97.
J. W. Cummins, "What Should the Public Know about a Cooperative?," *American Cooperation* 1929, pp. 266-78.

PROJECT 50. Public Regulation and Supervision of Cooperatives

OBJECTIVE: To determine the forms of public regulation or supervision of cooperatives that are beneficial to them and to the public.

(By M. R. Benedict)

To discuss either the objectives or the qualitative principles involved in this project with any fullness would require far more space than is allotted to it in this bulletin. Many of the principles and types of problem involved are much more fully developed in the report on Agricultural Policy. Possible suggestive lines of development can only be mentioned briefly here.

The specific objectives will include:

1. Identification of the ways in which the activities of the cooperative affect the public.
2. Appraisal of these activities in the light of certain identifiable and more or less accepted criteria of public interest.
3. Ascertainment of the forms of regulation affecting coöperatives. (This may bring into consideration some that are not in use as well as those that are now in effect.)
4. Analysis of the influence of the regulatory activities under 3 upon the coöperative and upon the ways in which its activities affect the public.
5. A coördination of 2 and 4 to determine wherein the interests of the coöperative and of the public are in harmony and wherein they are at variance.

Public regulation and supervision display wide variations in degree and in directness of relationship. Many phases of regulation are merely permissive and are intended to facilitate and encourage coöperation; others are virtually coercive, while still others are

regulatory in the more generally accepted sense in that they mark out certain specified lines of procedure which must be followed, or indicate certain limitations beyond which procedure in certain directions may not go.

In the first class are the special provisions for incorporation of coöperatives, many of which give to these organizations privileges and liberties not granted to other types of corporation. Even the prescription of forms of organization and types of financial set-up may be interpreted in most instances as means of aiding the development of the coöperative by prescribing the procedure deemed most likely to make it successful as an organization, not as a means of protecting the public interest.

The harmony or disharmony of interests with respect to these types of public authorization and regulation can be determined only in the light of certain criteria which rest on rather sweeping assumptions. Such provision imply that the coöperative mode of functioning is desirable, and that it should therefore be fostered. Its desirability may be predicated upon an assumed superior efficiency, upon its different principles concerning the distribution of proceeds from sales, upon psychological considerations (e.g., producer attitudes toward privately owned marketing machinery), or even upon a presumption that a different distribution of wealth resulting from some degree of monopolization would be in the public interest. Undoubtedly the first of these has been the one most prominent in public expressions on the subject, though the last has been by no means absent, especially in meetings of farmers.

Public interest is, of course, very difficult to define. The public is by no means a unit. Probably the consumers of the product will constitute the most definite and suitable group to consider in this category. Their interest will lie for the most part in sponsoring a more efficient system of functioning, especially if it appears that they will share in the gains. They will not intentionally authorize a monopolistic concentration of authority unless they regard it as impossible for this to be used to raise the prices they pay or unless they feel that the disparity of income, for example to the farm group, is so great as to constitute a menace to the rest of society and thus to warrant drastic means for the transfer of wealth from one class to another. To undertake a specific determination of this aspect of the problem would be beyond the scope of this project even were it a possibility in the light of the many diverse situations. Some assumption must therefore be made. The assumption usually made in recent years is to the effect that coöperative functioning affords sufficient possibility of greater efficiency to warrant public approval and encouragement. One should not, however, lose sight of the fact that these authorizations are usually the outcome of agitation by aggressive groups having special interests and do not necessarily

represent a considered weighing of the public interest by legislative bodies.

Much the same reasoning applies with respect to the coercive types of public action. These have come most definitely into consideration in the activities of the Federal Farm Board. Here financing arrangements by a government agency were rather definitely designed to force farmers to market through certain cooperative agencies. Presumably the purpose was to raise the prices paid to farmers even though this might involve higher prices to consumers. Acceptance of this view implied an emergency sufficient to warrant governmental attempts to alter the distribution of wealth, the cooperative being merely the machinery for bringing about such transfer. A secondary objective which looked merely to the more rapid development of supposedly better marketing machinery was, of course, also a consideration.

Both the coercive type of governmental action and that first discussed may well be examined for their possible unfavorable effects upon the cooperative in the long run. Cooperatives which are formed under pressure and in advance of adequate education seem to lack something of the vigor of those arising under less paternalism. Special consideration of this aspect of the problem is needed in connection with the growing interest in compulsory cooperation. The recent sharp reversal of attitude toward the consumption of liquor may be an indication of a tendency to try control by persuasion instead of compulsion.

Specific guidance of cooperatives in management, grading of products, branding, quality, etc., has as yet been little undertaken by government except along educational lines. In so far as these activities have been carried on they have apparently been concerned more with fostering the cooperative movement than with protection of the public. Fostering of cooperatives has in fact been the central thread of practically all the governmental activity up to this time.

Methods of analysis

The first objective resolves itself primarily into a determination of the effect of cooperative action on prices. This, of course, can be undertaken only in relation to given cooperatives and specific products, and is a matter of great difficulty. Since its general procedure is much more fully covered in various projects in the report on Research in Agricultural Prices and on Research in Agricultural Marketing than it could be here, it is not discussed here.

Analysis under No. 2 involves identification of certain public attitudes along the lines indicated in Project 49 and relating to them the findings above indicated.

Procedure under No. 3 is sufficiently obvious and need not be discussed here. It is mainly a problem of identification and classification.

Number 4 probably presents the chief difficulties from the standpoint of analysis. In the light of the conclusion drawn above that practically all of the public activity affecting coöperation is intended to foster it rather than to curtail and restrict it, this study becomes one of the effects of given regulatory and paternalistic activities upon the attitudes of growers toward the coöperatives. It thus involves much the same type of approach as that indicated for Project 48; namely, that of attitude study, as developed in the report on Rural Social Psychology.

PROJECT 51. Public Aid to Cooperatives

OBJECTIVE: To analyze the public aid aspects of agricultural cooperation under the following heads:

- a. Loans for organization expenses
- b. Loans for plant and equipment
- c. Loans for advances on products or current operating expenses
- d. Assistance in planning set-ups
- e. Assistance in membership solicitations
- f. Assistance in management problems—accounting, record-keeping, analysis of operation problems, etc.
- g. Official shipping-point inspection
- h. Compulsory pooling
- i. The role of the extension service
- j. Prevention of unfair competition
- k. Inspection and supervision

(By M. R. Benedict)

Analyses of the kinds indicated in this project will follow much the same lines as those indicated for Projects 49 and 50. In this project, however, we are considering more than a permissive attitude. The question raised is, in the light of the assumed advantages of coöperation to the public, how much the latter is warranted in subsidizing it. This does not necessarily rule out consideration of such aid even if the advantages accrue only to farmers, if they are sufficient to offset the expense. Various groups are aided at public expense, the advantage often being confined to a specific group rather than spread widely among the various groups. Such activities are not regarded as against the public interest if their benefit accrues to a fairly large group and on a scale sufficient to cover the costs.

For actual study, except of the most general kind, the approach will have to be through case studies with attempts to generalize from

these. Thus analysis under subheads (a) and (b) may take somewhat the form outlined for Project 17-2 in Bulletin No. 3 of this series (Research in Agricultural Credit); subdivision (c) could be approached somewhat along the lines indicated for Projects 13 and 17-2 of that Bulletin.

The types of aid indicated under subheads (d), (e), (f) and (g) present extremely difficult problems in the measurement of results. These are not alone in deciding whether the general assumption concerning the desirability of the cooperative plan of functioning is warranted. They also involve a decision whether efforts and expenditures intended to aid in the development of a cooperative actually result in strengthening it, and if so, how much. Furthermore, assuming that the effect on the cooperative can be increased, how much is such improvement worth to the cooperative and to the members for whom the cooperative is acting? Only after some estimate has been made concerning these items is it possible to approach the original question of the extent to which the government is warranted in assisting.

Viewing the matter first from the standpoint of the cooperative we may perhaps reach an approximate basis of estimate by studying the amount which relatively well-financed cooperatives find it worth while to expend for such services. Most cooperatives are not well-financed when they are being organized, but there are not infrequent instances of re-organization where sufficient funds are available to provide any assistance deemed really justified. It must be granted, however, that these expenditures are frequently based upon unwarranted expectations as to the results to be achieved by the organization. This, however, is true of a great many business expenditures of all kinds, and is probably reasonably well discounted in the long run. Thus far the problem is largely that of determining what the cooperative would do if it could, and of considering the possibility of doing this at public expense if the cooperative is not in a position to act. Thus the form of subsidy can be appraised, from the public point of view, only along the lines indicated in Project 58. Probably the most generally accepted criterion will be that of increased efficiency of functioning, in terms of dollars and cents. If then we attempt to estimate the savings which are possible through performing given functions cooperatively as compared with those made in the absence of cooperatives, we have some approach to a measurable result desirable from the development of the cooperative. It is, however, primarily from the viewpoints of the farmers and the consumers, and assumes that any advantage accruing to either or both of these groups is a public gain, ignoring the fact that some of this gain constitutes a loss to the small group which has previously been performing the given function. Whether such transfer of income is desirable depends upon one's philosophy.

Such analysis may be carried out in terms of actual reductions in the required effort and investments for performing the function regardless of who supplies the effort and investments. This would seem to be the more solid ground for judgment as to the amount of public participation. If such an appraisal of possible savings in the gross amount and value of effort and investment can be made it would appear that public participation might be warranted in any amount up to this gross saving, letting the advantages fall where they may in the series of economic adjustments which follow. Even though such a measurement be approximated, it still leaves, of course, a second problem in the extent to which the activities here considered are effective in achieving the type and degree of coöperation required to bring about the saving. In so far as efforts are not fully effective, their valuation will have to be reduced. It is what they add, not the total accomplishment, that is significant in the present study.

The analysis is not complete even yet. If some gross amount of input by the public is found to be warranted, the problem of deciding the relative extents of the various kinds of activity still remains. The relative costs of performance by the coöperatives and by government agencies may afford some help. Assistance in planning set-ups may, for example, involve rapidly decreasing costs as more organizations are served. Assistance in soliciting memberships may show relatively little variation in cost; that is, can perhaps be done about as cheaply by the coöperative as by a government agency. Assistance in management problems, again, is likely to show greatly increased effectiveness and lowered costs as more organizations are served. These general principles seem to point to rather definite differences in the desirability of government activity along these various lines entirely aside from the important differences in public reaction to the different activities, a factor which needs to be considered even though it may not lend itself to measurement. It is possible that an unconscious recognition of this difference in the cost of performing these different services is partly responsible for the differences in attitude manifested by the public.

Much the same reasoning applies to official shipping point inspection. To accomplish the same results without it would require extensive advertising of brands and very expensive promotional work. This is not a service for coöperatives only but a means, under certain conditions, of lessening materially the cost of selling products. The saving is fairly measurable and can be quite readily balanced against the cost of providing the service under given conditions. Possible developments over a period of time must, of course, be considered.

Compulsory pooling raises other problems, but they are not as inherently different as they may appear at first glance. Fostering

the coöperative plan of operation means an effort by the public to change the mode of functioning despite the opposition of a given group, in this case the proprietary functionaries. Compulsory coöperation involves coercing a minority group, not of market functionaries but of farmers. The latter group is likely to be larger, but the same analytical treatment would seem to apply.

The rôle of the extension service has, in a sense, already been discussed. However, whether it or some other agency of government is best fitted to perform the given services must still be decided. If public agencies seek to prevent unfair competition, especially with reference to coöperatives, a different philosophy is implied from that which runs through most of the above discussion. This other philosophy contemplates the maintenance of a high degree of competition among the various agencies, thus allowing those types which prove most efficient to become dominant. If this is the basic policy, it is clearly indicated that the public should go to any reasonable lengths to prevent unfair practices. Difficult problems of definition and of control are, of course, presented in such a program. Except as it can be demonstrated that coöperatives are more vulnerable to unfair trade practices than are private agencies, this is not specifically a relationship of the public to the coöperatives but one to business in general. If this basic point of view is accepted, the types of assistance, encouragement and coercion indicated above are inconsistent with it and should be eliminated. If such a view is not taken, action to prevent certain trade practices should be viewed as additional governmental fostering of coöperatives unless it applies equally to all types of functionary. The one philosophy or the other should be carried through consistently.

