

# Development of Co-operative Cotton Ginning



# Development of COOPERATIVE COTTON GINNING

by Omer W. Herrmann

Farm Credit Administration  
*Cooperative Research and Service Division*

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## Summary

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COOPERATIVE cotton ginning is the most rapidly growing cooperative enterprise in the South today. In 1920 there were fewer than a dozen cooperative gin associations in the Cotton Belt, whereas during the 1937-38 season there were 424. With these facilities the 60,000 farmer members of these associations ginned about 1,200,000 bales, or approximately 7 percent of the entire 1937-38 cotton crop. More than 500 associations operated during the 1938-39 season.

The earliest recorded attempt to organize gin associations was made in 1887. Later there was a widespread growth of farmers' gin companies, which reached the height of their popularity between 1905 and 1915. Their faulty legal structure made their existence as semicooperative institutions short lived.

The contemporary movement began in 1919. That year Oklahoma farmers organized the first cooperative gin association to be set up under cooperative statutes, which were made available first in 1917. A few scattered associations were added each year up to 1923. Then the Oklahoma Farmers Union initiated an aggressive cooperative gin program. From 1924 to 1931 the union organized about 100 such associations in Oklahoma. Since that time drought, depression, low prices, crop restriction, and regulation by the State corporation commission have combined to halt, at least temporarily, the growth of cooperative cotton ginning in Oklahoma.

The local cooperative gin movement, which began in Texas in 1920, was first built around the Cooperative Society Act. Some 80 of these societies were organized during the decade from 1920 to 1930. For several years following 1930 the cooperative gin movement

was at a standstill in Texas. However, with the coming of better times and the loan facilities of the Houston Bank for Cooperatives, the Texas cooperative gins began a rather spectacular growth in 1934 as capital-stock cooperatives under existing cooperative statutes. This growth has continued at an increasing rate until in 1939 more than 350 associations are operating in the State of Texas.

Beginnings were made in Mississippi and New Mexico between 1920 and 1930, but it was not until after 1934 that cooperative gins assumed any importance in these States. Since 1934 scattered organizations have made their appearances in California, Alabama, Louisiana, Arkansas, and Tennessee.

A transient phase in the development of cooperative cotton ginning was the "line gin" sponsored by some of the State cooperative cotton marketing associations. During the period from 1924 to 1933 these associations operated, at one time or another, 50 to 60 such branch plants. Except for one plant operated by the California Cotton Cooperative Association, this type of ownership is now nonexistent.

In the two decades 1919 to 1939 the local cooperative gin association has grown steadily in popularity. At the end of that period there were more than 500 such associations operating in the South, mostly in Texas, Oklahoma, and Mississippi. The local cooperative gin now seems to be the universal choice of farmers interested in group action in ginning cotton. Groups of cooperatives are already federating for the purpose of making additional savings in the processing of cottonseed. This type of cooperation will grow and spread to cotton marketing and related activities.

# Development of Cooperative Cotton Ginning

by OMER W. HERRMANN  
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COOPERATIVE cotton ginning is now a million-bale industry. It topped the million-bale mark first with the record crop of 1937-38 and repeated again with the shorter crop of 1938-39. Its 60,000 farmer members own more than 500 gin plants, which cost considerably more than \$10,000,000. Despite the unfavorable position of the cotton industry in recent years, cooperative cotton ginning has been making steady and permanent progress since the passage of the cooperative marketing acts in the Southern States (1917-21). Since that time the future of cooperative ginning has seldom been in doubt.

Scattered beginnings of the cooperative ginning movement appeared more than 50 years ago (1887). Then in 1919 came the first gin organized under cooperative laws. The movement progressed slowly but steadily from 1919 to the beginning of the depression and marked time until 1933 (table 1). In that year, with the arrival of more satisfactory conditions and better cotton prices, and with the stimulus afforded by the lending facilities of the banks for cooperatives, cooperative cotton ginning began a rather spectacular growth, left its early bounds of Oklahoma and Texas and spread to New Mexico, Mississippi, California, Louisiana, Alabama, and other cotton States (fig. 1).

Interest in cooperative gins now covers most of the South. To every cotton farmer, who must have his cotton ginned before it enters the channels of trade, costs and quality of ginning services available in his community are of direct importance in governing the size of

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NOTE.—This circular is adapted from part 2 of a thesis presented to the faculty of the Graduate School of the University of Wisconsin in partial fulfillment of the requirements of the degree of doctor of philosophy. The information contained in it was gathered largely through frequent contacts with cooperative gin associations over much of the period of their current development. In addition, a study of field schedules which were taken by and under the direction of the author and which cover all cooperative gin associations in Oklahoma, Texas, and New Mexico for the seasons 1932-33 to 1935-36, inclusive, gave a wealth of historical information as did the financial and other records obtained from associations in Mississippi, Alabama, Louisiana, and California for more recent seasons.

returns he receives from his crop. Specifically, his annual income from his cotton is materially affected by the ginning charges and by the spreads ginners take in handling cottonseed, bagging and ties, and cotton, and also by the extent to which improved practices and facilities preserve the good qualities of cotton during the ginning process. Thus, the problems of ginning charges, margins of profit, and quality of service form the background for nearly all movements on the part of farmers to operate their own cooperative gins.

TABLE 1.—COOPERATIVE GIN ASSOCIATIONS FORMED, BY STATES, YEARS OF ORGANIZATION, AND VOLUME GINNED 1919-38

| Year of organization | Associations <sup>a</sup> formed |          |             |                           |        |                  | Estimated volume ginned |
|----------------------|----------------------------------|----------|-------------|---------------------------|--------|------------------|-------------------------|
|                      | Texas                            | Oklahoma | Mississippi | Other States <sup>b</sup> | Total  | Cumulative total |                         |
|                      | Number                           | Number   | Number      | Number                    | Number | Number           | 1,000 bales             |
| 1919.....            | 3                                | 1        |             |                           | 4      | 4                | 15                      |
| 1920.....            | 2                                | 4        |             |                           | 6      | 10               | 40                      |
| 1921.....            | 2                                |          |             |                           | 2      | 12               | 40                      |
| 1922.....            | 3                                | 1        |             |                           | 4      | 16               | 50                      |
| 1923.....            | 3                                | 1        |             |                           | 4      | 20               | 60                      |
| 1924.....            | 5                                | 1        |             |                           | 6      | 26               | 90                      |
| 1925.....            | 4                                | 1        |             |                           | 5      | 31               | 100                     |
| 1926.....            | 4                                | 7        |             |                           | 11     | 42               | 150                     |
| 1927.....            | 2                                | 31       |             |                           | 33     | 75               | 270                     |
| 1928.....            | 18                               | 21       | 1           |                           | 40     | 115              | 300                     |
| 1929.....            | 12                               | 22       |             |                           | 34     | 149              | 350                     |
| 1930.....            | 12                               | 6        |             |                           | 18     | 167              | 300                     |
| 1931.....            | 3                                |          |             |                           | 3      | 170              | 435                     |
| 1932.....            |                                  | 1        |             |                           | 1      | 171              | 480                     |
| 1933.....            | 6                                |          |             |                           | 6      | 177              | 535                     |
| 1934.....            | 26                               | 1        | 1           | 1                         | 29     | 206              | 100                     |
| 1935.....            | 54                               | 1        | 7           | 1                         | 63     | 269              | 490                     |
| 1936.....            | 65                               | 5        | 14          | 11                        | 95     | 364              | 580                     |
| 1937.....            | 34                               | 1        | 15          | 10                        | 60     | 424              | 1,200                   |
| 1938.....            | 57                               | 2        | 17          | 10                        | 87     | 511              | 1,130                   |
| Total.....           | 315                              | 107      | 55          | 33                        | 511    | -----            | 6,805                   |

<sup>a</sup> Includes Alabama, Arizona, California, Florida, Louisiana, and New Mexico.

<sup>b</sup> Includes 2 cooperative gins organized in Texas in 1913 and 1914.

## FORERUNNERS OF COOPERATIVE GINNING

THE idea of ginning cotton cooperatively was not inspired originally by the advocates of the philosophy of cooperation. Rather it broke out spontaneously here and there throughout the Cotton Belt as cotton-ginning problems became so acute as to demand attention. The earliest attempts at cooperative ginning resulted in crude legal and business structures that did not stand the tests of practical operating conditions.

Farmers' Cooperative Cotton-gin Associations  
in the United States, 1938

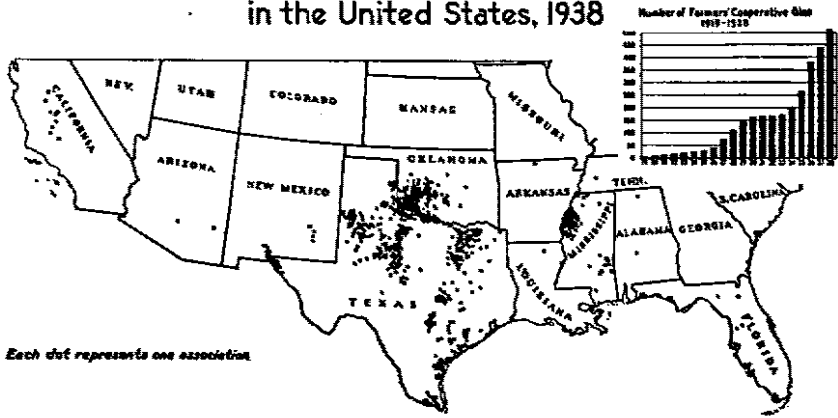


FIGURE 1.

Cooperative cotton ginning got its early start in Texas and Oklahoma. Since 1934 it has spread to Mississippi and other States. The most rapid growth has come since 1934.

The first farmers' cooperative gin recorded was established in Wagner, a rural community near Greenville, Tex. It was started in 1887, 30 years before the enactment of cooperative laws in that State, under the leadership of W. W. Cole, then a member of the Farmers' Alliance of Texas.<sup>1</sup> It was an informal unincorporated association. Incorporation was probably deemed unnecessary. The association purchased machinery, erected a two-stand gin plant, and operated for 2 years; but it was soon forced out of existence by competition. From a business point of view the gin was a failure, and as a cooperative it left much to be desired, but it nevertheless supplied the germ of an idea that Mr. Cole later developed into an extensive and worth-while program. (See p. 22-27.)

Many years later the Farmers Educational and Cooperative Union, soon after it was founded in 1902, sponsored the organization of a number of cooperative warehouses and gins. Although the union's warehousing program covered most of the Cotton Belt, the gin program, so far as is known, was confined largely to Texas and Oklahoma. The Farmers Union was responsible for setting up several scattered associations that used the cooperative principles generally accepted today. Had these principles been more widely adopted at that time, the history of the cooperative movement in the South would probably have been entirely different.

<sup>1</sup> Herrmann, O. W. CO-OP GINS POINT WAY, in American Cotton Grower, 2 (1): 6. 1936.



Two such gins stand out as unique among those founded by the union: The Farmers Union Gin of Munday, Tex., and the Roger Mills County Cooperative Association of Elk City, Okla. They are in fact different from all other gins of this early period with the possible exception of a gin at Rule, Tex. The Farmers District Union Gin of Rule resembled these two during the later years of its operations, but as it paid dividends exclusively on a stock basis during its early years, it will be discussed with the farmers' stock companies (p. 5).

The Farmers Union Gin Association of Munday, Tex., was formed in 1914 as part of a general plan sponsored by the Farmers Union District No. 28, which was made up of farmers from Haskell and Knox Counties. It started as a local unincorporated association. At the outset members pledged themselves jointly on a note of \$2,000 to cover the down payment on a 4-stand, 70-saw gin plant and to supply initial operating capital. The association ginned 4,700 bales of cotton the first season, paid for its plant, and distributed \$3,100 in cash dividends. The next year it instituted a plan for ownership and control of the plant which has successfully prevented it from passing into the hands of private owners.

There was in Munday a local of the Farmers Union which had been established in 1905, and which had operated a cooperative warehouse in the community since 1907. It seemed advisable to provide for ownership of the gin by this farmer-controlled district Farmers Union and to operate under the district union's charter. There was, therefore, no stock issued and hence no means of control through stock; instead control of the association was placed in the hands of the members of the local, each of whom had one vote. Earnings were distributed to paid-up members of the local Farmers Union in proportion to the amount of business each had done with the gin. In recent years dividends have been distributed to all patrons.

The Munday association operated under the district Farmers Union charter from 1914 to 1936. In 1936 because its legal structure was questionable and its members wished to take advantage of the prevailing cooperative statutes, the association was reorganized under the Cooperative Marketing Act of Texas. The association was in good financial standing at the time of reorganization, and the members of the new association are the same as the members of the old.

The Farmers Union Gin of Munday succeeded because it was owned and controlled by farmers; and although its legal structure was crude it was so organized as to make control by individuals or groups interested only in personal gain difficult, if not impossible, to obtain. Furthermore, it was a business success and was able to pay back rather consistently to its members large savings from ginning operations and from the handling of bagging and ties, cottonseed, and other commodities. An important factor contributing to its success

as a cooperative is that its savings were distributed to members on a patronage basis rather than on the basis of capital invested in the association.