Inspection and supervision, if carried on with a view to fostering and improving coöperatives, would be analyzed along lines already indicated. If with a view to protection of consumers, a development of new criteria of an ethically sound basis is involved unless that of a high degree of competition is accepted. If there is to be some fostering of coöperation and possibly even some attempt to change the distribution of income through certain types of approved monopolization, there is no existing standard as to how far this may properly go.¹

In the analysis of all these aspects of coöperation there seems no feasible approach except to study many individual instances and to generalize from these.

(1) The researcher attacking problems of this type will find much in the way of suggestive principles and method in E. G. Nourse's article, "The Economic Philosophy of Cooperation," in the *American Economic Review* (December 1922), pp. 577-97; and in Bulletin No. 211 of the Minnesota Agricultural Experiment Station, *Coöperative Central Marketing Organization*, by J. D. Black and H. B. Price.

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SECTION TWO

COOPERATION BY FORMS OF ACTIVITY

In this section, the emphasis is upon differences in structure, procedure, etc., that arise from the differences in the form of economic activity, whether production or marketing, buying or selling, etc., and from differences in the commodity handled, whether perishable or non-perishable, etc. In the past, most coöperative research has been organized along these lines, and no doubt the larger part of it will be so organized in the future. This report departs from the usual to the extent of discussing research from the other approach first. This order has been adopted because research in the field has of late manifested little evidence of growth. Apparently when all aspects of coöperation are considered in one project, the treatment of each is in danger of being very general and superficial. There is of course a similar danger when one aspect is considered for all the different forms of coöperative activity; but the important differences overlooked will be those which have been receiving most attention thus far. Changing to the other approach for more projects should bring out the differences and details that have commonly been overlooked in recent research.

To discuss in detail all the important projects that might be listed under both Sections I and II would involve much repetition, since the discussion in Section I is nearly all pertinent to most of the projects in Section II. *The discussion omitted from the projects in Section II concerns only the differences and details that apply to particular lines of activity and products, commodities or services.*

GROUP F

Projects Relating to Cooperative Selling

PROJECT 52. Cooperative Aspects of Local Selling Units

OBJECTIVE: To analyze the cooperative aspects of a group of

the coöperative plan of operation means an effort by the public to change the mode of functioning despite the opposition of a given group, in this case the proprietary functionaries. 'Compulsory co-operation involves coercing a minority group, not of market functionaries but of farmers. The latter group is likely to be larger, but the same analytical treatment would seem to apply.

The rôle of the extension service has, in a sense, already been discussed. However, whether it or some other agency of government is best fitted to perform the given services must still be decided. If public agencies seek to prevent unfair competition, especially with reference to coöperatives, a different philosophy is implied from that which runs through most of the above discussion. This other philosophy contemplates the maintenance of a high degree of competition among the various agencies, thus allowing those types which prove most efficient to become dominant. If this is the basic policy, it is clearly indicated that the public should go to any reasonable lengths to prevent unfair practices. Difficult problems of definition and of control are, of course, presented in such a program. Except as it can be demonstrated that coöperatives are more vulnerable to unfair trade practices than are private agencies, this is not specifically a relationship of the public to the coöperatives but one to business in general. If this basic point of view is accepted, the types of assistance, encouragement and coercion indicated above are inconsistent with it and should be eliminated. If such a view is not taken, action to prevent certain trade practices should be viewed as additional governmental fostering of coöperatives unless it applies equally to all types of functionary. The one philosophy or the other should be carried through consistently.

Inspection and supervision, if carried on with a view to fostering and improving coöperatives, would be analyzed along lines already indicated. If with a view to protection of consumers, a development of new criteria of an ethically sound basis is involved unless that of a high degree of competition is accepted. If there is to be some fostering of coöperation and possibly even some attempt to change the distribution of income through certain types of approved monopolization, there is no existing standard as to how far this may properly go.¹

In the analysis of all these aspects of coöperation there seems no feasible approach except to study many individual instances and to generalize from these.

(1) The researcher attacking problems of this type will find much in the way of suggestive principles and method in E. G. Nourse's article, "The Economic Philosophy of Cooperation," in the *American Economic Review* (December 1922), pp. 577-97; and in Bulletin No. 211 of the Minnesota Agricultural Experiment Station, *Cooperative Central Marketing Organization*, by J. D. Black and H. B. Price.

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- C. W. Warburton, "Relation of the Department of Agriculture and the Extension Service to Cooperative Marketing," *American Cooperation 1925*, Vol. I, pp. 581-93.
- J. Russel King, "An Australian Dairy Produce Control Board," *American Cooperation 1927*, Vol. II, pp. 801-10.

SECTION TWO

COOPERATION BY FORMS OF ACTIVITY

In this section, the emphasis is upon differences in structure, procedure, etc., that arise from the differences in the form of economic activity, whether production or marketing, buying or selling, etc., and from differences in the commodity handled, whether perishable or non-perishable, etc. In the past, most coöperative research has been organized along these lines, and no doubt the larger part of it will be so organized in the future. This report departs from the usual to the extent of discussing research from the other approach first. This order has been adopted because research in the field has of late manifested little evidence of growth. Apparently when all aspects of coöperation are considered in one project, the treatment of each is in danger of being very general and superficial. There is of course a similar danger when one aspect is considered for all the different forms of coöperative activity; but the important differences overlooked will be those which have been receiving most attention thus far. Changing to the other approach for more projects should bring out the differences and details that have commonly been overlooked in recent research.

To discuss in detail all the important projects that might be listed under both Sections I and II would involve much repetition, since the discussion in Section I is nearly all pertinent to most of the projects in Section II. *The discussion omitted from the projects in Section II concerns only the differences and details that apply to particular lines of activity and products, commodities or services.*

GROUP F

Projects Relating to Cooperative Selling

PROJECT 52. Cooperative Aspects of Local Selling Units

OBJECTIVE: To analyze the cooperative aspects of a group of

local cooperative selling units where marketing conditions do not vary greatly. Farmers' grain elevators are here chosen merely as an example.

(By H. B. Price)

More particularly the purposes of the project are to analyze cooperative aspects of the following:

1. Corporate organization
2. Operating set-up
3. Membership agreements and relations
4. Financial structure
5. Economic organization
6. Price policy, including pooling arrangements and method of paying patrons
7. Competition
8. Distribution of savings and accounting
9. Combination of enterprises
10. Accounting systems

In practice, such a project is likely to combine the forms of analysis of marketing organization and business procedure discussed in Groups D and E of the report on Marketing of Farm Products with the analysis of those aspects of the foregoing that pertain especially to coöperatives. Obviously there is need here to discuss only the latter. The strictly coöperative aspects of local selling units are so closely associated with those common to all local selling units that the two cannot be kept entirely separate in analysis. Moreover, emphasis on the coöperative aspects may be achieved by giving most consideration to those parts or problems of the business unit—financial structure, membership relations, corporate organization and the like—which are chiefly affected by coöperative practice, or by analyzing, in so far as possible, only the phases of each problem that have coöperative marketing significance.

The records of coöperatives constitute the best source of data. Records of central commission or overhead coöperative selling agencies, commercial auditors and regulatory bodies are also important sources for marketing data but they are generally an unsatisfactory source of information on the coöperative aspects of the project. The records of the coöperatives themselves must be the chief source of this information. The field work requires field men who are thoroughly conversant with the details of organization and operation of farmers' elevators and who have a good understanding of the principles of coöperation and the practices of coöperatives, as much of the information regarding coöperative practice must be ob-

tained from officials of the coöperatives, both because of the non-statistical character of some of the information sought and because of the incomplete systems of record-keeping among local market business units. The articles of incorporation and by-laws, the membership agreement, and the business accounts contain much data on coöperative business practice, but these sources must be supplemented by interviews with officials of marketing units to determine the extent to which coöperative practices are observed and the reasons for variations in coöperative practice.

The method of analysis suggested is a combination of statistical, based on surveys, and of case, based on supervised record-keeping, for a number of types in the region. The case studies are suggested to furnish detailed data to supplement the more general data obtained from the surveys. The special problems of coöperatives are not as well adapted to statistical analysis as those of marketing in general, and more reliance must consequently be placed on qualitative explanations of coöperative practice and reasons for the prevalence of unsound coöperative practice.

The project can be accommodated in size to the resources for research. As a minimum, 40 or 50 elevators will ordinarily be an adequate sample for the survey, providing there are not too great variations in the methods of operation or in the form of organization of elevators. Two or three elevators for each important variation in type will also generally suffice for case studies. The study can then be made as much larger as funds make possible. A well-trained research assistant, with a small amount of clerical help, will be required for a year to plan the study and collect and tabulate the data. More time will be required if the case studies are continued for more than one year, a desirable procedure if funds are available. Another six months or a year, depending upon the size of the study, should be allowed for analysis of data. Factors to be considered in the selection of elevators for the study would be the combination of grains handled, the size and nature of sideline businesses, and the coöperative form of organization. Selection of elevators on the basis of volume and nature of business may be facilitated by securing such data as are generally obtainable from auditors, commission firms, central coöperative sales agencies or the annual reports of elevators. Questionnaires mailed to the elevators will provide a limited amount of general background information in the area selected for study on the coöperative practices that can be used as a basis of sampling. The corporate form and coöperative business practices of farmers' elevators vary greatly. At one extreme, there may be some organizations established under general corporation laws that observe the spirit and some of the business practices of coöperative associations; at the other extreme are those organized under the coöperative laws and observing all the accepted practices of coöperation.

More research has been done on farmers' elevators than on any other local coöperative selling units. The pioneer work by the old federal Office of Markets and Rural Organization was on the accounting and management problems (by Humphrey and Kerr) and the legal and coöperative aspects (by Jesness). The Division of Agricultural Economics at the Minnesota Agricultural Experiment Station started research in this field at about the same time. The experiment stations of Iowa, Nebraska and other important surplus grain-growing states soon followed with a similar program. The most comprehensive research project was undertaken coöperatively by the federal Division of Coöperative Marketing and the Agricultural Experiment Stations of Minnesota, North Dakota, South Dakota and Montana, about 1925, a thoroughgoing analysis of all phases of farmers' elevators in the spring wheat producing areas of these states was proposed. The plan was to divide the work among the coöperative agencies according to interest, training and availability of research personnel and to pursue the research for five years. Although unforeseen and unavoidable obstacles prevented the completion of the program as outlined, the undertaking was successful in correlating and directing much research subsequently undertaken in the spring wheat territory. More recently a similar project has been started in Missouri, Kansas and Oklahoma under the leadership of the Division of Coöperative Marketing.

Much material on research in this field has been published and only a selected list can be suggested here. Probably the best sources of general information are The Report of the Federal Trade Commission on the *Grain Trade*, Vol. I, *Country Grain Marketing*, and Vol. IV, *Costs and Margins in Grain Marketing*; also *American Coöperation 1925*, Vol. 2, *American Coöperation 1926*, Vol. 2, and *American Coöperation 1927*, Vol. 2. Various aspects of management problems are discussed in Montana Bulletin 226, *Current Problems of Montana Farmers Elevators*; in North Dakota Bulletin 206, *Farmers Elevators in North Dakota*; *Organization, Operating Methods and Costs*; in Minnesota Bulletin 224, *Management Problems of Farmers Elevators*; Minnesota Bulletin 251, *Economic Aspects of Local Elevator Organization*; Ohio Bulletin 416, *Economic Aspects of Ohio Farmers Elevators*; and various mimeograph publications of the Division of Coöperative Marketing. U. S. D. A. Bulletin 236 presents a system of accounts together with instructions on its use, and U. S. D. A. Bulletin 371 discusses accounting aspects of patronage dividends. Iowa Bulletin 283, *Retail Credit in Iowa Farmers' Elevators*, discusses the credit problem of handling sidelines. Iowa Bulletin 211, *Fifty Years of Farmers Elevators*, although chiefly an historical treatise, includes a good analysis of the coöperative aspects of farmers' elevators.

Two major criticisms may be made of the research work repre-

sented by these studies. First, they have not emphasized sufficiently the coöperative aspects of farmers' elevators. Second, their accomplishments do not justify the large investment made over fifteen or more years. The period has of course been characterized by rapid shifts in personnel of research staffs and changing demands for research, with many attendant interruptions. It would appear, however, that *more continuous research* in the field by the various research agencies, *better correlation of the research programs* by the agencies, and perhaps *a more aggressive leadership by the federal Bureau of Agricultural Economics* would have given us much greater progress in this important field of research.

PROJECT 53. Cooperative Aspects of a Commission Unit Operating in a Terminal Market

(By L. B. Mann)

Coöperative livestock commission agencies are handling approximately 16 per cent of all of the livestock in the United States slaughtered under federal inspection. On the specific markets where they are operating, coöperative agencies are handling from 10 to 40 per cent of the total receipts. In 1932 the 38 agencies in operation handled approximately 13 million head of livestock. Consequently these agencies occupy an important place in the livestock marketing field. The following outline covers several points which should be considered in a critical business analysis of a coöperative livestock commission agency:

I. Character and caliber of board of directors and management

There is a direct relation between the management of the coöperative agencies and the success of the enterprise.

II. The valuation of service of various departments of the business

1. Office
2. Yard (should include sales and purchases of livestock)
3. Field

Standards of service for the above-mentioned departments have been set up in Technical Bulletin 57, United States Department of Agriculture, 1928, by C. G. Randell. These standards are measuring rods to test the efficiency of operation in the various departments of the commission business. Circular 86, United States Department of Agriculture (1929), by K. B. Gardner is a business analysis study of the Producers Livestock Commission Association of National Stock Yards, Illinois.

III. *Membership relations*

1. Most effective type of publicity:

- A. Market letters
- B. Pamphlets
- C. House organs
- D. Radio

2. Most effective type of field work:

Recently various methods have been devised for the improvement of membership relations, but more work needs to be done in this field.

- A. Salesmen who appraise weights and values of livestock
 - B. Field men who work with individual farmers and local organizations
 - C. Members of boards of directors hired to do field work
3. Studies of continuity of shipper performance and relative importance of shipper groups
 4. Field studies of shippers attitudes toward agencies

IV. *Adaptation of terminal coöperative sales agencies to recent trends in livestock marketing*

1. Growth of direct buying by packers
2. Correlation of direct marketing and terminal marketing needed
3. Growth in movement of feeder cattle direct from range to feedlot
4. Analysis of breeder-feeder operations where livestock is fed on joint contract

V. *Attempts to market livestock in an orderly manner*

1. The Texas Livestock Marketing Association, which has cattle of its members on pasture in the Osage country of Oklahoma, and in the Flint Hills of Kansas, is directing and distributing the marketing of cattle to river markets which offer the best demand. By so doing the association avoids gluts and helps to stabilize market values. In this connection representatives of the Farm Board have made detailed studies of livestock supplies and market movements in the leading cattle-and sheep-producing and feeding areas in the seventeen western range states. Background information essential for setting up an orderly marketing program has thus been furnished. Further work is needed to appraise and evaluate the data collected and to discover the factors responsible for changes in time and volume of market movement.
2. Consideration has been given to setting up a clearing-house of information in the office of the National Livestock Asso-

ciation which would help to correlate terminal coöperative selling activities with those of other coöperative agencies doing a direct marketing business.

VI. *Policies of livestock terminals with respect to livestock financing*

1. Some agencies believe that livestock financing should not be too closely affiliated with the terminal marketing association. There is a danger of using the loan service to build up volume for the marketing agency without due consideration to safety of loans. However, there is but little question that the coöperative association, with its knowledge of the livestock business, is in a better position intelligently to finance feeding and grazing operations than are uninformed and disinterested loaning agencies. In some territories a loan service is very essential to the development of a successful coöperative. In this connection studies should be made of the effect of loan service on volume of business and of losses sustained by terminals. The Farm Board prepared a guide for making livestock loans in eastern states in November 1932.
2. Where coöperative commission agencies are originating loans, handling the paper work on loans, and also taking care of inspections, studies need to be made to determine the proper compensation for those services. This is especially true where the credit corporation handling the discounts is responsible for all losses—in other words, where terminal agencies do not endorse the livestock paper offered for discount.

VII. *Refund policy*

Which is the better policy to pursue: lower commission charges or refund to shippers earnings above expenses on business handled? In this connection studies should be made of the effect of the recent orders by the Secretary of Agriculture to reduce commission rates on the central markets.

VIII. *Relation between volume of business and earnings*

At what point in the growth of a livestock commission agency are net earnings per carload of business handled largest? What is a proper charge for selling and buying livestock and performing the various services in the livestock commission business?

IX. *Relation between volume of receipts and terminal market prices*

Determine the effect of receipts on market prices.

X. *Weights and prices of livestock sold by the coöperative and average weight and prices of livestock for the market as a whole*

The results of the comparison should be a check on the selling ability of the coöperative agency.

XI. *Costs of the agency*

Study the costs of the agency by departments to determine which are operating at a loss and which at a profit.

XII. *Sales policies*

Determine the sales policies of the organization and the information salesmen have upon which to base the prices at which they offer livestock for sale.

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PROJECT 54. **Selling Problems of Decentralized Cooperative Associations**

(By James M. Tinley)

Many articles or bulletins have been published on the operations of large-scale cooperative associations of the federated type. Several studies have been or are being made of the operations of the California Fruit Growers Exchange, the Land O'Lakes Creameries, Inc., the American Cotton Growers Exchange, the California Fruit Exchange, the Wisconsin Cheese Producers Federation, and the Tillamook County Creamery Association. The primary objective of these studies has been to present a balanced analysis of the operations of particular associations, including the reasons for and methods of formation, legal and structural set-up, methods of financing, and of operation, price and sales policies and methods, membership relations, and the extent to which the associations have succeeded or failed to attain their objectives. Many of these studies throw some light on the problem of selling methods of decentralized cooperative associations. But several new federations have been set up in recent years, and the older federations are finding that the depressed business conditions have brought to the front special selling problems which directly arise out of or are related to their structural organization. These developments and changes are of relatively recent origin and are not treated in the earlier literature. Moreover, most of the literature deals with the operations of in-

dividual associations. There is urgent need to bring together the selling experience of various federated organizations in order to point out more clearly the advantages and limitations connected with the handling and selling of various types of agricultural commodity through federated cooperative associations under different business conditions.

Selling methods and price policies of cooperative associations depend upon and are influenced by a number of factors such as area covered, organizational structure, the type of commodity handled, its destination (local or distant markets), nature of competition from independent dealers, pre-existing methods of marketing (type of product). It is proposed in this project to analyze the interrelationship between selling methods and organizational set-up, bearing in mind, however, that the set-up of an association may itself be conditioned to a certain extent by some of the other factors mentioned above. For instance, pre-existing conditions for the marketing of a particular commodity or the area to be covered may be the most important factor determining the type of cooperative association that is developed.

Control of selling policies of a federated cooperative association is in large degree in the hands of the locals comprising its membership, whereas in a centralized organization it is in the hands of the central office. However, some of the cooperative associations operating in the United States cannot be classified clearly as either federated or centralized cooperative associations. Moreover, in many associations while the nominal organizational set-up is of the federated type, for some reason or other control over selling policies may actually have come to rest in the central association. It would probably be better to analyze first the selling methods and policies of a number of associations which are formally and actually federated or decentralized in character and then to bring in a number of borderline cases, noting especially how selling methods and policies may be modified or changed by formal or actual departures from the purely decentralized type of association.

This will resolve itself into a case analysis of a number of different associations, handling different commodities and operating under different conditions. Special attention must be given to points of contrast or similarity between the various associations with a view to developing principles of sound organization and operation which may be valuable as a future guide to cooperative associations.

For each of the associations studied specific answers would be obtained to the following questions:

(1) The reasons for the specific type of corporate set-up originally adopted. What was this set-up: lines of control, voting privileges, provisions for divisions of proceeds from sales between mem-

bers, proration of expenses of operation and of savings, membership agreements, etc.?

(2) To what extent has the original corporate set-up been modified formally or in practice? What were the reasons for the changes and when did they take place?

(3) What was the original operating set-up? (In greater detail than under (1).) Why, then and to what extent have operating methods been changed? Departments, methods of handling, selling policies, relationship between manager, sales manager and board of directors. Historical analysis of the volume and value of commodities handled annually by each association since it was organized, with as much information as possible of unit costs of operation and the various costs involved. Also number of members of each association and membership of local association.

(4) The history of membership relations, especially reasons for changes. Views of membership on policies of association, understanding of selling policies, attitude towards management. Does the federation have direct contact with individual farmers? To what extent?

(5) What was the original financial set-up of the association? Stock or non-stock? Method of obtaining permanent and operating capital. Rotation plans. Why, when and to what extent was original financial set-up changed?

(6) What were the original reasons for the formation of the associations? What were the marketing conditions of the product at the time? Trade practices, marketing channels, consumer demand, grading standards, territory in which association was to operate, final destination of product, existence of surplus, by-product outlets? What percentage of total product did association handle? Any changes in percentage? Purpose of large percentage.

(7) To what extent have the original conditions under which the association was formed been changed by general economic conditions (or factors beyond the control of the association) or as a result of the operations of the association? To what extent has the association changed its objectives and methods of operation to meet these changed conditions? Do existing conditions under which the association is operating indicate the need for any further changes in its economic set-up? Why are such changes not made? Has the association succeeded in improving the quality of products handled by its members? Has it attempted to exercise any control over production? Of what nature and to what extent was it successful?

(8) What were the original price and sales policies of the association? How far were commodities carried to consumers (integration)? Is control over price and sales policies in the hands of fed-

eration or of member associations? What were the reasons and time of any changes? What control has federation or members over quality at time of delivery, time and place of selling, proration between ordinary marketing channels and by-product channels? Do members and association pool products? If so, on what basis? Time, nature and reasons for changes. Does association have a trade mark or brand, or do members have their own brands? Would the position of association and its members be improved if changes in price and sales methods could be made? If so, what changes and why are they not made?

(9) Basic to all these questions is the type of structural organization which under different circumstances and for different commodities would best serve members as a selling agency.

Such a study should include as many federated associations operating in the United States as possible. This would admit of the inclusion of a wide range of different conditions of operation and legal structure, and of more reliable generalizations. If other institutions collaborate in such a study, it would be advisable to draw up an elaborate schedule of points to be covered and analyses to be made. It would be well if a project outlined on this scale could be centralized in the Department of Agriculture. In each state, a member of the staff of the college of agriculture would assist in collecting information on coöperative associations in his state. It would be advisable for the nation-wide leader to contact personally each and all the state collaborators so as to ensure as far as possible uniformity in method of collection and analysis. Some clerical assistance in the preparation and tabulation of data would be required, probably in both the central office and the offices of the collaborators. The length of time spent by each collaborator would vary with the size and number of associations being studied in each state. The leader would probably have to spend a full year on the project and the state collaborators from two weeks to three months.

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PROJECT 55. Selling Problems of Centralized Cooperative Associations

(By James M. Tinley)

As in the case of decentralized associations, and for the same reasons, many studies have been made of the operations of centralized cooperative associations. Some of the better known studies are those dealing with the operations of the Poultry Producers of Central California, the Cranberry Association, the Tri-state Tobacco Growers Cooperative Association, the Burley Tobacco Growers Association, the Poultry Producers of Southern California, the Sun-Maid Raisin Growers Association. Most of these studies also were made several years ago and therefore have not treated very fully many of the problems which have arisen since 1929.

Much of the preliminary deductive analysis appearing under Project 5 would apply with equal force in this project. Many of the selling problems of centralized cooperative associations are similar to those of decentralized associations. On the other hand, there are many differences mostly arising from the greater concentration of control over place and time of delivery, grading standards, manner of selling, place and time of distribution, handling of surplus and by-products, brand names, and even of objectives. It is probable that monopoly control figured more strongly in the original purposes of these associations than in those of the federated type; there is also probably greater emphasis upon securing control over a larger proportion of the total crop.