A contemporary development in Oklahoma, the Roger Mills County Cooperative Association, likewise seems to have been unusual among early ginning associations sponsored by the Farmers Union in that its bylaws provided for "the principles of patronage refunds to members." The association is said to have used almost verbatim the language of the cooperative statutes later adopted by the Oklahoma Legislature.

The Roger Mills County Cooperative Association is located at Elk City, Okla., a community with the reputation of having many successful cooperative projects. The association was organized in 1905, is still operating, and probably has had one of the longest periods of continuous operating history of cooperatives in the State. During its early years the association handled grain primarily; then as the grain business declined, it turned to lumber, coal, implements, and general farm supplies. It still operates three grain elevators. In 1906 the association purchased a gin plant located at Berlin, a community adjacent to Elk City, and operated it for 3 years. It sold the plant, however, probably because the community shifted temporarily to the production of broom corn, and thereby cut the volume of ginnings to a point where gin operations could not be carried on successfully.

## FARMERS' STOCK-COMPANY GINS

CONTEMPORARY and subsequent to the development of these strictly cooperative associations, a clearly defined group of farmers' stock-company gins was organized. These gins reached the height of their popularity between 1905 and 1919. Many were assisted by the Farmers Educational and Cooperative Union. Most of the associations were formed in the newer cotton areas of the West, particularly while cotton acreage was increasing rapidly there. Others were formed in the older cotton sections of the Southeast, when farmers attempted from time to time to solve their problems by group action. Hundreds of farmer-owned gins sprang up in most States in the Cotton Belt, especially in Texas<sup>2</sup> and Oklahoma.

An early writer, discussing farmers' stock-company gins, States that—

the reasons given by farmers for building gins are usually three: First, insufficient ginning facilities in the community; second, poor gin equipment and consequently poor ginning; and, third, inconsiderate treatment by private gin managers.<sup>3</sup>

<sup>2</sup> Elliot, H. M. FARMERS' COOPERATIVE GINS IN TEXAS. Tex. Agr. Expt. Sta. Spec. Circ. 23 pp., illus. 1920. See p. 7.

<sup>3</sup> See reference cited in footnote 2, see p. 5.

Another reason fully as significant as these was—

the desire on the part of growers to save part of the cost of ginning, either by lowering ginning charges or by having part of the charge returned in the form of a dividend.<sup>4</sup>

In connection with the early problems of spreads and profits, still another contributing factor was that—

poor prices were received for cottonseed, due to restricted markets.<sup>5</sup>

The farmers' stock-company gins were cooperative only in a limited sense. The strongest feature from a cooperative viewpoint was that the members, as farmers, attempted to accomplish their objectives by group action. Earnings, of course, went to the farmer-stockholder, but distribution was made according to the amount of stock he held rather than the amount of business he had done. Voting was on a stock basis rather than on one of the more democratic cooperative plans.

The companies were incorporated under general corporation laws and lacked many of the features later enacted in cooperative laws to protect the rights and the financial interests of individual member-stockholders and to insure the continued existence of the associations as farmer-owned and farmer-controlled cooperatives. Specifically the general corporation laws contained the following defects from the cooperative point of view:

(1) All voting was on a share basis. Thus voting was not restricted sufficiently.

(2) There was no limit to the number of shares of stock one individual might hold. Stock ownership was not restricted to cotton producers. In fact, the bylaws of the companies contained no restrictions as to who might own the stock. Transfer of stock was not controlled by the company. Consequently it was a comparatively easy matter to gain control of 51 percent of the shares and thereby to control the policies of the company. Changes in the ownership of stock occurred particularly when members needed ready cash, moved out of the community, or became dissatisfied and wished to sell.

(3) Earnings were distributed to stockholders according to the number of shares of stock each held rather than to patrons on the basis of the amount of business each had done with the company. Thus stock often became a desirable investment for those who had no interest in the organization other than to use it for investment purposes.

<sup>4</sup> Hathcock, J. S. DEVELOPMENT OF COOPERATIVE GINS IN NORTHWEST TEXAS. A Preliminary Report, U. S. Department of Agriculture. 30 pp., illus. 1927. [Mimeographed.] See p. 1.

<sup>5</sup> Dickson, A. M. THE PLACE OF COOPERATIVE GINS IN A COOPERATIVE COTTON MARKETING SET-UP. In American Cooperation, 1933. pp. 465-475. Washington, D. C. See p. 456.

(4) There were no limitations on the percentage of earnings that might be paid on stock or capital.<sup>6</sup>

As a result of these deficiencies in the law many companies, especially those with profitable businesses, became the prey of individuals and groups who wished to gain control of them in order to obtain their profits. Within a comparatively few years hundreds of gin associations organized by farmers ceased to exist as semicooperative institutions. The associations needed the protection of adequate cooperative laws which came too late to save them as cooperative institutions.

The early Farmers Union of Texas and of Oklahoma<sup>7</sup> was particularly active in assisting the farmers to organize these stock-company gin associations after their charters were amended in 1907 to include such business functions as (1) handling farm products, (2) warehousing, and (3) ginning.

W. W. Cole, who has been mentioned previously in connection with the earliest attempt to organize a farmers' gin association (p. 3), assisted as a member of the Texas union in forming in 1907 a joint-stock company gin at Chillicothe, Tex. Farmers in the community purchased one of the most modern 5-stand, 70-saw gin plants in the Southwest. They incorporated their association under the general corporation laws of the State of Texas. The association was a success from a business point of view, but it ceased operating as a cooperative association because defects in the organization plan (p. 5-7) led to its dissolution.

Numerous other farmers' stock-company gins have continued to operate as semicooperative organizations for the benefit of their farmer patrons. After cooperative laws were enacted, however, a few of these companies were reorganized on a cooperative basis.

One of these, the Farmers District Union Gin Association of Rule, was incorporated on April 26, 1913, under the general corporation laws of the State of Texas. The association began with 92 members, who subscribed \$800 of the \$8,000 original capital. They purchased the plant shown in figure 2. Like many contemporary farmers' gin companies, the association limited its stockholders to one vote. At first it paid dividends to members on a stock basis, but later changed to the cooperative method of distributing earnings on the basis of the volume each member had contributed to the association. After a few years of successful operation the association built a second plant, but this, as its officers said, proved to be a millstone about the necks of the original group.

<sup>6</sup> See references cited in footnote 4. See p. 3.

<sup>7</sup> The activities of the early Farmers Union should not be confused with the activities of the Oklahoma Farmers Union (1923-31), a second development of the same organization. (See p. 11.)



FIGURE 2.—THE FARMERS DISTRICT UNION GIN PLANT AT RULE, TEX.  
Farmers built hundreds of plants of this type prior to 1915.

The association at Rule has had 25 years and more of operating experience. It has at times suffered from poor management, from the results of speculation on cotton, lack of membership support, and the heavy burden of facilities in excess of those needed for the volume delivered by its members. Recently new management was installed, and it is hoped that the association will institute sound business policies, rebuild membership understanding, and be able to regain its position as a leader in the field of cooperative cotton ginning.

Still other Farmers' Union stock-company gins are known to have been organized in Oklahoma, Georgia, and Mississippi between 1905 and 1907. However, few records of them remain.

The failures of the early farmers' stock-company gins have had a retarding influence on current cooperative gin developments. The fact that many farmers invested their funds in gins that were known as cooperatives, only to have these institutions pass out of their control, for years excited considerable feeling among farmers against cooperative ginning, and particularly against cooperative gins organized on a capital-stock basis. In some areas it has taken years to break down the feeling against group action in ginning, but it seems that now cotton farmers—particularly in Texas, Oklahoma, and Mississippi—understand that cooperative gins are being organized on an improved plan. They are therefore gaining confidence in the possibilities of cooperative ownership and control of ginning facilities and operations.

Experiences with stock companies led Texas farmers to attempt to build strictly cooperative associations on a nonstock basis. With

this aim in view the so-called "Society Law" was enacted by the Texas Legislature in 1917.

## THE LOCAL COOPERATIVE GIN

**I**N RECENT years those cotton farmers who have been interested in group action as a means of solving their ginning problems have almost invariably chosen the local, independent cooperative gin as the type of organization best suited to their immediate needs. The local cooperative gin, as it is now known, is an association of farmers who have grouped themselves together and organized under cooperative laws for the purpose of operating a gin for their own benefit. Associations of this type are owned and controlled by farmer-members who live in the communities in which the plants are located. Almost without exception each member has one vote regardless of the amount of capital he may have invested in the association. Control is delegated by the members to a board of directors. Dividends on stock or capital are limited to 8 percent, and net earnings are distributed to patrons on the basis of the amount of business done with the association. In practically all other respects, including their operations, cooperative gins are similar to commercial gins.

Such independent cooperative gins have assumed since 1919 an increasingly important place in the development of cooperation among cotton farmers. Except for a plant of the California Cotton Cooperative Association (p. 55-57), all cooperative gins today are operated by independent local associations. For that reason it appears advisable to trace the growth of the local cooperative-gin idea in detail.

### PERIODS OF GROWTH

Development and growth of the local cooperative gin associations during the last two decades (1919-39) may be divided into two periods. The earlier period begins with the organization of the first cooperative gin under cooperative laws in 1919 and ends with the depression and low cotton prices in 1931 and 1932. The second period begins in 1933 with the revival of business and the upswing of cotton prices. The loan facilities of the district banks for cooperatives under the Farm Credit Administration have stimulated the organization and activities of cooperative gins during this latter period.<sup>5</sup> At the present time (1939), 6 years after the beginning of the second period, cooperative gins are being organized at a more rapid rate than ever before, and there is wider interest on the part of farmers in cooperative cotton ginning than at any time during the last 20 years.

<sup>5</sup> The Farm Credit Act of 1933 (48 Stat. 267, Title 12, U. S. C. A., sec. 1131) authorized the establishment of 12 regional banks for cooperatives and a Central Bank for Cooperatives for the purpose of making loans, not only to farmers' marketing and purchasing associations but also to processing cooperatives such as farmers' cooperative gins and oil mills.

To a certain extent the second period is a continuation of the first. During the first period farmers were experimenting with the new type of organization, and from the experiences of those years have come many of the operating methods, policies, and practices of the local associations. The periods, however, are distinctly unlike in at least one respect—the extent of territory served. During the years 1919 to 1932 cooperative cotton ginning was confined very largely to southwestern Oklahoma and northwestern Texas; since that time a great deal of interest has been shown outside these areas, particularly in northeast, central, and south Texas, in Mississippi, New Mexico, California, Louisiana, and Alabama.

The first big development in Texas and Oklahoma came in the 5-year period from 1926–27 to 1930–31, when large production increased the average volume of ginnings per plant to a point at which profits were unusually attractive. At that time ginning charges were relatively high. Rates for picked cotton ranged from 30 to 40 cents per 100 pounds, and for snaps and bollies from 40 to 60 cents per 100 pounds. Practically all cotton in that area was and still is snapped. Charges for bagging and ties ranged from \$1.45 to \$2 per pattern. Gross margins in handling cottonseed were equally attractive to ginners; they averaged about \$3 per ton (fig. 3).

Conditions in northwestern Texas and southwestern Oklahoma were favorable to the development of cooperative gins. Both may be classi-

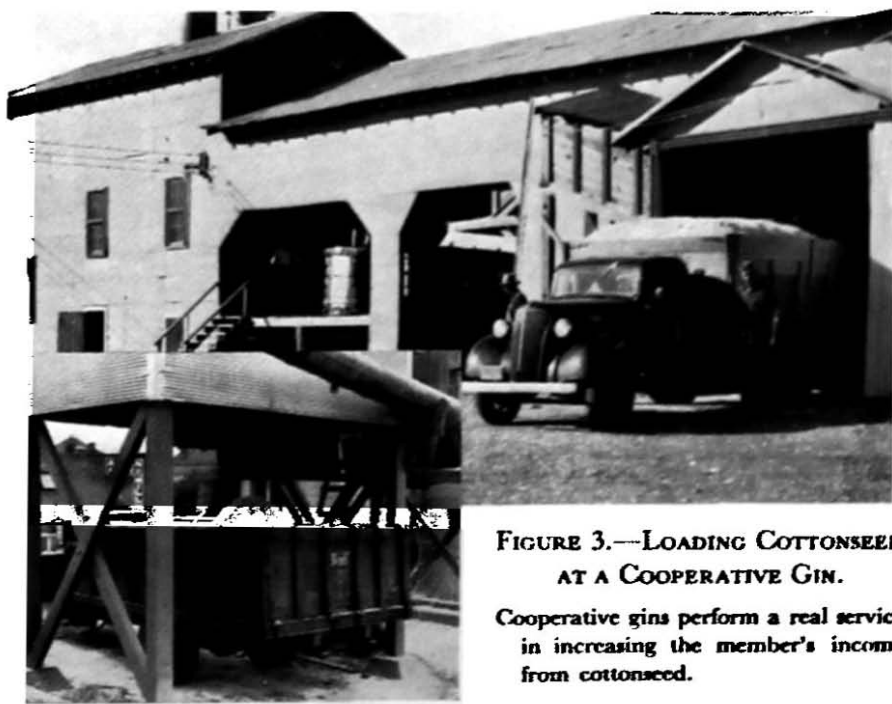


FIGURE 3.—LOADING COTTONSEED AT A COOPERATIVE GIN.

Cooperative gins perform a real service in increasing the member's income from cottonseed.

fied as large-scale cotton-growing areas. In that section from 1920 to 1930 farms of 160 acres were the rule rather than the exception, and a large percentage of the acreage was in cotton. This meant a relatively large production of cotton per farmer. Tenure conditions in the area were not typical of those in the South. The percentage of tenancy was high, but the percentage of sharecroppers relatively low. For example, in Oklahoma in 1925, approximately 58.5 percent of the farm operators were tenants, 51.9 percent were classified as sharetenants, and only 6.6 percent as sharecroppers. The figures for Texas in 1925 were similar to those for Oklahoma, although the percentage of sharecroppers was slightly higher.

Furthermore, the general level of education of the average farm operator was relatively high. Among the rural population in Oklahoma only 4.5 percent were classified as illiterate in 1920, and only 3.7 percent in 1930. The percentage of illiteracy in Texas during those years was only slightly higher. The general level of education would indicate that farmers generally in the area are capable of appreciating the principles of cooperation and of seeing their potential contribution to well-being. Compared with other cotton-growing areas, a large majority of the farm population in Texas and Oklahoma is classified as native white and only a relatively small percentage as colored.

### OKLAHOMA COOPERATIVE GIN MOVEMENT

The first cooperative gin associations formed under the newly enacted cooperative laws were located in Oklahoma. After thus getting off in the lead with the first association in 1919, the cooperative gin movement in Oklahoma grew faster and developed further up to 1931 than any similar movement in any other State, and it pointed the way toward the development of cooperative ginning elsewhere. During the 8 years since 1931, however, cooperative ginning has been at a standstill in Oklahoma. While the depression, low prices, and subsequently diminished production as a result of prolonged drought and crop restriction have been important factors which brought to an end, for a time at least, the organization of cooperatives, regulation by the corporation commission of the cotton-ginning industry in Oklahoma must be further clarified before extensive development of cooperative ginning will be resumed in that State.

The period from 1919 to 1931 may be roughly divided into two parts: (1) From 1919 to 1923 when scattered groups of farmers were trying out the new independent cooperative gin; and (2) from 1923 to 1931 when aggressive work done by the Oklahoma Farmers Union and to a lesser extent by the Farm Labor Union produced a period of extremely rapid growth.



*Beginnings, 1919-22*

The survey of cooperative gins by the Cooperative Research and Service Division in 1934 revealed the fact that the Farmers Cooperative Association of Jackson County, organized at Olustee, Okla., in July 1919, was the first cooperative gin association to be set up in the United States under cooperative laws.<sup>9</sup> This gin has been operating continuously and successfully up to the present time. Details relative to its organization are meager, but as nearly as can be determined, a member once connected with the Extension Service of the Oklahoma A. and M. College played a leading role in working out the plans. The association was organized primarily to gin cotton for its members, but according to its bylaws (Sec. 5) it is also authorized--

to engage in such other lines incident to said business as may be, from time to time, designated by the directors, which shall include the right to acquire, own, and operate cotton and cottonseed warehouses, compresses, cottonseed-oil mills and such other plant or plants as may be necessary to reduce cottonseed and products to the most refined state for commercial use \* \* \*.

The charter provides for an authorized capital of \$50,000, represented by 1,000 shares with a par value of \$50 each. The number of shares each member is allowed to own is limited to 10. Transfers of stock are under the control of the board of directors. A board of directors of 9 members is selected by the stockholders annually. Each member of the association, regardless of the amount of stock held, is entitled to only 1 vote. Each member must be "a member in good standing of some recognized council of farmers and approved by the board of directors."

Methods of distributing earnings are different from those followed by the farmers' stock companies previously mentioned. In accordance with Oklahoma law,<sup>10</sup> the Olustee association's bylaws provide that--

(a) Not less than 10 percent accruing since the last apportionment shall be set aside to surplus or reserve fund until such time as these funds equal 50 percent of the paid-up capital.

(b) A dividend of 8 percent may be declared by the board upon the paid-up capital stock, and in their discretion 5 percent may be set aside for educational purposes.

(c) The remainder of such net earnings and profits shall be apportioned and paid to the members ratably upon the amounts of the products sold to the corporation by its members and the service purchased therefrom, and the amounts of purchases of the members from the corporation.

In 1920 associations similar to that at Olustee were organized at Anadarko, Eldorado, and Duke. These were followed by others during the next few years, each organized on the initiative of farmer groups.

<sup>9</sup> Herrmann, O. W., and Gardner, Chastina. EARLY DEVELOPMENTS IN COOPERATIVE COTTON MARKETING. Farm Credit Administration Circ. C-101. 44 pp., illus. 1936. See p. 41.

<sup>10</sup> Oklahoma Stat. 1931, Sec. 9694-9699.

*The Farmers' Union Program, 1923-31*

The Oklahoma State Union of the Farmers' Educational and Cooperative Union of America, generally known as the Oklahoma Farmers' Union, has worked vigorously in connection with the development of cooperative cotton ginning in Oklahoma. Undoubtedly, the union has been the biggest factor back of the rapid development of the cooperative ginning industry, generally, in Oklahoma from 1923 to 1931. During its early years it fought to obtain reductions in rates and also improvements in ginning services, principally by representing the farmers of the State before the corporation commission. In the middle twenties, however, under the leadership of its president, it shifted its attack on the rate and service problem and started an active campaign of organizing local farmers' cooperative gin associations.

Since 1926 it has stood for high ginning rates, and so publicly declared itself in the following excerpt from its house organ:

We warn members of the Farmers' Union that there will never be low rates for ginning in Oklahoma again. The only force that has in the past worked and fought for low rates will never be there again in that capacity, and that is the Farmers' Union. We already have enough gins in this State that it is against our interest to have low rates. If you want protection, there is just one way for you to get it, and that is for you to organize and own a gin. You better get busy, roll the stone away, and the Farmers' Union will call the gin Lazarus forth from the grave.<sup>11</sup>

The Farmers' Union had several motives in mind in sponsoring cooperative gins. It had, of course, always sought to add to its own membership, to strengthen its finances, to build up the State union, and to add to its prestige as a national organization. Since membership in the Farmers' Union was a requisite in the State to gin association membership and the payment of dues to the State union was an obligation to be performed before the local gin association could distribute its earnings to its member patrons, the organization of cooperatives was an excellent means of accomplishing these aims.

In 1923 the Farmers' Union assisted in organizing a cooperative gin at Sayre, Okla. This association and several others founded in 1924 and 1925 proved exceptionally satisfactory, and the union therefore got back of the movement in a big way. Its efforts were aided materially by the large cotton crop of 1926, which made farmers feel that their ginning facilities were inadequate. Between 1923 and 1932, inclusive, the State union assisted 107 farmers' groups with a membership of more than 10,000 farmers to organize gin associations and to purchase gin plants at an original cost of more than \$3,262,000.<sup>12</sup> Each gin was operated by an independent local cooperative association. In most instances the names under which these local gin associations were incorporated included the words "Farmers' Union."

<sup>11</sup> OKLAHOMA UNION FARMER. March 15, 1926, p. 1.

<sup>12</sup> Oklahoma Farmers' Educational and Cooperative Union, ANNUAL STATEMENT. March 31, 1932.

The union's method of assisting local gin associations to organize was simple. Its representatives met with local groups of interested farmers, explained the purposes and the objectives of local cooperative gins, and appointed committees of farmers to contact prospective members and to solicit stock subscriptions. It supplied legal assistance in the preparation of articles of incorporation and bylaws and obtained charters and operating licenses for the associations.

The following agreement between the Oklahoma Farmers' Union and the incorporating members of the local gins shows rather clearly the plan under which the local gins were formed:

We, the undersigned, each subscribe for the number of shares of stock, set opposite our names, in the Farmers' Union Cooperative Gin at ..... Okla., on the following agreed plan:

Capital stock to be \$25,000.00, divided into 250 shares of the par value of \$100 each. We each pay herewith in cash the amount indicated opposite our names, which is not less than \$20 on each share subscribed, and we give note for the balance due ..... 192....., bearing 10 percent interest. It is understood that those checks and notes are to be returned to us, unless 100 shares are subscribed.

We, herewith, instruct our board of directors to purchase any and all machinery we may need through the Oklahoma Farmers' Union, providing prices are not higher than like machinery can be purchased other places. It is understood that the Oklahoma Farmers' Union shall assist in the organizing of this company, and in the financing to the extent of the price of the machinery at the factory. The Farmers' Union is to do all the legal work connected with securing charter from the Secretary of State, and permit from the Corporation Commission. The Farmers' Union is to do all this without expense to us.

| <i>Name</i> | <i>Post office</i> | <i>Shares</i> | <i>Cash</i> | <i>Note</i> |
|-------------|--------------------|---------------|-------------|-------------|
| -----       | -----              | -----         | -----       | -----       |
| -----       | -----              | -----         | -----       | -----       |

The following excerpt from the Oklahoma Union Farmer gives further indication of the union's participation in the program:

The State union is prepared to assist in places where the farmers have the ambition and the energy to get out and secure at least 50 signers in a cooperative gin. When they have done this, we will send a man to help them organize and sell more stock, and we will continue to help with meetings and our counsel and advice in everything necessary to the building of a gin. We even have a Farmers' Union building crew prepared to go and put up a building and install machinery, every man of which is a member of the Farmers' Union.

The State union headquarters will get the permit to build the gin from the corporation commission wherever the farmers' cooperative gin is organized, and without expense to the local company. There is every reason why every cotton producing community should own its own gin and not a single reason against it. If you will write and ask us how to start the organization of a gin, we will give you complete directions.<sup>12</sup>

The union encouraged the local associations to buy new machinery rather than to purchase existing facilities even when used plants were available for purchase at reasonable prices. In this way risks that

<sup>12</sup> OKLAHOMA UNION FARMER. March 1, 1926, p. 1.

are often incurred in purchasing used facilities were avoided; and furthermore, the new plant became, of course, a real talking point in attracting new members. However, this plan had one big draw-back. It did not eliminate any local competition. It cannot be doubted that in several communities purchasing the plant of a competitor would have brought more goodwill and a better working relationship with competitors.

The union acted as the agent of a gin-machinery company in the sale of gin equipment and for this service received a 5 percent commission from the machinery company. The commissions were used to defray the expenses of organizing the associations. Although the fee was liberal, the local gins did not complain; in fact most of them felt that it was "worth the money."

*Financing problems.*—Financing purchases of ginning facilities at the start presented a real problem to the local cooperatives until a uniform plan was worked out by the union in cooperation with a gin-machinery company and the late W. F. Varnum, of Shawnee, Okla., a wealthy farmer, former member and staunch supporter of the Farmers' Union. The plan provided for the purchase of a gin plant, including buildings, machinery, and ground, at a cost of from \$25,000 to \$30,000. Briefly the plan was put into effect in the following way:

(1) A committee of farmers raised among prospective members approximately \$9,000 to purchase land and buildings, and to pay for the installation of machinery. Shares of stock, each valued at \$100 were issued and sold to members, generally upon receiving \$20 cash and a negotiable note for \$80 to be redeemed later. The organization became valid only after 100 shares had been subscribed. Members' notes were discounted at local banks.

(2) The local association borrowed about \$7,000 to provide for initial operating capital and one-third of the total machinery costs. It gave as evidence of the loans a series of notes due annually for 3 years on November 1. As security for the notes the association gave a first mortgage on its land and buildings, and a second mortgage on its gin machinery.

(3) The machinery company, upon receipt of one-third cash payment on its sales to the associations, carried the remainder for 3 years. As evidence of the credit extended, it received notes similar to those mentioned in section 2. In this case, however, the company took a first mortgage on the machinery and a second mortgage on the land and buildings. Holders of first and second mortgages would be paid off in equal amounts annually.

Notes carried 8 percent interest annually until maturity and 10 percent thereafter until paid. In many instances the local associations met these obligations without difficulty. In some instances, however,

earnings were not so large as had been expected, and associations paid 10 percent interest on obligations until the advent of the banks for cooperatives in 1934. At that time, loans were refinanced or new interest rates of 4, 5, or 6 percent were agreed upon by lenders.

This plan for financing the gins appears to have had considerable merit, as well as some outstanding weaknesses. It had merit in that members, through investment of substantial amounts of cash and notes for additional sums, had financial stakes large enough to assure their real interest in the success of the associations. It had, on the other hand, rather excessive interest rates—as high as 8 and 10 percent. Furthermore, the loan period of 3 years was too short even for average conditions.

Nevertheless, so well was the task of organizing done that 95 out of approximately 120 local associations in the State, most of which were assisted by the Farmers' Union, were still active in 1938 despite severe competition from old line cottonseed-oil-milling companies, low prices, and years of drought.

*Some organization features.*—Although basically similar to the Olustee association, the gins formed by the Farmers' Union had several unusual features.

They were all established with capital stock. The State's cooperative statutes, however, permitted nonstock organizations. The capital-stock structure may have been preferred because the nonstock law in contrast to the capital-stock law does not allow dealings with nonmembers. The associations, encouraged by the Farmers' Union, ginned large volumes of cotton for nonmembers.