Further questions to which answers will be desired bring out the contrast between centralized and decentralized associations.

(1) Is the centralized association more likely to handle a product whose production is highly concentrated (e.g., cranberries, raisins) than a product which is grown over a wide area?

(2) Are marketing channels and destination of a product of importance in determining the type of organizational structure?

(3) Are centralized associations in a stronger position to exercise control over quality and quantity of production than decentralized associations?

(4) Is a centralized association in a better position to educate and keep members informed of its operating policies, including price and sales policies?

The character of the information to be obtained would in most respects be similar to that obtained in the case of decentralized associations.

PROJECT 56. Problems of Milk Producers' Organizations

(By F. F. Lininger)

This project deals primarily with the problems of coöperative fluid milk marketing organizations which are regional in scope of operation, generally covering the entire area of the milk-shed contributory to the fluid-milk supply of large cities such as New York, Boston, Philadelphia, Washington and Chicago. They also function in the secondary markets of the region. Membership in the organization is not confined to the milk producers of one state. Many problems of these associations are common to organizations marketing fluid milk in cities of less size than those named above.

One group of problems important to regional associations of either the collective bargaining or operating type appear under the general topic of *market control*. The degree to which a coöperative association may control a market, that is, exercise monopolistic tendencies within the area, depends on many factors. Out of these considerations, the various problems arise, including:

1. Does the plan of paying farmers contribute toward control of market supplies or is it advantageous for some farmers to remain outside the coöperative association and sell elsewhere?
2. What is the relation to market control of existing methods of regulating seasonal production?
3. May not the buying plans be too complicated for producers to understand, thereby creating dissatisfaction and lessening control?
4. How are concentration of the milk-producing area and available transportation facilities related to market control?
5. Does the plan of selling milk to distributors contribute toward control of fluid sales or is it such that some distributors can buy milk advantageously elsewhere?
6. What policy should the association follow with respect to store distribution of milk?
7. How can price policies in secondary markets be made to coincide with those in the primary market?

8. How do periodic changes in milk production, as well as changes in the trend of milk consumption, affect the degree of market control?
9. To what extent may sanitary regulations enforced by the board of health be relied upon as a means of market control?

Another group of problems facing regional fluid milk associations centers around the relation of the organization to its members. How shall the membership be kept alert and active? Likewise, how shall the leadership be made responsive to the legitimate desires of the rank and file? J. K. Stern, in Bulletin 256 of the Pennsylvania Agricultural Experiment Station, *Membership Problems in a Milk Marketing Organization*, reports the result of a survey of the membership dealing with this topic. This group of problems is discussed in detail in Projects 10, 15, 16 and others, and brief mention is made here in order to present the full scope of problems in this particular field.

Also, the chief problems of local coöperative organizations which operate in many small cities and towns are not dealt with at length in this project. These local organizations often perform all the marketing services between producers and consumers, such as maintaining truck service to collect milk at the farms and operating plants to process it. They may sell part of the supply to the wholesale trade, such as stores and restaurants, but usually depend on selling the major portion to the consumer, delivering daily to his doorstep. The problems of these local associations are largely concerned with efficiency of plant management. A few large operating coöperatives owning some of the country facilities in large city markets, e.g., the Dairymen's League Coöperative Association in the New York market, are also interested in efficiency of plant operation. These problems are presented in detail in various projects in Group D in the report on Marketing of Farm Products.

A project of this type will need to use both the statistical and case methods of analysis. Quantitative data may be obtained from most if not all of the various sources available. Quantitative analysis is likely to predominate in studies involving market control, while qualitative analysis may be of greater significance in problems involving the relationships between the coöperative association and the membership.

Any one of the foregoing nine problems of market control may be of sufficient scope to constitute a separate experiment station project. Each is therefore discussed briefly in the succeeding paragraphs.

1. It must be recognized that a plan of coöperative marketing of fluid milk should consider the viewpoint of individual member-producers as well as the group as a whole. The following statement of Eastlack in a paper before the American Institute of Coöperation in 1930 is of real significance here:

“Contrary to popular opinion, the solutions to economic problems reveal themselves as rarely in mass data as do the individual thoughts of a participant in a mob.”

An analysis of individual producers' records on file in the association office, coupled with an analysis of other existing statistics, for example, cow-testing association records, may reveal the effect of the marketing plan on farm management practices and farm costs on individual farms. Such a study is reported in Bulletin 281 of the Pennsylvania Agricultural Experiment Station entitled *The Relation of the Basic-Surplus Marketing Plan to Milk Production in the Philadelphia Milk Shed*. Marketwise, there is also the consideration of whether by remaining outside the organization the farmer may secure a better price than if he joined. A canvass of producers in the area is most likely to yield information of value on this question.

2. The regulation of seasonal production is always an important factor in market control. Summer surpluses need to be reduced so that burdensome supplies do not "break" the market. Sufficient fall and winter milk must be available so that in this period of the year the margins of the shed need not be expanded. A statistical analysis of the seasonal production of nearby and distant producers and of farmers following different types of farming, as revealed by records of associations and of distributors, may disclose the response of the various groups to this type of control, and suggest ways of improving the situation.

3. Research in progress at the Pennsylvania Agricultural Experiment Station appears to indicate that a large number of farmers do not understand how the price of milk is "figured". Dissatisfaction generated from this source may be registered through a survey of producers. Continued complaint of this sort is detrimental to any coöperative and may weaken the control of the market supply.

4. The problem of market control and transportation facilities in relation to the concentration of the producing area has been analyzed by T. K. Cowden and C. G. McBride in an Ohio study. The authors availed themselves also of secondary data from census reports, as well as of information supplied by a survey conducted among the milk dealers and other information furnished by boards of health. The economy of established trucking routes should be scrutinized by statistical and case studies.

5. Experience in most fluid milk markets of the country, whether the producers are highly organized or not, indicates that there must be some advantages to some distributors who do not buy their supplies through the farmers' coöperative associations. This generalization applies to all markets selling to distributors on a use basis and paying producers on a basic-surplus as well as on a pooling plan. No research pointing directly to this phase of the problem seems to be in progress. Interviews with non-coöperative distributors might suggest a procedure which would be fruitful in attacking this problem.

6. Store milk distribution is an increasingly competitive problem for coöperating distributors. How is the producer association to

regard store distribution? Is it a more economical method of distribution, and to what extent is it likely to supplant house deliveries? If more economical, to what extent will it stimulate milk consumption? These problems have not been solved by research workers. They are regional or national and not local in scope. Most tangible, dependable and usable results, however, will probably accrue from detailed studies in local areas, provided there is some coördination of units engaged in attacking the problem.

7. Secondary markets within the shed of the primary market offer possibilities for fruitful research in the way of market requirements and the relation of prices in secondary and primary markets. Family and per-capita milk consumption determined by a study of consumer purchases in relation to dealer sales are helpful. In Waugh's study of the Boston Metropolitan market, published by the New England Research Council and coöperating agencies, house-to-house survey results were checked against retail sales.

With reference to price differentials, should the price in the secondary market be the price of the primary market less cost of transportation between the two markets? Or, should the price in the secondary market be determined on the basis of the local supply and demand situation?

8. Market control varies with changes in the stage of the dairy cycle, and with changes in demand for fluid milk. The experience of coöperative fluid milk organizations dates back over only one complete production cycle. An appraisal by the case method of market control at the various stages of the cycle in the important markets of the country should yield worth while results, both as a means of forecasting the future and of more effectively meeting the situations.

9. Sanitary regulations are important in market control. Again the case method of analysis by markets may be used to determine the reliance that has been placed on this method of control, and also perhaps to indicate the degree of dependability that is likely to obtain in the future. The coöperation of boards of health is essential in launching and forwarding research of this character.

Recently it has been advocated that collective bargaining associations should as rapidly as possible obtain control of the country end of the fluid milk industry. The proposal implies that by so doing the producer association would gain more effective control over the market. No method of research has been devised which would give assurance that such a step should be undertaken, but useful information bearing on the question may be obtained by a case study of the experience and the degree of control established by representative coöperative associations of both the collective bargaining and operating types.

In recent years, also, especially since 1930, there has been some suggestion from various quarters of the similarity between fluid-milk dis-

tribution and many other industries whose price policies are subject to the review of public utility boards. The price of fluid milk to the producer has been unduly low and the price to the consumer relatively high, owing to the relatively high cost of milk distribution during this period. Research along the lines previously mentioned would yield facts having a bearing on whether the industry should be placed under public regulation. Various cost studies by the accounting method would also be imperative. For example, the Pitcher Milk Control Bill was passed by the New York State Legislature in April 1933, upon the recommendation of a Legislative Committee. This Committee, after extensive public hearings and testimonies, and after a statistical study of the costs of distributing milk made by Leland Spencer of Cornell University, recommended drastic action looking toward the control of the prices received by farmers and the prices paid by consumers. Also in Ohio, Pennsylvania and Connecticut the same problem has been considered by the legislature. The public relations aspects of coöperation appear in projects discussed under Group E of this report.

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PROJECT 57. Problems of Clearing House Associations

(By E. A. Stokdyk)

This project is broader in scope than Project 39, Directing Shipments, in Research in Marketing of Farm Products but will include many of the phases outlined therein. Three types of problem confront clearing houses: (1) organizational, (2) financial, and (3) operating. A case analysis of several clearing houses should yield information on the principal problems which arise and how they are met.

The phase of this study which will be emphasized and the one which is likely to be most helpful to clearing house associations, is the analysis of operating problems. Particular attention will be given to the methods used to determine the quantities which the organizations aimed to place in the various market areas from time to time. This particular phase of the study is of most importance because the primary objective of clearing-house associations is to distribute supplies among the principal market areas in such a manner as to obtain the greatest total net returns with a given volume.¹ The source of information and the methods of procedure will be similar to those outlined in Project 39, noted above. It will be advantageous if this project and Project 39 can be conducted simultaneously.

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GROUP G

Projects Relating to Cooperative Buying

PROJECT 58. Problems of Cooperative Selling

(By Quentin Reynolds)

In setting out to determine either the need for a prospective cooperative purchasing association, or the effectiveness of one already in existence, the first thing to consider is, "What do farmers have a right to anticipate from their efforts in organizing and supporting the prospective association?" or "What does the organization do for farmers, or what might it do for them to justify their continued support?" Many associations which have met all the requirements of

¹ (1) See E. A. Stokdyk, *Sales Methods and Policies of the Calavo Growers of California*, California Bulletin 589, pp. 23-26, for a discussion of the planning of distribution among market areas.

organization set-up have failed to supply a return to the members proportionate to the effort and risk involved because the service could not possibly operate on an economical basis. On the other hand, many associations in which members find it difficult to influence policies directly have been profitable to the members because a real need has existed for the adequate service provided.

Second in importance to ascertaining the need for the enterprise should rank the form of organization and the management. Need for the service may be clearly evident, but unless the representatives of the patron members select and support capable management, satisfactory service cannot be maintained.

Coöperative purchasing should provide economies in distribution, advantageous prices through volume buying, and control of quality. Because the economies are secured often at either actual or imaginary sacrifice to the consumer, the economies of volume buying and the value of quality control must be significant. The extent to which these advantages may be secured will vary with the character and size of the enterprise as a whole, and with the character and volume of the particular commodity, or commodities, purchased. Both the limitations and the advantages of collective purchasing as applied to various classes of commodities are often more apparent than real, and great care should be exercised, first, to ascertain whether advantages are actual, and second if they are actual, whether members and prospective members can be sufficiently convinced of the fact to contribute the volume necessary to carry on the collective purchasing on sound economical lines.

Theoretically, the members of any group which is composed of consumers who have set out to secure the benefits of collective purchasing through the formation of a coöperative purchasing association should accept the opportunity to buy through their association any commodities they themselves consume which that association purchases for members, and thereby eliminate from the cost of such purchasing service the sales promotion expenses which constitute an essential and important part of the sales costs of concerns or individuals engaged in distribution for profit. Experience has proved that actually consumers do not react in this way. Apparently consumers brought up under the influence of high-pressure selling develop an inertia which the mere availability of coöperatively purchased supplies does not overcome. However, when the service performed by the coöperative justifies confidence, and when that confidence is constructively developed by the coöperative promotional effort, that effort can be conducted at a relatively low cost.