Instead of distributing earnings to members and nonmembers alike they divided earnings among members only, on a per bale basis. In time, however, in order to obtain the benefits and exemptions provided by operation under cooperative laws, most of these associations abandoned the practice of profiting on nonmember business.

The bylaws prepared by the Farmers' Union for the use of the local associations provide among other things that—

(1) Membership shall be limited to members of the Farmers' Union, who, of course, are farmers.

(2) Each member shall have but one vote regardless of the amount of stock held.

(3) The number of shares of stock any one member may own shall be limited to 5 percent of the paid-up and outstanding stock at any one time, or to not more than \$500.

(4) Transfers of stock shall be made only on the books of the corporation.

(5) Dividends shall be paid according to the provisions of the Oklahoma Cooperative Corporations Act of 1919, but to no member with unpaid dues and assessments in his local (Farmers' Union local).<sup>14</sup> The act provides that (a) not less than 10 percent of the net annual accruals be set aside as a surplus or reserve fund until such amount shall equal at least 50 percent of the paid-up capital;

<sup>14</sup> After 1933 this provision for paying dues was abandoned by many associations.

(b) dividends on stock be not greater than 8 percent; (c) 5 percent may be set aside for educational purposes; (d) the remainder of the net earnings and profits be apportioned to members on the basis of the amount of the products sold to the corporation and the amounts of the purchases from the corporation.

### *Farm-Labor Union Gins in Oklahoma*

While the Farmers' Union was organizing cooperative gins in southwestern Oklahoma, the Farm-Labor Union of America<sup>15</sup> started a cooperative gin program in southeastern Oklahoma and in Texas. This program lasted only a few years and reached its height in 1926 and 1927. (See also pp. 27-28.)

The Farm-Labor Union's program in Oklahoma was patterned after the Farmers' Union plan, and it is said that the Farmers' Union at one time assisted the Farm-Labor Union with its new associations. The organization structures adopted by the two groups were nearly identical, and the associations were incorporated under the same cooperative law. The Farm-Labor Union, however, met two unfavorable conditions not felt by the Farmers' Union: First, cotton production had been declining in southeastern Oklahoma for a number of years previous to 1926; and second, tenancy and credit conditions were not entirely satisfactory for the development of cooperatives.

Although there is little information available as to the number of cooperative gins organized by the Farm-Labor Union in Oklahoma, it was not large. It is definitely known that gins were located at Bennington, Bokchito, Durant, and Caddo. So far as is known, only one of the associations—and that is located in the more favorable west central part of the State—is still active. Boll weevil and declining cotton production in eastern Oklahoma and then the depression of the early 1930's brought serious financial difficulties and widespread failures, almost completely wiping out all traces of the Farm-Labor Union's program.

### *Recent Developments*

During the 5 years 1934-39, ginning facilities in Oklahoma have been more than adequate. The State corporation commission has had few demands for licenses to construct new plants. Only 3 or 4 new associations have been organized, as compared with nearly 300 in Texas during the same period, and each of them has purchased existing facilities.

There is now a general feeling among Oklahoma farmers that it is practically impossible under present conditions of drought and

<sup>15</sup> The Farm-Labor Union of America was founded in Bonham, Tex., in 1920. It was particularly concerned with sponsoring a cooperative marketing program in Texas. However, it did carry on other economic activities in that and adjoining States. One of these was a cooperative gin program in Oklahoma and Texas. (See also pp. 27-28 of this circular.)

restricted production to obtain a license for the erection of a cooperatively owned gin plant and that without such a bargaining aid, existing facilities cannot be had for reasonable prices. Until crop conditions improve and the position of cooperative gins with relation to the corporation commission has been further clarified, it is doubtful whether there will be any further rapid expansion in cooperative activity of this type in Oklahoma.

### COOPERATIVE GINNING IN SOUTHEAST MISSOURI

Missouri was the second State to have a cooperative gin. The Farmers Cooperative Gin Co., of New Madrid, was formed with the combined assistance of the Agricultural Extension Service through the county agricultural agent of New Madrid County, a State specialist in marketing, and a group of interested leaders in the community. Interest in forming the association was stimulated because gins in southeast Missouri at that time were buying cotton in the seed and refusing to do custom ginning for farmers. As long as cotton was purchased in the seed by these gins, however, it was difficult for the New Madrid gin to make substantial progress in the development of a program for preparing the cotton for market and handling it on a cooperative basis.

The charter of the association provided for a board of directors or a management to be selected by vote of the members. The number of votes of each member was determined generally by the number of shares of stock held by the member, but in all matters of general policy each member had only one vote regardless of the amount of stock owned. The charter restricted the number of shares of stock any individual could own to 10 percent of the total shares outstanding. Dividends on capital were limited to not more than 8 percent. After allowing for the payment of dividends on capital and deductions for reserves, the remainder of the net earnings was to be paid to members as patronage dividends.

At the outset the 78 stockholders of the Farmers Cooperative Gin Co. subscribed for \$12,750 in capital stock. Two hundred and fifty-five shares of stock having a par value of \$50 per share were issued. The association constructed a 3-stand, electrically driven gin plant at a cost of \$24,300. The volume ginned during the first season amounted to 1,450 bales.

Official statements are not available showing the amount of stock issued and patronage dividends paid by the gin. Dividends on stock were paid irregularly and averaged between 4 and 5 percent of the invested capital.

The gin operated successfully for approximately 13 years. Then widespread floods, low cotton prices, and bank failures compelled many members to pledge their stock as security for loans and finally to dispose of it. Private interests gradually acquired a majority of the

shares and with them control of the gin. In 1933 the association, which had been organized in accordance with the best known principles of cooperation then available, changed from a cooperative to a privately owned corporation. According to stockholders' records the first year after the association became a private corporation, a dividend on stock of 10 percent was declared, and the following year a dividend of 40 percent. In the spring of 1938 the corporation was dissolved. The property, which in the appraisal of a committee appointed by the court showed a value of \$172.77 for an original investment of \$50 in stock, was acquired by the manager and his assistant.

Thus, like so many farmers' cooperatives during the last 50 years, the association operated as a successful business enterprise throughout its entire existence, and increased its net assets materially; yet despite this fact the farmer-owners let it slip from their grasp under the stress of circumstances. Once out of their control, farmers in New Madrid were again in the position of being subject to the dictates of others in preparing their cotton for market.

There appears to be little or no interest (1938) among Missouri farmers in cooperative cotton ginning, yet in all probability in no State are ginning rates higher, or seed weight and deductions for dirt and trash more questionable. Furthermore, the practice of ginners in extending credit to farmers for the production of crops always leaves the door open for sharp practices. Farmers must expend considerable effort through group action before this situation can be corrected.

### THE TEXAS LOCAL COOPERATIVE GIN MOVEMENT, 1920-32

In presenting the background of the present cooperative gin movement in Texas it must be remembered that conditions under which cooperative ginning was established in the State were similar to those in Oklahoma. (p. 11). In fact, the areas in which this growth first took place were separated only by the Red River. The types of farming, the system of tenure, and the social and economic conditions were practically the same in the two sections. In general, although the leadership and the factors which led to organization in Texas have no connection with those in Oklahoma, the reasons for organizing were alike in almost every detail.

In northwest Texas, after several years of short and relatively short production, a large cotton crop in 1919 taxed all available ginning facilities to the point where ginning services were far from satisfactory.

Much unrest and dissatisfaction were created among the farmers in this particular year. The ginners were swamped with cotton to be ginned, and the grower, in addition to having to wait a long time for his turn, received a poor turnout from his load of seed cotton. The seed was not ginned closely enough, the



lint was sometimes damaged by too rapid ginning, and the grower paid what he thought an exorbitant charge for ginning and wrapping—60 cents per hundredweight for picked seed cotton, 70 cents per hundredweight for "snaps" and "bol-lies," and \$1.75 per pattern for bagging and ties.<sup>16</sup>

In numerous communities committees of farmers sought to have ginners improve services and lower rates and charges. Because the crop was large they received very little consideration; and, in fact, on several occasions ginning rates were increased rather than lowered.

It should be remembered that prior to the establishment of the first strictly cooperative gin in the State (p. 20-21) Texas farmers had worked together in their several semicooperative ginning enterprises. They felt rather keenly the need for a type of cooperative that would protect their interests in their facilities and guarantee their continued control of them as the stock-company association had not done. Against this background were evolved first the "society" or nonstock plan, which predominated in Texas from 1920 to 1933, and later a capital-stock plan, which has largely displaced the nonstock structure both among new and reorganized gins because the nonstock plan as set forth in the Society Act has many weaknesses. Modern nonstock cooperative laws are as well adapted to cooperative gins as capital-stock laws.

### *The "Society" Gins*

The Society Act of Texas (av. 2514-2524 Vernon Tex. Ann. Stat.) was passed in 1917. It was designed to provide an operating plan that would insure continuous ownership and control of cooperative gins by their farmer members. An interesting sidelight in this connection is given by the following quotation. Leaders in the Agricultural Extension Service of Texas as well as leading farmers—

had become deeply impressed with the universal tendency for farmers to lose control of associations which they organized and incorporated under the existing corporation laws of the State. Stock drifted into the hands of outsiders, and the companies soon were directing their activities toward the payment of large dividends to stockholders rather than toward giving good service and maximum prices to the farmer. Mr. Petest, therefore, set about drafting a bill which would keep the association completely and permanently in the hands of the farmer group who were interested in establishing it.<sup>17</sup>

*Early growth.*—The present cooperative gin movement in Texas began when the first society gin was formed at Chillicothe in 1920, a year after the appearance of the first gin of similar type in Oklahoma. Excessive ginning charges led to the organization of the Chillicothe association. A local ginner raised his rates during the 1919 season without sufficient justification, in the opinion of his farmer patrons.

<sup>16</sup> See reference cited in footnote 4. See p. 5.

<sup>17</sup> Nourse, E. G. *THE LEGAL STATUS OF AGRICULTURAL COOPERATION*. Institute of Economics, Investigations in Agricultural Economics. 556 pp. New York, 1927. See p. 68.



FIGURE 4.—A COOPERATIVELY OWNED GIN PLANT.

This plant is owned by one of the Texas cooperative gins organized during the early twenties.

After personal investigation the patrons—among them Mr. Cole, who had organized a cooperative gin association in 1887 and another in 1907—looked into the possibilities of organizing a cooperative gin association in such a way as to prevent the recurrence of the failures of the past. They received helpful suggestions from the Extension Service of Texas A. and M. College for setting up the association under the Society Act. Although beset with many difficulties (p. 23–25) which sometimes arise under the “society plan,” the association thus formed has been operated continuously up to the present time.

In discussing the results of the first year of operation at Chillicothe, Hathcock states that—

Increased competition, together with the general deflation that struck the country in that year, caused material reduction in the charges for ginning and for bagging and ties. It is said that greater care was given to the ginning of the cotton and the lint therefore graded higher. It looked as though the farmers' cooperative societies were exercising a strong influence on the ginning situation. Moreover, enthusiasm did not lag as might have been expected after their sudden development. The farmers seemed to feel that, in order to protect their interests, they must continue to offer competition in the ginning business. There was a prevalent belief that rates would again rise and poor service again result if their organizations ceased to operate.<sup>18</sup>

The responsibility for promoting the local cooperative gin idea elsewhere in Texas likewise fell to Mr. Cole, since it was not assumed by any agency as had been done in Oklahoma. From 1920 to 1930 he was directly instrumental in organizing more than 20 society gins and indirectly responsible for many others. The plant of one of the

<sup>18</sup> See reference cited in footnote 4. See p. 5.

associations is shown in figure 4. He assisted groups of producers to organize such gins in Medicine Mound, Quanah, Childress, Crowell, Vernon, Thalia, Kirkland, Knox City, and other communities in that section of Texas. This public-spirited service he donated "to the cause." For it he received only actual expense money and the satisfaction of performing a service that has proved to be of immeasurable benefit to Texas farmers. Recently, on January 14, 1938, in recognition of his 50 years of distinguished service to Texas agriculture, especially in the field of cooperative ginning, the Texas Agricultural Workers Association awarded him its silver plaque for distinguished service.

*Later development.*—Five or six other individuals later took up the plan for which Mr. Cole had laid the groundwork and promoted the local cooperative gin idea in other sections of northwest Texas. A number of these men were not so public-spirited, however; they soon began to organize cooperative gins, often not too well, for what they could get out of them. The fees for a job ranged from a few hundred to about a thousand dollars per association.

Nevertheless, the society gins were organized as cooperatives, and they have remained cooperatives throughout the years. After 10 years of operation only a few of them had failed. Since 1930, however, some have succumbed to the depression, short crops, and low prices. Most of them are still in operation. The mere fact that these gins, in contrast with farmers' stock-company gins (p. 5), have continued to exist as cooperatives, some for as many as 17 or 18 years, speaks well for the Society Act and the determination of farmers to run their own business.

*Objectives of the "society" plan.*—The plans promoted by various organizers differ in many details, but in their essentials they have many points of similarity. The articles of incorporation of a typical society state the following objectives:

\* \* \* It shall have the right to act as the cooperative selling and purchasing agent of its members only, and may for its members sell any and all agricultural products, purchase machinery and all supplies of any kind or character, including purchase of fire, livestock, hail, cyclone and storm insurance for its members; it shall also have authority to own and operate such machinery and instrumentalities as may be necessary in the production, harvesting, and preparation for market of all farm and ranch products of its members.<sup>19</sup>

Broad provisions outlined in the articles of incorporation have often encouraged the society gins to venture into fields other than ginning cotton and handling cottonseed. Many of the societies handle farm supplies, gas, oil, lumber, and in a few instances they provide members with a simple type of group life insurance.

*Membership requirements.*—Membership in the society gins is confined to producers of agricultural products, and members are admitted

<sup>19</sup> Articles of Incorporation, Childress Farmers Cooperative Society of Childress County, Tex., 1922. Art. 2.

to the societies only on election by the board of directors. According to the bylaws, applications must be made for membership, and the applications must be accompanied by a membership fee usually specified at \$1 or \$2. A certificate of membership is issued, but membership agreements are not used. The bylaws provide that each member pay annual dues of \$1 or \$2 a year.

In actual practice, however, most of the societies have not required members to apply for membership. Instead, in many instances any farmer who drives a load of seed cotton over the association scales is considered a member. Most of the society gins do not require cash payment for membership fees; either they deduct the fee from the proceeds of sale of the first cottonseed, or require a new member to pay his initiation fees only when the society "makes it," that is, only when the net income made during the year is sufficient to permit the association to deduct the amount specified from the member's account. Dues are often treated in the same way. For these reasons society gins tend to have a larger membership than other cooperative gins that require more substantial financial investments from their members.

Provisions are made for the withdrawal of members who move out of the community or cease to be agricultural producers. The return of contributions to working capital is allowable if all the withdrawing member's indebtedness to the society is paid and if the withdrawing member recommends another member to take his place in the society.

*Control.*—Each member is entitled to one vote in the determination of policies or in the election of the directors of the society. The board of directors is responsible for the business and the property of the society. Its officers consist of president, vice president, secretary, treasurer, and manager. The manager is selected by the board of directors. The bylaws of one association state that—

No member shall hold office in the association unless he shall have loaned to the working capital a sum of not less than \$25 \* \* \*.<sup>20</sup>

This provision however, is by no means general among society gins. The absence of stock control and of voting according to capital investment has been a real step forward in keeping farmers in continuous control of their associations.

*Financing policies.*—Financing provisions have generally been indefinite as is indicated in the following excerpt from the bylaws of a typical society:

The working capital shall be determined by the society for such amounts and purposes as it may determine in the owning and operating of such machinery and other instrumentalities as may be necessary in producing, harvesting, and preparing for market farm and ranch products.<sup>21</sup>

<sup>20</sup> Bylaws of the Farmers Cooperative Society Gin No. 1, Childress, Tex., July 11, 1925. Art. 4, sec. 1.

<sup>21</sup> Bylaws of the Farmers Cooperative Society Gin No. 1, Childress, Tex., July 11, 1925. Art. 5, sec. 2.

Most of the associations use "working capital," which is comparable to permanent capital or net worth in other cooperative associations. In some instances, the amount of so-called working capital has not been specified, but in other instances amounts up to \$5,000 per society have been authorized. Although the Society Act does not specifically prohibit the use of capital stock, the gins were established without such stock in order to avoid the difficulties that had previously been encountered under the general corporation set-up.

The financing plan of these gins, in general, is thus described by Hathcock.

The working capital, as a rule, has gone immediately into the construction of the gin plant, but in most cases it has not exceeded one-eighth to one-sixth of the total cost of the plant. The greater part of the money needed was obtained through loans from members and local businessmen. Gin manufacturers usually allow credit for a substantial part of the purchase price of the necessary machinery and equipment. In some instances members' notes had to be given the personal endorsement of the officers of the society before they could be used as collateral for loans from local banks. Although generally this would not be considered a wise policy, it has worked out satisfactorily with the societies that followed it. A system of financing should be devised, however, which would distribute the burden equally, and not cause the leaders in a movement to assume personally an undue proportion of the risks involved.<sup>23</sup>

The financial burdens were not equitably distributed among the patrons. As a rule, working capital was loaned by members only when an association was first established. When all outside obligations of the association had been met and the working capital retired, it was customary for officials of the associations to say, "No member has anything invested in the society." They failed to see that members of the early years bore all the burden of the initial financing and that earnings used to retire indebtedness and working capital belonged to each of the members in proportion to the amount of business he had done with the association. Many of the society gins, in fact, have no record of the business done by each member and therefore would be unable to establish the equities of each in the assets of the association. In such cases when individual member equities cannot be established, it is generally conceded that upon dissolution every member would share equally regardless of the amount of business done by him with the association in the past. In answer to suggestions of this kind, officials of these gins often say, "Why should we worry about such things? This gin belongs to the community. We do not intend to liquidate the society, so why should we bother with the equities of each member?"

One writer in describing the Texas Society gins states that—  
they are semifraternal organizations, somewhat like churches; that is, the equities of their members are about as definite as a church member's equity in his church \* \* \*

<sup>23</sup> Reference cited in footnote 4. See pp. 9-10.

<sup>24</sup> Reference cited in footnote 5. See p. 458.

Although this attitude toward the distribution of the burden of financing is generally considered unsound, it nevertheless indicates a philosophy that is commendable in many respects.

*Distribution of earnings.*—The method of distributing earnings is usually as follows:

The board of directors divides, annually, the profits of the society among its members in proportion to the amount of business transacted for each of said members, after having paid all expenses and indebtedness that shall be outstanding against the corporation—no dividends shall ever be declared which will impair the working capital of the society.<sup>24</sup>

Patronage dividends generally cannot be paid until all the society's indebtedness is liquidated. This provision has caused the society gins no end of membership and financial difficulties. If the society has no obligations—and its affairs are generally known in the community—patronage will increase because there is the hope of receiving a cash dividend. On the other hand, if the society repairs its plant extensively or makes substantial additions to be paid for during the current season, the membership will hesitate to gin cotton with the society because dividends will not be forthcoming until all debts are paid. Had the society gins followed the policy of revolving their capital,<sup>25</sup> and had they set up equities based on the patronage of the members, their financing problems would have been greatly simplified and the financial burdens would have been much more equitably distributed than they are under the present arrangement.

Generally speaking, there is no mention of dividends on capital members have invested in the society, but the board of directors of about 20 associations are instructed to divide "net profits," 75 percent to members according to the amount of business they had done with the society in the previous year and 25 percent to members according to their respective contributions to working capital.<sup>26</sup>

Until a few years ago, disregarding the inequities of the practice, most of the society and other cooperative gins distributed patronage dividends on the basis, solely, of the number of bales ginned. Recently organized and more progressive old associations have been paying members the net earnings that are available for patronage dividends on the basis of the amount of business done with each department.

*Marketing cotton.*—Several society gins have a rather interesting provision with respect to marketing the cotton of their members whereby—

a competent classer shall be appointed by the board of directors. His function may, in the discretion of the directors, be performed by the business manager.

<sup>24</sup> Farmers Cooperative Society No. 1, Childress, Tex., 1922. Bylaws, art. 5, sec. 2.

<sup>25</sup> The revolving plan provides that the member's contribution to the capital structure of his association be systematically and periodically retired by current deductions so that those members who patronize the association carry the burden of its financing.

<sup>26</sup> Farmers Cooperative Society No. 2, Crosbyton, Tex., 1929. Bylaws, art. 5, sec. 3.



FIGURE 5.—A FARMERS' COOPERATIVE SOCIETY GIN PLANT.

The farmers' cooperative societies of Texas owned 82 plants in Texas in 1930.

The classer may be required to give reasonable bond for the faithful performance of his duty.<sup>27</sup>

Provision is also made for the sale or purchase of cotton, cottonseed, and all other farm products, or for the purchase of any supplies for members under the direction of the board of directors. The bylaws warn that under no circumstances shall there be any speculating or gambling on the cotton market. However, they do allow hedging to cover loans or advances on actual cotton.

The bylaws state further that—

no fee shall be charged for selling or handling the cotton of any member. No member shall be required to sell his cotton through the association but shall have the privilege of selling to any buyer or buyers if he prefers so to do. If any member shall so desire, he may have the manager of his association ship his cotton to any cotton firm he may direct, and in such event said member shall receive the full returns for same.<sup>28</sup>

The society gins and other local cooperative gins that purchase cotton from their members usually sell it at the end of the day to the cotton buyers or the firms that offer the highest prices. In these areas comparatively little cotton has been handled through large-scale centralized cotton-marketing cooperatives.

*Operating results.*—The 1929-30 season marks the peak in the popularity of the society plan. At the end of that season members of the 82 gins owned a 50-percent equity in ginning facilities and grounds which cost nearly \$2,500,000 (fig. 5). During the season the societies ginned a total of about 145,000 bales of cotton for a membership of approximately 12,700 farmers. It is interesting to note that the

<sup>27</sup> Farmers Cooperative Gin and Supply Association, Colorado, Tex., 1930. Bylaws, art. 13.

<sup>28</sup> See footnote 27. Art. 14, secs. 1-2.

average ginnings for all society gins for the 1929-30 season and all previous seasons were slightly more than 2,200 bales per association. In addition, of course, these societies handled a large volume of bagging and ties, cotton, cottonseed, and farm supplies.<sup>29</sup>

*General remarks.*—The society gins in Texas have been successful primarily because each has been owned and controlled by farmer-members in the local community. The Society Law, defective as it is in many respects, makes it practically impossible for an outsider to gain control of a society gin. Thus, the benefits of efficient operation and of membership loyalty and support accrue directly to those who furnish the association its business.

The cooperative society gins of Texas through modern gin plants and improved methods provide an exceedingly worth-while service for their members and to some extent also for other farmers in their respective communities. Members have had their cotton ginned and wrapped at cost and have received a spread of from \$2 to \$3 per ton on cottonseed, which formerly had gone to the privately owned gin. Furthermore, through competition, society gins with their modern plants and improved methods have forced commercial gins in the same territories to render more and better services.

Despite beneficial results, however, in the ginning and wrapping of cotton and the handling of cottonseed, the society gins have made little progress in solving the problems of an efficient cotton-sales service. In general the gins purchase the cotton of their members immediately after it is ginned and sell it at a loss to local and f. o. b. buyers in the territory. Grade and staple premiums and discounts have at no time been recognized by most of these gins in their purchase and sale transactions.

### *Farm-Labor Union Gins in Texas*

Primarily, the Farm-Labor Union of America was a Texas organization; and, as previously mentioned,<sup>30</sup> most of its activities were confined to that State although some reached into adjoining States. Its main office was located at Texarkana, Ark.; its State branches in Texas, Oklahoma, Arkansas, Alabama, Mississippi, Louisiana, and Florida. It was organized as a result of the decline in prices in 1920. While most of its activities were directed toward developing large-scale cotton marketing cooperatives,<sup>31</sup> it made some efforts in Texas as well as in southeastern Oklahoma to organize cooperative retail stores and cooperative gins. Most of the gins have ceased to exist and details about them are generally not available.

<sup>29</sup> Dickson, A. M., REPORT ON COOPERATIVE GINNING IN TEXAS. Federal Farm Board. January 10, 1931. (Unpublished).

<sup>30</sup> See footnote 15.

<sup>31</sup> Reference cited in footnote 9. See pp. 21-23.



Whereas the cooperative gins organized by the Farm-Labor Union in Oklahoma followed the pattern of the Oklahoma State Farmers Union, the gins established by the Farm-Labor Union in Texas were for the most part nonstock organizations patterned after the society gins and operated under the Society Act.

### *Current Expansion in Texas, 1933-39*

The current cooperative gin expansion in Texas began in 1933. At that time cotton prices and economic conditions improved and the Houston Bank for Cooperatives was established to offer gins and other cooperatives financial aid. Farmers' interest in the ownership and the operation of ginning facilities immediately increased. In Texas, the cooperative movement, unrestricted by such regulation as prevailed in Oklahoma (p. 11) and affected less by droughts and short crops during recent years, expanded more rapidly than it had before in that or any other State. In 1933 between 75 and 80 local cooperative gins were operating in the State. By March 1939 the number of cooperative gins in Texas had increased to approximately 315.

Most of the early associations formed between 1920 and 1930 were located in northwest Texas, especially in the South Plains area, and since 1933 the number in this territory has been increasing. Substantial developments have also taken place in northeast Texas, in certain sections of the Black Belt, in south Texas, and the irrigated sections adjacent to El Paso. In fact, there is a good scattering of cooperative gins over the entire State at this time.

At the close of the 1938-39 season, Texas cooperative gins owned facilities valued at approximately \$6,500,000. During that season they ginned about 740,000 bales of cotton and handled approximately 245,000 tons of cottonseed. The membership of Texas cooperative gins in 1938-39 totaled approximately 50,000 farmers. The largest development in cooperative ginning in the South will probably continue for a number of years to be centered in Texas.

### COOPERATIVE GINNING IN NEW MEXICO

Significant likewise is the development of cooperative cotton ginning in New Mexico. Cotton production in the State is confined principally to the portion of the Elephant-Butte irrigation project north of El Paso, Tex., and to the irrigated Pecos Valley in southeastern New Mexico. Cotton is a comparatively new crop in this section. Since most of the development has taken place from 1919 to 1932, cooperative ginning associations have had the opportunity of coming in with expanding production.