Before an association is formed, or before an existing association is stimulated by new capital or personnel, a carefully conducted survey should be made to ascertain:

1. The volume required to support the organization necessary to supply the service demanded at least as economically as the service offered by other agencies
2. The existence of that volume in the area to be served
3. The reasonable possibility of developing that volume for the cooperative
4. The possibility of establishing a more economical unit and/or providing better service by expanding either the area to be served or the activities of the association
5. The type of commodities which can be handled satisfactorily
6. The availability of leadership in the area capable of establishing sound policies and of developing effective management
7. The type of organization most likely to adapt itself to the needs of the farmers to be served.

1. *The need for volume*

Unless collective requirements of farmers in the community can provide sufficient volume to the cooperative association to enable it to perform the services required as economically as do other agencies through which the farmers can buy, or unless the cooperative can provide values through selective purchasing which give the patrons greater value for the dollars they spend for supplies, there is no justification for burdening producers with an investment in a cooperative purchasing venture or adding to their other responsibilities the task of operating such a service. The fact that existing agencies are adding margins for local service which appear excessive may indicate that those agencies are securing excessive profits or are not operating efficiently. But they may indicate that the service connected with the handling of that particular class of commodities or that the volume of sales requires a high margin to cover the costs involved. For example, a 50 per cent dealer mark-up on a milking machine may be inadequate to cover the sales and service costs while an 8 per cent mark-up on dairy ration may yield a substantial return to a dealer who handles both commodities efficiently. The fact that the local cooperative which handles 100 tons of dairy and poultry feeds a week can do so profitably on a 5 per cent mark-up does not mean that a local cooperative which cannot possibly find a similar quantity can meet distribution costs for anything less than the 12 per cent mark-up the local dealer serving a restricted volume community has been charging. Unless volume required to operate exists, it is folly to attempt cooperative purchasing.

2. *The existence of potential volume*

Before launching a new cooperative or expanding the facilities of an old one great care should be exercised to ascertain the consumption in the territory and the probable trend.

3. *Possibility of developing the requisite volume for the cooperative*

Having established the fact that the potential volume exists to support cooperative purchasing in the area, it becomes necessary to establish the fact that the volume can be diverted to or developed for the cooperative. The type and quantity of competing agencies already in the field and the type and number of farmers must be carefully surveyed. It is difficult to break through the goodwill established over a period of years by certain distributors through the actual value of the service and supplies which they have made available, or through their personality, or the force of their advertising and sales effort. The chances for success are greatest when the volume anticipated is spread among a large number of purchasers who buy small quantities. To such buyers dealers can less easily make concessions in either price or service, and favorable concessions are the cooperative purchasing association's strongest enemy—suicidal if the cooperative indulges in them, and irritating when competitors make headway with them, especially when available volume is restricted. While it is true that the more intelligent farmers should make the best co-operators and that the more intelligent farmers tend to be found chiefly in the best farming areas, the fact remains that cooperative purchasing thrives most peacefully in the regions where individuals are less successfully self-reliant and where the farm units are smaller. This is probably due to the fact that the severest competition among distributors tends to center in the best farming regions and that the farmers in these regions have learned to take advantage of the situation. This tendency is most evident in the "second wind" stage of the association's development. Just after the venture is launched dealers and manufacturers with substantial interests at stake concentrate their efforts in these sections and effectively retard collective purchasing development. As the association grows and demonstrates its value to the intelligent farmers, the big are ready to go along with the small. It is well to cater to the modest farmsteads all through the development of cooperative purchasing, however, for they constitute the backlog of the volume. Their interests are most vitally tied in with the service, for it is service which the little fellow can never expect to approximate for himself.

Farmers have proved that they can secure economies by purchasing collectively even when dealers through whom they have purchased previously are neither inefficient in the generally accepted sense of the term nor reaping excessive profits. Competitive selling has developed the establishment of services which, though they make one dealer's service appear more attractive than another's, do not increase, and may actually decrease, the value of the supplies which the farmer buys for a dollar. Competition may force the grain dealer to stock and push a ration which costs him less and which he can sell for less. It may produce so much less when fed that it is not so good a purchase for the farmer as a higher priced feed would be. Competition

may have forced the dealer to extend credit to farmers who are purchasing current requirements of feed and grain. The cost of this service is reflected in the cost of the grain, and it may add more to production costs than the credit secured is worth to the farmer who can pay promptly for service which carries no credit charges. Other service items, such as delivery and the provision of storage facilities in the village which duplicate delivery and storage facilities which the farmer may have, and if so must maintain, may be mentioned to illustrate further this point in connection with the handling of feed.

The correction of the cost-increasing features under the above cannot always be effected by cooperative purchasing. The farmers themselves must accept the economies which their association makes available. The association cannot rely on securing and maintaining patronage merely by pointing out weaknesses of competitors. It must provide values which actually offset the apparent advantages which competing dealers supply. Indeed, unless the cooperative association is distinctly effective in the selection and distribution of supplies, the discerning farmer may fare better by making his own choices from supplies offered by intelligent, far-sighted dealers.

It must be remembered that the mere fact that a cooperative can serve the community of farmers successfully at prices which do not cover the cost of the service dealers have been providing does not prove that the cooperative will "walk off with" the business. To protect their investment, dealers will meet cooperative competition with more service, more credit and more attractive prices, even though the practices entail doing business at a loss. For these reasons, the cooperative must not allow itself to establish volume, or seek to do so, on the price appeal. It must establish volume by demonstrating that, being owned and controlled by the farmers for whom it buys, it uses their combined buying power to secure and to distribute the materials best suited to their actual needs, in dependable, economical fashion. It must show that farmers will benefit by patronizing it in spite of service and price appeal offered by dealers interested primarily in the profit they make from buying and distributing.

4. The possibility of establishing a more economical unit and improving service

The tremendous development in distribution technique, together with the widening of trading areas, during the past few years, make it extremely difficult for a cooperative purchasing association, which aims to cater to a localized area, to purchase or to distribute more economically than the agencies with which it must compete. The restricted volume is not sufficient to furnish income adequate to develop significant selective or specification buying. By cooperating with associations with similar aims volume can be secured which provides sufficient income at low cost per unit of distribution to develop

adequate control over the supplies bought to give patrons the advantage of this service. Even when local volume appears to be sufficient to finance apparent service needs, any survey attempting to establish the need for coöperative purchasing service should ascertain whether a far more satisfactory service could not be developed by combining locally with other local or regional coöperative purchasing effort.

5. *Types of commodity*

Experience indicates that coöperative purchasing associations do best when they commence operations by handling commodities for which there is sustained demand in volume sufficient to cover operating costs on relatively low margins—such items in the East as feed and grain for dairy and poultry farmers, and in the West, oil, gasoline, egg crates—and that commodities which do not have a rapid turnover or which require servicing are likely to be handled best by other agencies.

With the backlog of the desired type of commodity, the association may be able to serve the interest of the members by adding commodities which are not so ideal. In doing so, they tend to develop a dealer attitude, accepting the principle that volume and margins to the organization, instead of service and savings to the members, is the end of the association. It is difficult for a coöperative purchasing association to develop selective buying efficiently if those in charge of the buying have to spread their efforts over too wide a variety of commodities. Unfortunate purchases of the less significant commodities may weaken or appear to weaken the value of the service actually performed for the commodities upon which the association is actually concentrating its efforts.

6. *Availability of leadership*

But even after adequate volume is assured, the association may not succeed unless the group can supply the leadership to develop and maintain the enterprise on sound lines. That leadership is not to be found in all communities. The leaders, with the support of the rank and file of farmers, must be able not only to assume responsibility for policies but also to select capable managers to whom administrative details may be delegated.

7. *Types of organization*

Other sections of this report cover thoroughly the advantages and disadvantages of various types of organization. Whether the purchasing coöperative should be of the stock or of the non-stock type the conditions the particular coöperative must face will largely determine. Although farmers join coöperative purchasing associations to secure advantages in purchasing, those who have invested in the capital stock are frequently influenced to continue purchasing, although service may be inadequate, to protect their interest

and principal. A federal bulletin published a few years ago urged as one of the arguments in favor of the stock type of cooperative the fact that it tended to hold members in line. The patron of the non-stock cooperative purchasing association is in a position to leave it when the values offered by it cease to be advantageous. This threat of loss of members is an ever-present stimulus to build values and to lower costs of service in the non-stock cooperative.

The principles discussed here apply whether the cooperative under consideration performs a wholesale or retail, or a combined wholesale and retail service. Independent local purchasing cooperatives must have sufficient volume to employ management capable of developing and of sustaining service which can compete with private enterprise. Dependable volume seldom exceeds the quantity required to cover the cost of economical distribution service alone, and too often falls short. This problem of gaining and holding proper volume for effective operation leads either to the acceptance of weak patrons through the extension of credit or to affiliation with cooperatives in other sections, gaining thereby the advantages of volume which make selective buying possible and which in turn tend to so improve the values of the commodities offered that volume increases and costs per unit of purchase for members are reduced.

The so-called wholesale cooperative purchasing associations tend to emphasize low purchase and distribution costs through quantity buying, and then to develop, with the support attendant on large volume, a selective buying service which aims to provide farmers with the advantages that corporations provide for themselves through purchasing departments. As stated in an earlier paragraph, farmers do not accept unurged the advantages provided them by their associations, and to sustain volume it becomes necessary to inform members aggressively and effectively of the advantages of the service which their associations afford. For this reason, the regional or wholesale purchasing association finds it expedient to extend its influence into the territory through and around the local distributing agency to the farmer himself. To the observer who believes that the cooperative should develop from the ground up, this tendency is repulsive. It should not be condemned, however, until careful study has determined whether the system is providing the consumer with effective service and whether the consumer's future interests are adequately protected. To give farmers the most value for the dollars they spend through their cooperative purchasing associations by taking advantage of the advances in manufacturing and in science, the organization must do things on a sufficiently large scale to be able to perform these various services at a low cost per unit of purchase by the members. Directors and managers selected in local groups and schooled in small-scale practices do not tend to develop sufficient vision to develop large-scale selective buying effectively.

The test of coöperative purchasing service is the value delivered to the farmers for the dollars which he spends. Only efficient coöperative purchasing can and should survive. Carefully conducted surveys, the findings of which are compared with the experience of other coöperatives, both successful and less successful, should greatly assist farmers to spend wisely and to refrain from spending unwisely in the development of coöperative purchasing. Farmers organize coöperative purchasing associations to gain advantages which they do not enjoy, or enjoy in less degree, when they purchase independently as individuals. The length to which associations can go in endeavoring to serve members effectively will be governed by the size of the enterprise as well as by the nature of the commodities which the members expect the coöperative to procure for them. It should be borne in mind that the coöperative purchasing association is a means to an end and not an end in itself. While a successful coöperative purchasing association may have a profound social influence, this will be incidental, depending upon its economic value.

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PROJECT 59. Problems of Local Buying Units— Filling Stations as an Example

(By Rudolph K. Froker)

The purchase of gasoline and other petroleum products is one of the most recent developments in the coöperative movement among farmers. Form of organization and method of procedure in buying and selling do not, therefore, follow as definite a pattern as in older types of coöperative. In many instances, the business is conducted as a sideline to livestock, grain or other coöperative business. In most instances, it is an independent business which is either wholesale (bulk station) or retail (filling station). There is also a definite tendency toward federating these independent units. The purposes of this coöperative effort are to obtain farm supplies of these pro-

ducts at lower cost and to secure better service in their distribution. The research problem is greatly simplified because a single line of well-standardized products is handled but when planning the study, a research worker must also consider the highly integrated and large-scale organization for producing and distributing petroleum products.