This territory provides a favorable setting for farmers' cooperative gins. Production per individual farmer is large, tenancy is relatively

low, yields per acre are high, and crop failures are practically unknown. Furthermore, ginning rates have been high and the margins taken by existing agencies to insure good profits in the handling of cottonseed have been wide. Lastly, the large and certain volumes the individual members can gin on their association's plant year after year offer a real possibility for service and saving in ginning expenses.

### *The Artesia Alfalfa Growers Association*

The Artesia Alfalfa Growers Association, founded in 1921, is probably the oldest and most important association in New Mexico. It stands out as a pioneer that has had much influence on subsequent growth in the State. The association was organized in 1921 by 83 members for the purpose of handling the hay crops of its members. Later it became primarily an association for ginning and marketing cotton and cottonseed and for handling farm supplies. The association owns a small line of gins located in rather close proximity to each other and operated and supervised successfully from one central point.

The association's operations have been varied and profitable from the start. With initial capital of only \$1,200 it handled 5,800 tons of alfalfa hay during the first season. Such farm supplies as coal, oil, farm machinery, hardware, and insecticides were added in the next few years. When the Artesia Alfalfa Growers Association was first organized, very little cotton was grown in the Pecos Valley or in Eddy County. Within the next year or two, however, cotton became quite important, and it appeared that additional ginning facilities would be necessary to handle the cotton produced in that territory. In 1923 the association with borrowed money and the notes of its members purchased its first gin plant. After 2 years of operation, earnings were sufficient to pay the cost of the plant. The notes were then returned to the members with certificates of interest for the amount of member earnings withheld to purchase the gin plant. In 1926 the association erected a second and a third gin plant in adjoining communities.

In addition to these services the association sells cotton of its members for a fee of 50 cents per bale, a considerable volume of which is ginned on other than association plants. All net proceeds from the sale of cotton above the deduction for sales expense is returned to the members. This sales service is operated on a cooperative brokerage basis.

The association has handled as much as 75 percent of the cotton in its trade territory. As early as the 1928-29 season it ginned over 10,000 bales of cotton on its 3 plants. During the 1936-37 season it ginned 8,111 bales of cotton and sold 12,142 bales for its members. In addition, it handled a large volume of cottonseed. During the 1937-38 season the volume ginned was 10,607 bales, and the associa-

tion's cotton sales totaled 8,567 bales, not including 3,306 bales of Government loan cotton. During the 1938-39 season the membership totaled 234 farmers.

The Artesia Alfalfa Growers Association has a unique plan for financing cooperative gins. The plan requires a membership fee of \$10 from each member upon acceptance to membership in the association. The fee is used as working capital. The member is required, in addition, to invest capital in the association somewhat in proportion to his average production; that is, at approximately 20 cents per ton for alfalfa hay and \$1 per bale of cotton produced. This capital investment draws a guaranteed rate of interest annually.

The association has returned exceptionally large patronage dividends to its members over a period of 16 years. These dividends are distributed according to the quantities of the various commodities handled; that is, according to tons of alfalfa hay, gallons of gasoline, tons of fuel, units of merchandise, bales of cotton sold, and bales of cotton ginned. The handling of farm supplies and the marketing of miscellaneous farm products assist materially in covering the overhead of the association.

The stimulus afforded by the successful operation of the Artesia Alfalfa Growers Association in all probability accounts in part for the more rapid growth of cooperative ginning in New Mexico which has taken place since 1933.

### *Current Development*

In view of the small amount of cotton produced in New Mexico, the cooperative gin movement has been developing rapidly for several years. There is now a good scattering of gins in the Pecos Valley in southeastern New Mexico and several in the New Mexico portion of the Elephant-Butte irrigation project near El Paso, Tex. Moreover, at the present time the Southwestern Irrigated Cotton Growers Association, with many members in New Mexico, is successfully operating a cotton-marketing service, an oil mill, and a production credit corporation. Credit facilities of this organization are available through production credit associations. Despite the fact that old line oil-mill corporations operate lines of gins and finance the production of cotton and other crops, there are still many opportunities for independent development of farmers' cooperative gins in New Mexico.

### COOPERATIVE GINS IN ARIZONA

In 1925 cotton farmers on the Yuma, Arizona-California, United States Reclamation project developed a rather unusual cooperative gin association, which was incorporated under the name of the Yuma Farmers Cooperative Association. During much of the period from

1925 to 1931 the association operated a line of five gins located at Yuma and in the irrigated country in that vicinity.

The local conditions under which the association was organized presented unusual obstacles in financing the gins. When the idea of starting the gins first took root about 1924, cottonseed-oil mill companies in the Yuma territory were advancing funds to farmers for the production of their cotton crops. In return for the loans, the farmers practically obligated themselves to patronize gins operated or affiliated with the company making the loan. This arrangement not only eliminated all competition for the farmers' business, but it made it practically impossible for the farmer who had obtained such a loan to patronize a cooperative association.

Members of the association, however, felt that the absence of competition which resulted from the closely integrated services of the cottonseed-oil mill companies penalized farmers in the ginning of their cotton, and they were sure that it led to lower prices for cotton and cottonseed. Consequently, to remedy this situation they organized the Farmers Cooperative Association under the cooperative laws of the State of Arizona.

As the new association formulated its plans for the purchase and the construction of a number of gin plants, the problem of financing them became even more difficult since the members had little cash. They obtained, however, a contract with a cottonseed-oil milling corporation to sell their cottonseed for the 1925-26 season and to advance them money on this security. Thus, they obtained a portion of the funds required for purchasing a plant. The price arrangement between the mill and the association which was considered favorable at that time states that—

The price to be paid for prime cottonseed, *f. o. b.* cars Yuma, Ariz., shall be three times in dollars per ton the price in cents per pound paid for refined cottonseed oil on the New York market on the day of shipment, which means that if refined oil is 10 cents per pound, the price for cottonseed at that time shall be \$30 per ton.

Other steps had to be taken since the funds advanced by the mill were not adequate to start operations. Twenty members, therefore, borrowed an additional \$20,000 on a joint note for this amount.

The venture was a success. Loans were repaid early in the 1925-26 season, and at the close of the first season's operations the association had an investment in excess of \$100,000. Members' equity in earnings and in stock investments amounted to approximately \$48,000. During the first season, the 4 plants of the association ginned approximately 10,000 bales of cotton and handled about 4,400 tons of cottonseed for members.

Because the volume of business was so large, a number of competitive cottonseed-oil mills in the territory approached the association for the sale of its cottonseed. A contract with one oil-mill corporation

was made but it proved to be favorable only at first. Economic conditions became unfavorable and with the changed conditions, competitive companies, through more liberal production advances to growers, were able to draw business away from the association.

At the end of the 1931-32 season, the association found itself in dire distress. The volume of business handled had declined to approximately one-third that of the previous season. This was due in part to competitive financing and in part to a 24 percent reduction in acreage and a 50 percent reduction in yield in that territory. Despite these conditions, however, the association handled approximately 25 percent of the crop in that territory, whereas in former years it had handled 38 to 40 percent. Furthermore, it was indebted to the oil mill corporation for approximately \$25,000 which was due and payable. In the meantime, the local banks in Yuma that carried the association's accounts failed and lost for the association approximately \$22,000. The funds were to have been used in liquidating the obligations to the oil-mill corporation. In addition, the small volume ginned during the 1931-32 season resulted in a loss to the association of approximately \$17,000.

At the end of the 1931-32 season, therefore, the association owned properties that were appraised at approximately \$150,000; but it was obligated rather heavily to the oil-mill corporation, and, in addition, it could not operate its plants because it had no means of financing the production of the cotton for its members. Under these conditions it was unable to operate for several seasons and was eventually forced into receivership by its creditors.

A new association was organized in December 1935 by the same group of farmers. This time it was known as the Farmers Cooperative Gins of Yuma. Funds for financing the repurchase of three of the plants owned by the old association were obtained, and the association began operating in the 1936-37 season under its new name and charter. Its operating plan is essentially the same as that used by the original association. During the first season the association ginned 5,697 bales of cotton and handled about 2,450 tons of cottonseed. In 1937-38 it ginned 4,935 bales of cotton and handled 2,200 tons of cottonseed for its members. The new association is now practically out of debt but will be handicapped by the cotton acreage reduction for the Yuma territory for the 1939-40 season. Under these conditions low-cost operations will be difficult. The association ginned only 2,000 bales during the 1938-39 season.

The unfortunate experiences of the earlier association indicate clearly that farmers must have an independent source of income if they are to be free to process and market their commodities advantageously. The earlier association was itself handicapped by lack of

adequate finances. Furthermore, the ownership of a line of gins, some of which were well-located, successful business units while others were not, made it necessary for the more successful to carry those which were not so fortunate. But, in meeting the closely integrated competition which existed in that territory, the group of gins operating as a unit were probably stronger than individual associations. Had the association been adequately financed and had it had a full line of services to offer its members, in all probability the early difficulties would not have been encountered.

There has been only one other attempt to develop a cooperative gin program in Arizona—the gin and oil-mill program sponsored by the Arizona Pima Cotton Growers Association of Phoenix (p. 48).

### MISSISSIPPI LOCAL COOPERATIVE GINS

Mississippi is divided geographically into two cotton-producing areas, the "Hill," or uplands, and the alluvial Yazoo-Mississippi Delta. Geographic, economic, and social differences make solutions to the ginning problems of cotton farmers somewhat different in the two sections.

The Delta is especially well adapted to growing staple cotton known the world over for its fine quality. The plantations are large, the alluvial soil is highly productive, and the rainfall ample. The plantation system has continued here, while in most other sections of the South it was largely abandoned many years ago. The production per individual plantation is often so large that the volume grown by 12 to 15 plantations is sufficient to support a large gin. A few plantations are even large enough to provide alone sufficient volume for an entire gin plant. The plantations are operated for the most part under the sharecropper system, the proceeds of each bale of cotton and the seed being divided and the cost of ginning shared. The landlord usually controls the ginning and settles with his croppers at current market prices for cotton and cottonseed; he then disposes of the crop as he chooses. Most of the sharecroppers are colored.

The Hill section, on the other hand, does not have the same advantages for growing cotton as prevail in the Delta. The soil is relatively less fertile, the topography rolling, and the farms are small. The percentage of white population is higher in the Hill section, but the percentage of literacy among the white people of the Delta is greater. The economic status of the average Hill farmer is not so satisfactory, and for that reason it is somewhat more difficult for him to avail himself of the opportunities offered by the cooperative movement. On the other hand, the average Hill farmer has a greater need for the services of a cooperative gin than has the planter in the Delta.



FIGURE 6.—A MODERN COOPERATIVE GIN IN THE MISSISSIPPI DELTA.  
Cooperative gins in the Delta are operating up-to-date equipment.

### *Early Growth*

Cooperative ginning began in the Hill section, and during its early years was confined largely to that area. In 1924 under the sponsorship of the Mississippi Farm Bureau Federation and the Mississippi Farm Bureau Cotton Association, just 4 years before the passage of the agricultural association law by the Mississippi Legislature, the first cooperative gin was established under the general corporation laws of the State. Like most gins established in Mississippi prior to 1928 it had many of the aspects of a general corporation, but it was owned and controlled by farmers, and its earnings were paid out on the basis of patronage. Other similar gins were soon formed.

In 1931, despite elaborate plans for a centrally owned chain of gins to be followed later by a federation of local cooperative gins sponsored by the Mississippi Farm Bureau and the now defunct Mississippi Farm Bureau Cotton Association, only three cooperative gins and five farmers' stock-company gins were operating on a cooperative basis in Mississippi.

### *Growth From 1935 to 1938*

The cooperative gin movement as it now exists in Mississippi had its active beginnings in 1935. The Cooperative Research and Service Division, Farm Credit Administration, assisted materially in this growth with organization advice and assistance, and the New

Orleans Bank for Cooperatives made available its credit facilities to interested groups.

Expansion of cooperative ginning has not been so rapid in the Hill area as in the Delta; at present about 10 gins are located there. During the 1937-38 season they ginned approximately 30,000 bales of cotton. These associations have a combined membership of approximately 3,500 farmers. The number of members per association is considerably larger than that of gins in the Delta area.

During 1935, 7 associations were organized on a cooperative basis in the State of Mississippi. In 1936, 14 were formed, and in 1937, 25 more associations. At the close of the 1937-38 season there were approximately 50 active cooperative gins in the State. They owned gin plants valued at more than \$700,000; and during the 1937-38 season they ginned approximately 135,000 bales of cotton and handled 45,000 tons of cottonseed. Of the total, 40 gins are located in the Delta. These 40 associations have a combined membership of approximately 700 planters. Figures compiled by the New Orleans Bank for Cooperatives on the operation of the cooperative gins in the Delta for the 1937-38 season indicate that these associations made approximately \$3.25 per bale in their ginning and cottonseed operations for that season.

Membership in cooperative gins in the Delta has been confined largely to the white farm operators, who are, for the most part, plantation owners. Therefore, the number of members in the average Delta cooperative gin is comparatively small, usually ranging from 12 to 20 members per association. Under the system prevailing in these associations, patronage earnings of the cooperative gin usually go to the landlord and seldom to his cropper. Figures 6 and 7 show gins in the Delta.