Many of the data for this study can be obtained satisfactorily only by personal visits to coöperative associations. Many coöperative oil associations have annual or semi-annual audits prepared by public accounts. These afford more reliable financial and operating data for the coöperative oil associations than can be secured from co-operatives that handle petroleum products as a sideline. Several states keep complete records of the volume of each bulk station in connection with the inspection of gasoline and the collection of gasoline taxes. These records are a splendid source of data on the growth and relative importance of these companies and the areas in which they operate. Retail prices may be obtained from the records of co-operative associations if it is deemed advisable to study the advantage in price from coöperative purchase. Because of the relatively high degree of standardization of these products, the benefits of coöperation can be measured more easily than for most products marketed coöperatively by farmers.

The scope of the project should preferably be restricted to farmers' coöperative associations. Examination of the entire gasoline and oil distributive business should be confined to obtaining such information as gives the research worker an understanding of the place of coöperative marketing in the marketing organization of the oil industry. Both coöperative oil companies and associations handling oil products as a sideline may be included. Analysis of the functions and organization of the overhead purchasing federation may also be made in order to show its relation to the coöperative oil movement. Otherwise, this part of the coöperative oil marketing organization may be reserved for intensive study in a special sub-project.

An important problem for study is financial organization which includes such considerations as the amount of stock to be subscribed, the supplementing of loans, and the provision for the retirement of these debts. Closely allied to this is the credit extension to members on purchases, and the control of this credit. All expenses in the operation of the association are, of course, to be carefully considered, and of no small importance is the proper disposition of the net income to reserves, stock and patronage dividends and surplus. The acceptance of all purchase discounts offered is also important.

Management problems are also to be considered carefully. The method of hiring the manager, his duties, and the responsibility of directors are important in any business organization. These will be found to vary considerably among associations, as for example, in the

duties assigned to the manager, duties handled by the directors themselves, and in the commissions and salaries paid for similar service.

A study of this type should not overlook the opportunity of determining the retail margins on the various products, such as gasoline, kerosene, distillate, lubricating oils, grease, and miscellaneous products which may be handled as sidelines. A form for this type of information is to be found in U. S. D. A. Circular 80, *Coöperative Oil Associations in Minnesota*. Stock account records should be carefully analyzed to determine the shrinkage and loss in handling on these same products as this may be an important cost in retailing them.

Inasmuch as a large proportion of the sales of these associations operating in states like Minnesota and Illinois are known as tank-wagon sales, the cost of these country deliveries make up well over 50 per cent of the total operating expense. The project should be designed to give this item of cost careful study in terms of the method of hiring truck operators, commission rates, the planning of truck routes, and possibly also the location of the members with the purpose in mind of reducing the costs or improving the service. Unusual local conditions may also affect these costs. The effect of volume on delivery expense as well as on total operating costs should be considered.

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PROJECT 60. Cooperative Supply as a Sideline of Cooperative Selling

OBJECTIVE: To compare the methods and evaluate the results of utilizing the organization and resources of commodity selling associations for subsidiary purchasing of farm and marketing supplies.

(By H. S. Patton)

The emphasis here is on coöperative supply as an enterprise *supplementary* to commodity selling organizations. The inquiry is concerned primarily with the relation of such undertakings to (a) the internal economy of the selling organization itself, and (b) the economic returns of its farmers members.

The project may deal with the subsidiary supply business of a particular marketing organization (case study)¹, or it may under-

(1) E.g., Fruit Growers' Supply Co., see U. S. D. A. Department Bulletin 1237.

take to analyze the purchasing operations of various coöperative selling associations in a given region (comparative or survey method).² The feasibility and form of such undertaking must be studied in relation to the commodity and structural character of the marketing organization. Thus car-door supply may be combined with coöperative livestock shipping. The local warehouses of elevator, tobacco and potato coöperatives may be adapted to the joint handling of feeds, seeds, fertilizers, etc. Such coöperatives as creameries, cheese factories, egg and poultry and fruit-packing plants may engage in the collective purchase of supplies required for the processing or market preparation of their respective products, as well as of those for farm-home use by members.

The structural character of the organization has also an important bearing on the possibilities and problems of purchasing and distribution. Independent locals, through their direct relations with members, may be in a favorable position with respect to distribution, but at a disadvantage in purchasing, owing to the limited volume of their business. Central marketing organizations, with greater resources, may be able to make large-scale purchases on favorable terms, but experience administrative difficulties in developing satisfactory distribution relations through their branch plants or federated locals.

I. *Relation of Supply Operations to Internal Economy of Marketing Organization*

The term *supply* is used to include the twofold operations of *purchasing* and *distribution*. The analysis here is concerned with the effects of alternative purchasing and distribution policies and methods upon the net income of the marketing organization. This involves an examination of the following relationships:

(1) *Distribution of overhead costs.* How far do subsidiary supply operations make possible fuller and more continuous utilization of the existing facilities and management of the organization? In so far as the additional income from such business exceeds the separable costs, it reduces the unit overhead expenses chargeable to marketing operations. (See report on Marketing of Farm Products, p. 78.) The possibilities of realizing this result are generally greater in the field of distribution than in that of purchasing, and are therefore more applicable to local than to central coöperatives.

(2) *Effect on direct marketing costs.* How far may the expenses of processing or market preparation of the farm products sold by the coöperative be reduced through collective purchase of essential supplies (e.g., sacks, containers, labels, graders, creamery and can-

✓ (2) E.g., R. H. Ellsworth, *Coöperative Marketing and Purchasing*, U. S. D. A. Circular 121, pp. 52-55.

In *Grain Growers' Cooperation in Western Canada* (Chapter 17) H. S. Patton compares the experiences in coöperative supply of the United Grain Growers', Ltd., and the Saskatchewan Grain Growers' Association.

ning supplies)? This implies bulk purchase by centrals for branches or federated locals, or through coöperative wholesale associations for independent locals. The possibilities of economies depend largely upon the volume handled and upon the ratio of supply costs to total marketing expenses.

(3) *Relation to capital resources and risk involved.* How far do subsidiary supply operations contribute to a higher rate of capital turnover, and how far do they serve to tie up capital or make its employment more risky? This depends on such factors as (a) the size of the capital and surplus of the coöperative; (b) the borrowing power; (c) seasonal relation of peak demand for supplies handled and peak marketing activity; (d) nature of supplies handled—in relation to rate of turnover, perishability, servicing involved, etc.; (e) method of procuring supplies—order assembling and purchasing on commission, purchase at firm price, purchase contract under own brand, direct manufacture through subsidiary or joint agency; (f) terms of sale—cash only, discount for cash, charge for credit, etc. From a management standpoint, the most effective criterion will be changes in the *rate of return* on capital employed, as affected by supply undertakings.

II. *Relation to Economic Returns of Coöperative Members*

Inasmuch as coöperative organizations are supposed to function for the benefit of their members and patrons, rather than to make profits for stockholders, the results of subsidiary supply undertakings must be studied in relation to the ultimate returns to their farmer members, as well as in relation to the financial position of the marketing organization. Analysis of the latter is important from the standpoint of measuring the economic efficiency of different programs and methods, and the financial results to the coöperative indirectly affect farmers as owners, members or patrons. The ultimate analysis, however, is concerned with the results to farmers as producers and consumers. Are they any better off than if such operations had not been undertaken?

These results may be analyzed under the following relationships:

(1) *Effect on farmer's share of market price.* The possibility of a gain in this direction depends on the reduction of unit overhead costs and market preparation expenses, or more efficient use of working capital, as noted under I. To the farmer who markets his produce through the coöperative such saving may accrue in the form of lower marketing margins, or a larger patronage dividend, or a greater return on his stock investment as supplementary receipts. The possibility of determining the extent to which such savings are attributable to subsidiary supply operations will depend considerably upon the nature of the coöperatives' accounting records, and whether such business is conducted through a separate department or subsidiary. The result, in a given instance, may of course show that the

farmer's returns, or equity in the coöperative, have been reduced through losses incurred in such undertakings. In any event appraisals should be based on the net or averaged result of operations over a number of years.

(2) *Effect on farmers' production and living expenses.* This involves an estimate of the extent of the savings accruing to farmer patrons as consumers of farm production or home consumption goods purchased through the coöperative. It may be measured by multiplying the total quantity of various commodity items supplied to farmers by the calculated difference between the net cost to patrons and the price that would have been paid if the same goods had been purchased through non-coöperative sources. In determining "net cost to patrons" consideration must be given not only to differentials in selling prices, but also to such items as cash discounts, patronage dividends, conditions of delivery. To be authentic such findings should pay due regard to the quality as well as the price of the commodities supplied through the agencies compared. Consideration should also be given to the indirect results of coöperative supply actions. Because of the competition thus introduced, commercial dealers or retailers may lower their own prices, or improve their quality or service. Here the benefit is extended, temporarily at least, beyond the ranks of coöperative patrons. The measurement of such indirect gains is generally an elusive task, but evidences of it may be recorded, and in any case it should be taken into account.

References:

- Charles J. Brand, "Supply Buying by Cooperative Marketing Associations," *American Cooperation 1930*, Vol. II, pp. 226-36.
Frank Robotka, "Handling Feed Grains in the Local Elevator," *American Cooperation 1931*, Vol. II, pp. 180, 208.
A. H. Lauterback, "Handling Sidelines by Local Units of Central Cooperatives," *American Cooperation 1931*, Vol. II, pp. 878-79.
J. C. Crissey, "Correlation of Buying and Selling in the Same Agency," *American Cooperation 1932*, pp. 445-50.

PROJECT 61. Cooperative Supply as an Adjunct to Farmers' Service Organizations

OBJECTIVES: To determine the conditions under which coöperative supply services may be advantageously undertaken by farmers' associations not organized on a commodity basis; and to examine the effects on membership relations of various methods of conducting such subsidiary enterprises.

(By H. S. Patton)

The project is concerned with an analysis of methods and results of coöperative supply undertakings by farmers' associations or-

ganized on a class rather than a commodity basis, whose primary purposes are protective, educational, political and mutual welfare, rather than of a business character; for example, the Grange, State Farm Bureaus, Society of Equity, or provincial farmers' associations in Canada. The effects of supply activities may be studied in relation both to the organization sponsoring or conducting them, and to their members as consumers. One of the most effective secondary sources for comparing and appraising such experiences is to be found in the *Annual Proceedings of the American Institute of Coöperation*—section on Coöperative Purchasing.

(1) *Motives for engaging in coöperative supply.* Since coöperative purchasing has been a derived rather than a primary function of farmers' service or protective organizations, a case or historical study should consider the circumstances and motives which led to such undertakings.¹ How far did the demand arise from the membership, and how far was it projected by the executive? Was service the primary consideration, or was it undertaken mainly with a view to maintaining the membership and strengthening the resources of the central organization? What has been the effect on the membership revenue of organizations such as the Indiana or Michigan State Farm Bureaus or the United Farmers of Alberta, of the policy of requiring paid-up membership in the parent body as a condition of stock or patronage dividend participation in affiliated purchasing locals or coöperative stores? Such inquiries involve discriminating examination of convention proceedings, reports and house organ files, etc., as well as interviews with officers.

(2) *Relations between parent organization and supply agencies.* Analysis may be concentrated upon the relative merits of conducting operations through a trading department of the organization (e.g., Indiana Farm Bureau Purchasing Department); through a separately incorporated supply subsidiary (Michigan Farm Bureau Services, Inc.); through a wholesale agency established in coöperation with other farmers' organizations (Grange—League—Federation Exchange); or through joint participation in a coöperative manufacturing enterprise (Farm Bureau Oil Co. of Indianapolis). The inquiry may examine the current methods pursued by different organizations, or trace the experience of the same organization with different methods.

(3) *Distributive relations and methods.* Locals or county units of farmer service organizations afford a potential basis for coöperative purchasing and distribution. This invites a study of the relative advantages and limitations of (a) mail order buying by individual members from the coöperative central or wholesale, (b) formation of "car-door associations" within the local or county membership, (c)

(1) As developed, for example, by S. J. Buck in *The Granger Movement*.

establishment of local supply warehouses or retail stores (with stock locally subscribed by members, or with common stock held by the service organization or its supply subsidiary, and preferred stock subscribed by local members). Where local stores are set up, analysis must be extended to cover such matters as (a) appointment, control and remuneration of local managers, (b) types of commodity handled, (c) accounting and inventory systems, (d) price, credit and patronage policies.²

(4) *Results to members.* Analysis of the economic benefits to members of service organizations as consumers involves the same methodology as that suggested under Project 60. It should be accompanied, however, by consideration of the indirect effects upon members' attitude to the parent organization and to the coöperative ideal.³

References:

- C. L. Brody, "Purchasing Activities of the Michigan State Farm Bureau," *American Cooperation* 1926, pp. 447-57.
M. D. Lincoln, "Centralization of Cooperative Purchasing," *American Cooperation* 1930, Vol. I, pp. 277-86.
M. J. Briggs, "Cooperative Purchasing in Indiana," *American Cooperation* 1933, pp. 441-45.

PROJECT 62. Cooperative Selling as an Adjunct to Cooperative Buying

(By Whiton Powell)

Coöperative buying associations are likely to undertake coöperative selling as a sideline for any of three purposes: (1) to provide a service which is needed by the community and not provided by other agencies; (2) to bring greater patronage to the buying enterprise of the coöperative association through the development of interest on the part of persons who discover its possibilities while using the marketing service; (3) to reduce the cost of the buying enterprise by the absorption of some of the fixed costs of operating the association in the margin afforded by the marketing enterprise. The objective of a research project in this field might well be to determine the degree to which an organization, or a group of organizations succeeds in performing any or all of these purposes.

- ✓ (2) See F. A. Harper, *Cooperative Purchasing and Marketing Organizations in New York State*, Cornell Agricultural Experiment Station Bulletin 544; Paul A. Eke, *Cooperative Buying in West Virginia*, West Virginia Agricultural Experiment Station Bulletin 221.
- ✓ (3) As attempted, for example, in *Membership Problems in Farmers' Cooperative Purchasing Associations*, Pennsylvania State College Bulletin 268.

Measurement of success in furnishing a community with a needed service at a reasonable cost is not limited to this particular set of circumstances. As it is taken up in more general terms in other projects, it is not considered here. For this project, the question is probably answered adequately by a determination merely of the extent to which the services offered are patronized by the community.

Of the two remaining purposes, the success of the first is by far the simpler to measure, depending upon the determination of the proportion of the patronage of the purchasing enterprise that was preceded by patronage of the marketing enterprise. This requires, however, a complete record of the account of each patron of the association—material which is likely to be often lacking. Assuming its availability, the accounts of the patrons may be classified in four groups: (1) those buying exclusively; (2) those marketing exclusively; (3) those who started buying and later took up marketing; (4) those who started marketing and later took up buying. The proportions of the total number of patrons and of the volume of business of the buying enterprise constituted by the fourth group may be taken as measures of the extent to which the marketing service may have brought business to the purchasing enterprise. The size of the third group may be taken as an indication of the potentialities of the marketing service in bringing further patronage to the purchasing service. This fundamental analysis might be supplemented, if it were desired, by further classification of the accounts in each group according to promptness of payment, size of purchase, or other factors having similar bearing on costs.

Lacking a complete historical record of each patron's account, a less satisfactory analysis might be made by combining the accounts of groups (3) and (4), including all patrons who both buy and sell through the organization. Such a classification could be made on the basis of the current records that would be available in most instances. Lacking any record whatever of the names of the patrons of the two enterprises carried on by the association, no analysis of this point seems possible.

The determination of the effect upon costs of a marketing enterprise as an adjunct to a coöperative buying association may be approached either by the statistical method in terms of a number of enterprises, or by the accounting method for one or a few enterprises. Ideally, the two methods should be used to complement each other.

The statistical approach requires a series of comparable operating statements for a given period from a group of fifty or more coöperative buying associations, some of which are engaged in marketing as a sideline. When these stores are grouped according to the income derived from marketing, the relative variations in income and cost may be taken as an indication of the extent to which marketing

income absorbs part of the cost of the business as a whole. Any inferences as to cause and effect derived by this method are strictly limited, however, by the wide variety of other factors which may have a bearing on cost. Many other factors may have an influence sufficiently important to distort or completely disguise the relationship in question. Consequently, final conclusions should not be drawn from this method of analysis except after verification by means of accounting analysis of sample cases. This method of attack is further limited by the few instances in which a sufficiently large number of comparables cases is available to establish the validity of statistical inferences.

A detailed analysis of the income and expenses of individual associations that engage in marketing as an adjunct to buying is the most practical method of attack. It is based upon a segregation of the income and the expense of the marketing enterprise from those of the buying enterprise in order that a separate net gain or loss may be computed. It necessitates access to the detailed accounting records of the associations selected for analysis. It may be assumed that in most instances the necessary segregation of income can be made without difficulty. Under the circumstances usually prevailing, however, expenses will not have been segregated in the records.

The question immediately arises whether to allocate to the marketing enterprise only those costs which it directly involves, or to charge it with a proportionate share of the fixed costs of the association as a business unit. For the purposes of this project, in which marketing is an adjunct to the buying enterprise, the former seems clearly to be the proper solution. Care must be taken, however, to distinguish between instances of the sort which lie within the scope of this project and associations in which the two enterprises are jointly necessary to operation of the business. Under the latter circumstances, a different basis of allocation of cost would be in order.

A second problem involved in this method of analysis is the determination of facts upon which to base the allocation to the two enterprises of costs which are not segregated in the ordinary bookkeeping process. Labor costs are an example of the difficulty, since, in association of the size likely to be considered in such a project, the same individuals may work irregularly on both enterprises. Under such circumstances, the proportion of labor costs to be allocated to each enterprise must be determined upon the basis of estimates of the persons concerned. Unless the estimates are many, errors may seriously affect the conclusions. Indirect costs, while less important in amount, involve even more difficult questions in the determination of any satisfactory basis for apportionment.

The foregoing considerations emphasize the importance of complementing each method of approach with the other in order to avoid erroneous conclusions.

GROUP H

Projects Relating to Cooperative Production

(By George A. Pond)

PROJECT 63. Breed Improvement and Breeding Associations

Coöperation: Animal Husbandry
Dairy Husbandry

- Problems: 1. Organization and financial set-up
2. Number and size of herds to be included
3. Quality of sires
4. Rotation of sires between farms and associations
5. Coöperative sales of stock

PROJECT 64. Seed Improvement Associations

Coöperation: Agronomy
Plant Genetics

- Problems: 1. Organization
2. Control of quality
3. Coöperative relationships with agricultural experiment stations and state crop improvement associations
4. Marketing

PROJECT 65. Dairy Herd Improvement Associations

Coöperation: Dairy Husbandry
Agricultural Extension

- Problems: 1. Promotion and organization
2. Number of herds and number of cows to be included in an association
3. Frequency of tests and accuracy of production records
4. Uniformity of methods within and between associations
5. Educational methods and rewards for improvement
6. Incidental activities that may increase the usefulness of an association

PROJECT 66. Cooperative Farm Record-keeping Associations

OBJECTIVE: To determine the most effective method of organizing and conducting a cooperative farm record-keeping association.

Coöperative farm accounting organizations in which the coöperating farmers contribute direct financial support are relatively new in the United States although this type of work has been practiced for a considerable period of time in several European countries, notably Germany, Switzerland and Denmark. The first association of this type in the United States was organized in Illinois in 1925. Similar work has been done for a shorter period in New York, Minnesota, Iowa, Kansas and several other states.¹ The problems to be studied include the following:

I. Organization of work

- a. Determination of coöperating agencies best adapted to conduct the work
- b. Selection of coöperators
 1. Number
 2. Location
 3. Type of farming
- c. Financial organization
 1. Sources of support
 2. Amount and basis of fee payments by farmers
 3. Contracts
 4. Time and method of payment

II. Determination of records to be kept

- a. Kinds of record
 1. Inventories
 2. Cash
 3. Feed
 4. Production
 5. Labor
 6. Farm practice
 7. Farm maps
- b. System of records
 1. Single entry *vs.* double entry
 2. Columnar *vs.* page type
- c. Form of record books
 1. Loose-leaf system
 2. Single book containing all information
 3. Combination of books and forms

III. Administration of work

- a. Location of central office
- b. Field supervision

(1) See the report on Agricultural Income in this series.

1. Representative of agricultural college or extension organization
 2. County agricultural agent
 3. Full-time field man
- c. Frequency and time of visits
 - d. Methods of opening and closing records
 - e. Methods of securing uniform valuations
 - f. Methods of holding farmers' interest and stimulating accuracy and timeliness of record keeping
- IV. Methods of analyzing records
- a. Measures of earning or financial success
 - b. Measures of size, quality, balance, organization and efficiency
 - c. Statistical methods
 - d. Office equipment
 1. Calculating
 2. Tabulating
 3. Filing
 - e. Clerical assistants
 1. Kind
 2. Organization
 - f. Labor-saving methods of checking and recording data
- V. Interpretation of records to coöperating farmers
- a. Number and kind of reports
 - b. Returning records to farmer
 1. Personnel
 2. Time
 - c. Graphic methods of presentation
 - d. Critical analysis of farm business
 - e. Budgeting future plans
 - f. Use of outlook and other information to supplement accounting records
 - g. Special services
 1. Farm planning
 2. Drainage
 3. Building construction and arrangement
 4. Adaptation or adjustment of equipment
 - h. Meetings and tours
- VI. Checking results
- a. Changes in earnings on same farm over a period of years

- b. Comparison of earnings of farms coöperating in the service with earnings of other farms of similar type over a period of years or after one or more years of accounting
- c. Changes in farm organization
 - 1. Cropping systems
 - 2. Livestock organization
- d. Changes in farm practice
 - 1. Crop practices and yields
 - 2. Livestock practices and production

Value of project: The problems outlined for this study are primarily problems of methodology. Coöperative farm record associations have been attracting much interest and attention for the past several years, and will probably be expanded considerably when farm earnings recover sufficiently to provide financial support. The results of studies of this type would make possible more effective work by the associations now in existence and would be especially valuable in guiding the organization of new associations.

Previous investigations with similar objectives:

Little work has been done in this field because of the short period of time these associations have been in existence. In 1932, Professor L. G. Allbaugh collected some comparative data covering associations in Illinois, Iowa, Kansas and Minnesota. The material was largely descriptive. Some attention has been given to the problems listed in Sections V and VI of the above outline. These are reviewed by W. J. Roth and R. S. Kifer in another Bulletin in this series.¹

Organization:

Some of the problems suggested under this project might be studied by a single state experiment station, especially if several coöperative farm accounting associations were in operation within the state. Problems listed under VI (Objectives) could well be studied within a single association. Problems dealing with organization and administration could be studied more advantageously if the project were set up by the Bureau of Agri-

(1) Project 14, Testing Reorganization Plans, in Research in Farm Management.

cultural Economics of the United States Department of Agriculture in coöperation with agricultural experiment stations in states in which associations are in operation.

Methods of analysis: Most of the work in this field, especially in the earlier stages, would involve the case method. The number of associations is too small at present to use the statistical method for most of the problems outlined. The experimental method is well adapted to certain phases of this project, particularly those dealing with the determination of the kind and number of records to be kept, the administration of the work, and the analysis and interpretation of records.

PROJECT 67. Cooperative Provision of Farm Machinery

Coöperation: Agricultural Engineering

- Problems:**
1. Duty possibilities of different types of farm machine
 2. Seasonal demands for machine service and length of most advantageous use period for farm machines
 3. Equitable adjustments of changes between farms using machines for varying periods
 4. Provisions for insuring adequate care and adjustments of coöperatively owned machines
 5. Provisions for the custom use of coöperatively owned machines

PROJECT 68. Cooperation in Irrigation or Drainage

Coöperation: Agricultural Engineering

- Problems:**
1. Organization of coöperative arrangement
 2. Drainage and irrigation laws
 3. Provisions for maintenance and cost sharing

PROJECT 69. Cooperative Meat Rings

Coöperation: Animal Husbandry
Home Economics

- Problems:**
1. Organization
 2. Meat cutting and distribution of carcass
 3. Uniformity of quality and adjustment of price according to quality

GROUP I

Projects Relating to Cooperative Credit and Insurance

PROJECT 70. Loans through Cooperative Marketing Associations

Projects 5 and 6 of the report on Agricultural Credit discuss research in problems of agricultural credit and livestock loan associations in general, and Project 13 in the problem of loans through cooperative marketing associations. The activities of the Federal Farm Board in setting up credit subsidiaries of national cooperatives are presented briefly in its annual reports. A full analysis of this experience is much needed as a basis for further developments along this line.