FIGURE 7.—AN ABANDONED PLANTATION GIN.

Many Delta plantations are finding it advantageous to abandon their obsolete gin equipment for modern cooperatively owned plants.



The recent development of cooperative gins in Mississippi represents an improved pattern of the Oklahoma and the more recently formed Texas associations. The Mississippi associations almost without exception are capital-stock cooperatives issuing both common and preferred stock. The majority of them, unlike most cooperative gins in the Southwest, require their members to sign ginning agreements. Practically all gins have adopted a modified form of the revolving capital plan of financing based on earnings. A number of these associations distribute earnings from the various departments according to the amount of member business in each.

Ginning rates in Mississippi are fairly high, and it is possible in most instances for cooperatives to make reasonable savings. It is more difficult to make a wide margin or spread in the handling of cottonseed here than in the Southwest. The cooperative gins in Mississippi do not buy cotton; and they are not faced, therefore, with this difficulty nor with the possibility of loss in handling bale cotton.

Some inequities occur in their operation. For example, although ginning charges are assessed on the number of 100 pounds of seed cotton ginned, only one cooperative gin plant to date is equipped with a seed scale. The weight of the seed is estimated from the weight of the lint and the weight of the seed cotton, arbitrary allowances being made for trash and waste. Although no actual information is available as to the inequities that may arise in a practice of this kind, knowledge of the variations in turn-out indicates that some members benefit at the expense of others.

There probably is more interest in cooperative gins in Mississippi at this time than in any section of similar size in the South. The situation in Mississippi contradicts the belief held several years ago that cooperative gins could not succeed outside of a relatively small area in the Southwest, for in Mississippi cooperative gins have proved generally to be sound investments from which farmers receive material benefits.

### LOCAL COOPERATIVE GINS IN CALIFORNIA

Most recent of the States to become actively interested in cooperative cotton gin associations is California. During 1938-39 four independent local cooperative gins, and four gins belonging to the California Cotton Cooperative Association were operating in the State. Indications are that the independent type of cooperative activity will expand rapidly if it is not too greatly hampered by prevailing methods of financing cotton production through existing gin and oil-mill companies.

The first of these local cooperative gins, the Growers Cooperative Gin, Inc., began operating in the irrigated San Joaquin Valley at Wasco, Calif., during the 1935-36 season. It was incorporated on

February 8, 1935. The Wasco association has leased and operated a privately owned gin plant since that time. Two other local cooperatives, the Farmers Cooperative Gin of Buttonwillow and the Tule River Cooperative Gin of Tulare, Calif., began operating independently during the 1937-38 season. In 1937-38, these three associations ginned more than 14,500 bales of cotton and had earnings of approximately \$46,500, or slightly more than an average of \$3 per bale of cotton ginned. Another association, the Kaweah Delta Cooperative Gin, began operating in Tulare County near the town of Tulare in 1938. These three associations have purchased their gin plants. In addition, five new associations have already been organized in 1939 (March). Records of local cooperative gin associations show that, during the 1938-39 season, the 400 members of 4 of the associations had combined ginnings which totaled 20,000 bales of cotton. In addition, they handled 7,500 tons of cottonseed. Their combined earnings totaled more than \$3 per bale. These averages were unusually welcome in the face of low cotton prices, acreage restrictions, and high irrigation costs. If cotton production in California continues to expand as it has been doing in the past and the volume of ginnings per plant remains high, there will be considerable opportunity for the still greater development of farmers' cooperative gin associations in the State. California local cooperative gins have benefited materially from their cooperative environment by adopting the methods of financing used by older and more experienced associations. The members, as outlined by Otis T. Weaver<sup>22</sup> are quite aware of the fact that they must buy and pay for their gin plants. They invested substantial sums in the capital of their associations when the facilities were purchased, but they are continuing to make investments each time they gin a bale of cotton on the association plant. These investments or "retains" as they are called are made from money due the member when he delivers his cottonseed to the association. Certificates are issued for such deductions. These are numbered in series. They amount to \$1.50 for each bale of cotton ginned.

These "retains" are used to pay off the indebtedness of the association. After the association is out of debt, the retains, which continue throughout the life of the association, are used to retire the certificates which represent the first returns made when the association began to operate. They are retired in the order in which they were issued. This is called the revolving plan of financing.

Under this plan the new member, who may join the association from time to time, is forced to furnish his proportionate share of the capital needed to finance the association. On the other hand, the member who moves out of the community will have his capital investment in the association returned to him in a systematic way.

<sup>22</sup> Weaver, O. T. CO-OP GINS "STRIKE GOLD" IN CALIFORNIA. *In News for Farmer Cooperatives*, 6:3(15).

Under this plan, for the life of the cooperative, each member furnishes capital in proportion to the business he does with his association. The 100-bale man furnished 10 times as much capital as the 10-bale man.

## ORGANIZATION STRUCTURE AND OPERATING POLICIES

After 20 years of operating experience the organization pattern of local cooperative cotton gins is relatively uniform. It is unusual that the operating plans and objectives of these associations should be so similar considering the wide differences in conditions throughout the Cotton Belt. However, the prevailing uniformity makes it possible to outline the generally accepted organization plan of these associations and also their cooperative features, objectives, financial requirements, the nature of their business, and the problems which they are facing.

### *Organization Plan*

Cooperative gins use a simple organization plan. Almost without exception they are local associations whose membership is made up of farmers in one community or trade territory. The typical cooperative gin has a membership of approximately 100 farmers, who live, on the average, about 6 miles from the association's plant.

Limited territories and relatively small memberships result in some advantages as well as some disadvantages. Direct contact with members makes the services of the association more real and tangible than is possible for gins located outside of the communities they serve. This is an advantage. On the other hand, the services a local independent cooperative gin can offer its patrons are somewhat limited. Cotton ginning and wrapping probably always will be a distinctly local service, but cotton marketing needs wider outlets than those afforded by the local market. When a local cooperative gin association handles cottonseed that must be sold for its competitors to crush, it formerly has not been able generally to obtain the maximum return for the cottonseed. Lastly, when the bale cotton handled by the gin had to be sold to f. o. b. buyers and others to be marketed, the local cooperative gin has generally been unable to get the best possible price for its members.

The local character of the cooperative gin association need no longer be a handicap. Even though its sphere of influence is now largely restricted, federations of cooperative gins are being established to lengthen and strengthen the arm of the local in the performance of its strictly marketing functions. Federations in the form of cooperative cottonseed-oil mills are being formed to crush the cottonseed of their member gins and return to these associations the net proceeds received from the sale of cottonseed products, mainly oil, meal or

cake, linters and hulls. Sales of cotton by federations of this type although limited to date, in the future will no doubt be developed further.

### *Cooperative Structure*

All cooperative gin associations are now incorporated under the cooperative laws of the State in which they operate, and they adhere rather uniformly to the generally accepted principles of agricultural cooperation. Most of the gins formed since 1933 issue capital stock although a few prefer the nonstock plan. In general, the associations restrict membership to agricultural producers. Each member ordinarily has only one vote. The directors elected annually by the members determine the general policies of the association and select the manager. The manager, in turn, puts policies into effect and looks after all business affairs. The amount of capital a member may invest in the association is limited under the statutes, and dividends on capital do not exceed 8 percent. All earnings or savings above expenses, deductions for reserves, and payments of dividends on capital are returned to the member in proportion to the amount of business he has done with the association.

### *Patronage Dividends*

The most desirable method of allocating patronage dividends provides for distribution of net incomes according to the amount of business each member does with each department of the business. These departments are ginning proper, bagging and ties, cottonseed, bale cotton, and general farm supplies. Dividends on ginning are paid on the basis of the number of hundreds of pounds of seed cotton ginned, and for bagging and ties it is so much per pattern. For cottonseed patronage dividends are paid according to the number of tons delivered to the association, while for bale cotton earnings or losses are distributed on a per bale basis to those selling cotton to the association. There are, however, complications with respect to allocating losses in handling bale cotton and these losses cannot always be so distributed. Dividends on the handling of farm supplies are based on the number of dollars worth of supplies purchased from the association.

### *Objectives in Cooperative Cotton Ginning*

The boards of directors of cooperative gins, in general, obviously have had no illusions as to accomplishments possible for the gins. The articles of incorporation or the bylaws of the average cooperative gin record no desire to stabilize cotton markets, to minimize speculation and waste, to influence cotton prices, or to increase returns to members by orderly marketing. Thus, in contrast with the avowed purposes of the average cooperative cotton marketing association, their state-

ments of purpose are usually simple, direct, practical, and confined largely to ginning and related services and in some instances to handling farm supplies for members.

The services of a cooperative gin are distinctly local; its influence as an individual association does not reach far beyond the community in which its plant is located. Groups or federations of independent cooperative gins, however, may have power and strength which will ultimately be felt through the entire cotton marketing and cottonseed crushing industries.

The cooperative gin then is a local service organization which attempts to give its members cotton ginning and closely related services. More specifically, the objectives of the average cooperative gin association as it is now operated are:

1. To return to its members all savings or earnings made from ginning and wrapping cotton at prevailing rates. These savings either may be paid to the member as cash patronage dividends or may be credited to him as an increased equity in the assets of the association.
2. To obtain for its members the net price received from the sale of cottonseed to oil mills; or, to return full proceeds from the sales made by its own cottonseed-oil milling facilities, less expenses.
3. Through the most modern ginning equipment to obtain maximum grade from seed cotton ginned and to preserve maximum staple length. Cooperative gin plants are above average in modern equipment (fig. 8).
4. By an efficient ginning service to save members as much time as possible at the gin.
5. To provide convenient local markets for members' cotton and to aid them in obtaining the highest possible prices for it.
6. To assist members in improving the quality and the salability of their cotton, through better production, harvesting, ginning, wrapping, handling, and marketing practices.
7. To handle general farm supplies that are desired by members.
8. From time to time to offer such other services as the membership desires.
9. To cooperate with other cooperative agencies in collectively marketing cotton and crushing cottonseed whenever beneficial to the association and to the individual member as a cotton producer.<sup>28</sup>

### *Financial Requirements*

The cooperative gin associations have financed the purchase of their gins in several ways. Most of them own and operate plants with 5 stands that have 80 saws per stand. The price for new plants of this size with the necessary cleaning and other equipment averages

<sup>28</sup> HERTMANN, O. W. COOPERATIVE GINNING TAKES FAST HOLD, in *News for Farmer Cooperatives*, 3 (5): (8-11) 1936.



FIGURE 8.—A COOPERATIVE GIN PLANT IN NEW MEXICO.

Cooperative gin plants are among the most up to date in equipment and facilities.

from \$25,000 to \$45,000. The price for existing facilities is well under those figures; but both require a long-time financing plan. In the past, these funds have been borrowed from commercial banks, cottonseed oil mills, gin machinery companies, and others. At present, a majority of the new associations are obtaining funds for the financing of their physical facilities from the various banks for cooperatives. The banks for cooperatives can lend up to 60 percent of the value of the facilities for periods of from 6 to 8 years at 4 percent interest, provided the association's members raise the other 40 percent of the purchase price. The indebtedness is usually paid from the earnings of the association at a rate varying from 85 cents to \$1.50 per bale of cotton ginned. These earnings represent amounts that would be used as cash patronage dividends if the association were out of debt. In many instances, associations have been known to pay off their loans after 2 or 3 seasons of operation.

In addition to funds for financing the physical facilities of the association, a certain amount of operating capital is required, especially at the beginning of the season, to purchase bagging and ties; to make repairs on the plants; and to meet pay rolls, current operating expenses, and expenses connected with the handling of cotton and cottonseed. Early in the season, when expenses ordinarily exceed income, some short-time financing is necessary for this purpose. These funds are usually obtained from cottonseed-oil mills, commercial banks, or the banks for cooperatives.

A number of the cooperative gin associations are adopting the revolving-fund method of financing. Under this method additional

shares of stock or other certificates of equity are issued each season in the place of cash patronage dividends for all or part of the net earnings. After the desired amount of capital has been accumulated by the association, outstanding stock or certificates of equity in an amount equal to the amount of new stock or certificates issued each year is retired. By this means the property interest of the members who cease to patronize the association is gradually retired, and the ownership and the control of the association are kept in the hands of active member-patrons. Under this method new and old members are permitted to acquire a financial interest in the association on the same basis.<sup>34</sup>

In certain areas, particularly California, the cooperative gin organization plan provides for a retain of a fixed amount per bale instead of a percentage of net income to be deducted for capital purposes. When the capital-retain method is used, an amount usually \$1 to \$1.50 per bale ginned for each patron, is deducted from the amount remaining to his credit. This is in addition to the customary charge for ginning and bagging and ties but has no relationship to it. This amount is retained by the association for capital purposes, and certificates or shares of stock are issued therefor. These are revolved as mentioned above.<sup>35</sup>

### *The Business of the Local Cooperative Gin*

The principal business of the cooperative gin association is to gin cotton, that is to separate the fiber from the seed. This activity is distinctly a processing service. No ownership of the commodity is involved. When about 500 pounds has been ginned, the fiber is wrapped, pressed, and bound with steel to form the bale, which is then turned back to the farmer for sale. Most of the more progressive cooperative gin associations buy only remnants; that is, lots of cotton insufficient to make a standard-weight bale. However, competition forces some to buy cotton in order to hold their ginning business.