References:

- B. W. Kilgore, "Cooperation and Production Credit in the South," *American Cooperation* 1926, Vol. II, pp. 870-84.
- E. L. Adams, "Credit Extension by the Cooperative to Growers," *American Cooperation* 1928, Vol. I, pp. 452-60.
- A. H. Stone, "Assisting Members to Finance Crop Production," *American Cooperation* 1929, pp. 487-90.
- C. A. Stewart, "Financing Livestock Feeder Operations," *American Cooperation* 1931, Vol. II, pp. 129-34.

PROJECT 71. Farm Loan Associations

The cooperative aspects of the work of these units in our Federal Farm Loan System need to be analyzed as a basis for improvement of the System. Project 8 in the report on Agricultural Credit covers important aspects of this problem.

PROJECT 72. Agricultural Credit Unions

See Project 14 in the report on Agricultural Credit.

GROUP J

Projects Relating to Cooperatives in the Field of Public Utilities

PROJECT 73. Cooperative Insurance

Research in problems of cooperative insurance is developed in detail in the report on Agricultural Insurance in this series.

PROJECT 74. Cooperative Provision of Electric Power and Light

(By R. F. Buckman)

During the last ten years considerable attention has been given the possibility of establishing separate electric distribution systems outside incorporated villages and cities to meet rural requirements. Such systems would be distinguished from urban distribution systems in having distinct corporate entities, which could be established either as governmental units and operated as are the municipally owned systems, or as coöperative units with control vested in the consumers.

In a study of the problem of coöperatives in the electrical industry it would first be necessary to demonstrate the feasibility and desirability of establishing separate rural distribution systems; then the question of whether such units should be run as governmental or coöperative enterprises could be investigated. Facts and findings relative to this problem would be very helpful in directing communities and states along the road of greatest economic benefit.

Coöperative electric distribution systems are common in the Scandinavian countries. The rural power districts of the province of Ontario and similar units in The Netherlands should give some intimation of the possibility of success of area units. In the United States, the various state regulatory commissions should be able to advise whether any of the small operating companies have the characteristics of a coöperative organization even though it has been found desirable to organize under business corporation laws rather than under coöperative laws.

In New York State two small corporations each operate a single line extension. Both are business corporations, but are organized and function as coöperatives rather than as ordinary business corporations. There has also been considerable experience with coöperative telephone operations in New York and other states. The experience of the telephone coöperatives may be a guide to the possibilities of similar organizations for electric distribution although the difference in risk and public liability and the greater importance of continuity of service may be of some importance.

Such a study should be made by a person who either has had some training in the technical aspects of the problem or who has a very definite interest in the technical side, since it is too easy for the uninitiated layman to arrive at wrong conclusions due to the omission of very vital technical facts. Most of the information can be gathered by mail, and intelligent use of the questionnaire method should bring in satisfactory original data.

Consideration should be given to the fact that any change in the method of electric distribution will require provisions for the disposal of or blending into the new system such distribution facilities as exist at present.

If the findings are favorable and methods are advanced which can be put into practice, one of the most complicated problems of electric distribution will be on the way to solution. If, on the other hand, the findings indicate that such distribution systems are not feasible, much hardship, loss and disappointment may be avoided.

PROJECT 75. Cooperative Telephone Service

A limited amount of information on cooperative telephone service is published in several state bulletins, planned to inventory all the cooperative enterprises in the states.¹ In many states, there are more cooperative associations providing telephone service than in any other line of economic activity. However, the majority are far from being pure cooperatives. Probably few farmers, especially tenants, who move into an area, become members of the association. The majority buy service at a fixed rate. The subject needs greatly to be studied.

PROJECT 76. Cooperative Motor Transportation*

SECTION III

Miscellaneous

PROJECT 77. Co-operative Theory and its History

OBJECTIVE: (1) To discover the views of co-operative promoters, organizers, officers and members—past and present—regarding the operation of economic forces in businesses organized cooperatively; (2) to organize the statement of these theories into a body of cooperative doctrine or into several partly consistent and partly divergent economic philosophies; (3) to show the relation to and contrast with other schemes of economic thought.

(By E. G. Nourse)

The various persons who have planned, set up, and operated cooperative associations have obviously held certain economic theories

(1) For example, see Minnesota Bulletin 180, *Farmers' Cooperation in Minnesota* (1919).

(*) H. S. Yohe, *Operating a Cooperative Motor Truck Route*, Farmers' Bulletin 1032, U. S. D. A. (1919).

which have come to expression either explicitly or implicitly in these coöperative enterprises. A partial list of the points of economic theory involved might include the nature and value of competition, the division of labor in modern economic society, the nature of the price-making process, production control or guidance in the interest of economic stabilization, the distribution of wealth as between capital return and labor return.

Various coöperatives at various times have held or appeared to hold different views on such questions of theory. In general, however, they have represented a dissenting or even revolutionary view as against the prevailing patterns of speculative and competitive private capitalism. Often the distinction between coöperative and non-coöperative views has been confused or obscured because of the pressure of practical compromises or ignorance of the economic distinctions involved. If research should reveal these issues and clarify them through orderly exposition, both historical and comparative in character; it would go far toward having coöperation accepted or rejected for what it is and to have it organized effectively for the attainment of its chosen objectives when this scheme of organization is adopted.

Such a project calls for both library and field work. The theories entertained by persons no longer living must be secured from the written record. From persons still living, though widely scattered, views can in part be secured by correspondence. Terms and issues should be defined, and persons influential in the coöperative movement induced to examine their own thinking of these points and to work out or accept explicit statement for what has perhaps been more or less vague or merely implicit. As an experiment station project, such a study should involve many personal conferences, so organized as to reveal the attitudes and beliefs of the rank and file as well as of the leadership group. They should be intermittent over a period sufficiently long to cover the whole situation without undue pressure upon persons unaccustomed to consecutive theoretical analysis.

After such materials have been gathered in a quantity sufficient to constitute a satisfactory sample, the work of analysis should be carried through by someone well grounded in economic theory. Obviously materials of this sort cannot be run through calculating machines or handled by ordinary statistical techniques. The worker in charge of the study must rely upon his own capacities for theoretical analysis to make a tentative exposition of the views actually held by coöperative groups. Both the validity of his generalizations and the adequacy and helpfulness of the plan of exposition which he adopts will be better assured if he has his preliminary findings checked by others. They should be submitted on the one hand to the coöperative groups whose views he has sought to analyze and on the other to academic workers in his own field. The latter should include not only economists who have given particular attention to the

subject of coöperative organization and of marketing but also non-agricultural economists whose field of specialization is economic theory in general.

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- "Conference on Tests of Cooperation," *American Cooperation 1925*, Vol. I, pp. 161-82.
- H. E. Erdman, "Some Economic Fundamentals of Cooperation," *American Cooperation 1925*, Vol. I, pp. 69-78.
- Richard Pattee, "Purposes of the American Institute of Cooperation," *American Cooperation 1926*, Vol. I, pp. 16-22.
- E. G. Nourse, "The Evolving Idea of Cooperation in the United States," *American Cooperation 1928*, Vol. I, pp. 18-26.
- Robin Hood, "The Cooperative Viewpoint," *American Cooperation 1919*, pp. 223-32.
- C. R. Fay, "The Evolution of the Cooperative Idea," *American Cooperation 1930*, Vol. I, pp. 87-95.

PROJECT 78. Systems for Reporting Current Developments in Cooperation in a State

See Project 11 in the report on Rural Organization.

PROJECT 79. Problems of a Particular Cooperative

PROJECT 80. Pre-organization Surveys

(By B. B. Derrick and T. B. Manny)

The methods employed in a pre-organization survey will of course differ for each commodity to be marketed or purchased or each service to be rendered as well as for each area studied. The following points, however, will in a general way secure the information needed to develop sound thinking among the prospective leaders and their membership as well as provide the basis for determining the type of organization most likely to succeed under the then known conditions.

The research worker will wish to secure for the prospective organization a complete unbiased picture of the area to be organized. Following are some questions that a survey should answer affirmatively before the organization of a coöperative should be undertaken.

Are local conditions favorable to coöperative business activity?

Can a volume of business sufficient to provide for economical operation be obtained within an area of reasonable transportation costs?

Is competent management available at a per unit cost well within the limits of economical operating cost for the association?

Can adequate working capital be obtained at a reasonable interest charge?

Can sufficient capable leaders be found in the area to manage the affairs of the association?

Assuming that the above questions are answered in the affirmative, what type of organizational set-up will meet the needs of the community?

In order to determine this, the following types of information should be gathered and analyzed:

1. Past and present coöperative efforts in and possibly adjacent to the area to be served by the proposed new organization.

a. Percentages of farmers who have used or are using the services of past or existing coöperatives and trends in these percentages over at least the preceding 10 years.

b. Trends in volume of business handled by past and existing coöperatives during the same period, and if possible, the trends in volume of business handled by private agencies for the same commodities and services during this time period.

c. The degree of satisfaction of farmers who have used or are using these coöperatives and their reasons.

d. The reactions of reputable local business men to the accomplishments of the coöperatives.

2. A general study of the area from the standpoint of the commodities to be handled or the services to be rendered by the proposed coöperative organization, including:

a. Determination of the approximate boundaries of the area that may be profitably served by and included in the organization.

A. Per-farm production, consumption or utilization of the commodities to be marketed or purchased for the farmers, or other services to be rendered.

B. The transportation and communication resources of the area.

b. A survey of existing private agencies rendering services to the area such as are proposed for the new coöperative; establishing, as far as possible, the approximate volume of business handled by each in recent years, their methods of operation, services rendered, advantages and disadvantages of these services to the farmers of the area, and the probable effect upon the local price structure of the establishment of the new coöperative.

c. The price-making factors that are controlled within or without the local area, including the effect of substitute products that compete from the standpoint of alternate use as well as the seasonal competition that may be involved, and the way in which the proposed coöperative will gear into this situation.

d. The extent to which the commodities to be marketed for the farmers or purchased for them, or other services to be ren-

dered to or for them, can be standardized with respect to quality, grade, packaging, variety, and other factors for the purpose of securing better market outlets, more economical purchasing or more efficient services and activities undertaken.

3. A very careful survey of the physical facilities needed by the proposed coöperative, including capital costs, upkeep and depreciation of owned facilities or rental costs of leased facilities.

- a. Suitable location or locations for the facilities required.
- b. Type and size of buildings and equipment.

With probable volume of business and relative cost factors determined the research worker should be in a strategic position to recommend to the leadership of the proposed organization whether or not it is desirable to complete the coöperative organization. If his advice is to proceed he is in an admirable position to suggest the type of coöperative association most adaptable to the local, state or national needs.

The next step is to determine the type and number of members required to make the organization a success. Experienced coöperative leaders are now strongly convinced that no producer should be solicited to become a member of a coöperative association unless he is financially able and willing to stand by his association and its activities and fulfill all membership obligations. The member meeting these requirements will in all probability continue to acquaint himself with the current problems of his association and for this reason will be a constant booster rather than blaming it for conditions of which it has little or no knowledge.

With information of this character available to guide the future coöperative association the membership enters into their organizational activities free from prejudice, and with a thorough understanding of the problems facing their association. While admittedly taking more time to start the organization, there is no excuse for extravagant promises from organizers when this procedure is followed.

Once prospective members realize the competition their organization must meet locally and from other areas, they are more likely to follow better production and marketing methods, knowing in advance that the possibilities for improvement of services rendered to them and the limitations, are wholly dependent upon the degree of coöperation obtained from the entire membership.