The experiences of cooperative and other gins in cotton buying have been most unsatisfactory, first, because to attract business they deliberately buy cotton at a price above that for which it can be sold, and must therefore ordinarily deduct these losses from the net incomes from ginning and wrapping or from handling cottonseed. Second, they buy cotton without sufficient attention to quality.

The handling of cottonseed is an important source of revenue to a gin. Therefore practically all gins handle it as a part of their regular business. Customarily the farmer pays for the ginning and wrapping of his cotton out of the receipts from his cottonseed and receives only

<sup>34</sup> For a more complete discussion of the revolving type of financing for cooperative gins, see Weaver, O. T., and Prickett, U. H., *PRINCIPLES AND PROCEDURE FOR ORGANIZING COOPERATIVE GINS*. F. C. A. Circ. C-109, 66 pp.; 1939.

<sup>35</sup> See reference cited in footnote 33. Art. X, sec. e, and footnote 29.

the balance remaining. The cooperative gins ordinarily pay patrons current local market prices for cottonseed.

Since cottonseed-oil mills operating in the territory fix the margins that shall be maintained between the price paid the farmer and the price the gin receives from the seed acquired from the farmer, they determine the current local market prices for cottonseed. The margin usually amounts to from \$2 to \$3 per ton, minus a handling expense of approximately 50 to 75 cents per ton. These handling margins generally enable the cooperative gins to carry on cottonseed operations without losing money.

Even though margins are rather safe as far as the cooperative gin is concerned, this does not indicate that prices paid by mills to the association are entirely satisfactory. On the contrary, data gathered from cooperative cottonseed-oil mills in recent years indicate that farmer-members of cooperative gins could make substantially higher net incomes if more of them operated their own cottonseed-oil mills. At the present time two federations of cooperative gins are operating oil mills. One of the federations is made up of 27 cooperative gins and the other of 30.

It is a widely accepted practice of cooperative gins to charge prevailing rates for ginning and for bagging and ties, and at the end of the season, after all expenses have been paid and necessary reserves set aside, to return to their member-patrons in patronage dividends the amount of the overcharge. For several reasons, cooperatives are seldom unwise enough to follow a cutthroat policy in determining charges. In the first place, it would be difficult to determine in advance just what charges would equal the actual expense of operation, because volume of business (fig. 9), length of season, labor conditions,



FIGURE 9.—WAITING AT THE GIN.

The volume of business varies widely from season to season.



and operating expenses vary. Then again, an attempt to gin cotton at a lower rate than that charged by competitors usually results in price wars and destructive competition. If an association is in a weak financial condition, competition of this type will lead to its failure.

Charges for ginning usually range from 25 to 30 cents per 100 pounds of seed cotton and for bagging and ties approximately from \$1 to \$1.50 per pattern. Charges based on the weight of seed cotton are more equitable than flat per bale charges, because amounts of seed cotton necessary to gin out a 500-pound bale vary widely, and because bale weights also differ. Margins in the handling of bagging and ties are fairly wide and, therefore, are a profitable source of revenue for the cooperative gin.

Many gin associations have found it profitable to handle a line of general farm supplies for their members. By doing so, they can offer substantial savings in purchases principally of feeds, seeds, fertilizer, gas and oil, insecticides; and at the same time they can keep a year round staff profitably employed at the gin throughout the entire year. The average gin operates less than 6 months of the year.

### *Problems of Local Cooperative Gins*

Cooperative gin associations are made up for the most part of cotton producers who have had little previous experience with cooperative organizations or business affairs not directly connected with their farming activities. This inexperience, with which generally comes a lack of understanding of cooperative and business proceedings, has given rise to many difficulties. Thus, despite the fine showing made by cooperative gin associations in general, many associations are facing membership, financial, and operating problems serious enough to endanger their future success as cooperative business institutions. Unfortunately many of the associations were not properly organized at the outset. This was not realized until it was too late.

Participation, however, in cooperative activity of this type has given farmers an unusual opportunity to acquaint themselves with cooperative principles and practices, and to see the benefits that come from intelligent group action. The training thus acquired should be helpful in the future in developing sound cooperative cottonseed crushing and cooperative cotton marketing associations.

More important among the problems confronting the local cooperative gin associations today are the following:

1. There is a membership problem. Many members often think of their association as another commercial concern, and it is true that they sometimes receive almost the same treatment from the association as they would from a commercial concern operating for profit. Such lack of understanding of association objectives may lead to dif-

ficulties, particularly when competitive forces drive down ginning charges and margins in handling cottonseed.

A majority of the cooperative gin associations have no membership policies. Membership education is badly needed in both new and old associations. Unfortunately many of the older associations have not attempted to stimulate interest nor to obtain new members even though the increased volume that would be acquired by enlarged memberships would benefit them materially, especially when decreasing production through crop restrictions must be met with added emphasis on building up membership.

2. The financial policies of many cooperative gin associations need revision. Since only a few associations equalize the burden of financing the gins among members, serious inequities result. For example, new members often may come into the organizations without financial participation of any kind. A revolving type of financing which would distribute the burden of financing equally among members is badly needed by many associations.

3. Cooperative gins do not build up adequate reserves to take care of the unforeseen losses that occur in every business, cooperative or otherwise.

4. Dividend policies of most associations are unsound in many respects. In the first place, the size of the balance in the bank alone often determines the total amount of patronage dividends to be declared for cash payment to members. In the second place, dividends have been allocated by most associations in the past on a running-bale basis without regard for the amount of business done by each member with each of the several departments. Departmentalizing dividends is now widely advocated for insuring equitable treatment of members in the payment of patronage dividends. Under this plan separate dividends are paid on ginning and wrapping, cottonseed, cotton, and farm supplies.

5. The cotton-buying and cotton-selling policies of most of the gins are unsound. In buying cotton, they seldom settle on a quality basis. This discourages improvement in the quality of cotton offered the gin and leads to inequitable treatment of members. Moreover, buying transactions usually bring a loss that must be charged against income from other departments. In this way some members benefit at the expense of others. In marketing lint cotton officials have made little attempt to improve their methods and system of marketing. This is one of the serious problems facing cooperative gins.

6. Some cooperative gin officials do not have a correct idea of what makes a good job of ginning. Many of them have a volume complex that leads them to desire increased volume regardless of the quality of work done.

7. The plants of cooperative gins in many communities are too large for the average volumes supplied by their patrons. Maintaining these facilities often leads to higher expenses and smaller returns to members. Such associations need more members to bring their average volumes in line with plant capacities. Volume should not be increased, however, at the expense of existing cooperatives in neighboring communities. Such competition is usually wasteful.

8. Cotton ginning is a seasonal business, and therefore many associations would profit by introducing side lines such as farm supplies, gas, and oil. Recently the operation of refrigerated food-locker services in connection with cooperative gins has become a possibility of some importance. Side lines become increasingly important as margins from other lines are narrowed.

9. Many cooperative gin officials do not realize the necessity for and the value of cooperation among cooperative gin associations. On the contrary some managers feel that they can do a better job of selling cotton and cottonseed alone than can be done by uniting their efforts with other associations. When cooperative officials generally understand the limitations of local gins in selling cotton, much progress can be made by developing federated sales services for groups of gins.

10. In some areas the problem of organizing more than one cooperative gin association in a town has appeared. More than one association in a community almost always leads to severe competition, and members of neither gin receive the maximum benefits of cooperative activity.

## GIN PROGRAMS OF THE COTTON MARKETING COOPERATIVES

**I**T MIGHT appear from the foregoing discussion that all efforts to solve farmers' ginning problems from 1919 to 1933 were made by groups of farmers working through local independent cooperative gin associations. This, however, is not the case. During the period from 1924 to 1933 State-wide cotton marketing cooperatives, which for the most part operated gins under the supervision of one central unit, also began in several States to attack ginning problems. Despite a different approach the original objectives of these State-wide associations were practically the same as those of the independent local cooperatives.

Several reasons were generally advanced why State-wide associations could serve communities more satisfactorily. It was believed that they would be better able financially to purchase and operate ginning facilities; and that cotton ginning and cotton marketing,

which are so intimately tied together, should be combined to form one stronger system. Furthermore, farmers' gin companies in general had been unfortunate in their experiences. It must be remembered that there was no program until 1933 for financing local cooperative gins through banks for cooperatives such as is available at the present time. Lastly, something had to be done quickly to reduce excessive ginning charges and to improve ginning services.

Marketing association officials favored the development for several reasons. First of all they had reserve funds which they wished to invest in enterprises that would benefit their members. Second, they realized keenly the inherent weaknesses of their operating set-up which had failed to provide enough contact with members in local communities. In some cases distance alone was an impediment to building members' confidence in the association. Since all cotton must be ginned, these officials felt that a cotton-ginning service might provide the local contacts desired. Third, the problem of maintaining deliveries also dogged the steps of these officials periodically, making it necessary for them to resort to various devices and subsidiary activities to increase deliveries. Among the side lines that seemed best adapted to meet their problems were crop-production loans, supply associations, warehouses, oil mills, and lines of gins.

Operation of gin facilities would have several other advantages. It would cut down assembling expenses that had been extremely high. It would make possible a large-scale cotton improvement program with local gins providing contact points with the farmers. Farmers would be able to place their cotton on the market not only in better condition but at costs more reasonable than those previously possible. A line of gins owned and operated by a cotton cooperative might handle cottonseed to a better advantage because volume would be larger. Furthermore, the association officials felt that gins thus owned and operated, with operations spread over a wide area, could resist competitive price tactics better than isolated separate groups of farmers. Lastly, under this arrangement it might be possible to handle large quantities of farm and gin supplies through a centrally controlled organization and thereby make substantial savings for members.<sup>36</sup> For these and other reasons large-scale central marketing associations in Texas, Georgia, Mississippi, Alabama, Arkansas, and Arizona entered the ginning business.

It is clear that the philosophy of strong, centralized control prevailed in the thinking of cotton association officials during the period from 1924 to 1932 as well as in the Federal Farm Board during the period of its existence (1929-33). It was believed that it was more logical for the whole marketing and ginning structure to be owned and con-

<sup>36</sup> Hathcock, J. S. POSSIBLE SERVICES OF COOPERATIVE COTTON GINS. U. S. Department of Agriculture, Bureau of Agricultural Economics, 13 pp. 1928. [Mimeographed.] See pp. 8-9.

trolled by the State cooperative cotton marketing organization than for a group of local independent cooperative gins to own and operate a ginning business and possibly a cooperative cotton sales agency. Financial assistance by the Federal Farm Board was consistently denied local cooperative gin associations with the suggestion that they might obtain assistance if they would organize or become members of an overhead association. Loans might then be made to the central and by it to the local association. The desires and interests of individual farmers were largely overlooked in this philosophy of centralized control.

### ARIZONA PIMA COTTON GROWERS ASSOCIATION

Arizona growers of the long-fibered American Egyptian cotton in 1921 organized the Arizona Pima Cotton Growers Association with headquarters at Phoenix. The association was formed primarily for the purpose of marketing the cotton of its members. Soon after operations began it became evident that expansion to lines other than marketing would be necessary if the membership were to be adequately protected.

In 1923, as a result of high ginning rates and low prices for cottonseed, a subsidiary company was formed, the Arizona Cotton Processing Co., all the common stock being owned by the Arizona Pima Cotton Growers. To this company the association loaned its reserves, amounting to about \$90,000, and the company in turn purchased a one-fourth interest in the Mutual Cotton & Oil Co., a local corporation owning about 15 gins and 2 oil mills. The Arizona Cotton Processing Co., for this one-fourth interest, paid \$60,000 in cash and executed notes for \$75,000 and \$43,000.<sup>27</sup>

The association's program and facilities, therefore, consisted of a cotton sales organization, which in turn operated through a subsidiary line of gins, and in part ownership, an oil mill. The members believed and the officials felt that this represented a well-rounded program which would adequately protect members from exploitation and insure them the highest possible price for their cotton and cottonseed.

After a number of years of unfortunate experiences that involved privately owned gins and oil-milling corporations, the parent association and the subsidiary went into receivership in 1930. Contributing largely to the failure was the central association's lack of control over the ginning and oil-milling facilities. Such control would probably have kept the association operating to the advantage of its members. Furthermore, the decline in the price of cotton and the general economic conditions during the early part of the depression helped to bring about the liquidation.

<sup>27</sup> Gatlin, George O. COOPERATIVE MARKETING OF COTTON. U. S. Department of Agriculture Bull. 1202. 48 pp., illus. 1926. See p. 8.

## THE GEORGIA COTTON ASSOCIATION GINS

The Georgia Cotton Growers Cooperative Association, with headquarters at Atlanta, Ga., started a cooperative gin program which was in sharp contrast to more centralized plans of operation. Under this plan, a number of gins would each become a nucleus around which cooperative community centers would be built.<sup>36</sup> The community center plan was developed by the general manager of the association shortly after he had visited Denmark in 1925.

Just prior to the 1926-27 season, the association either purchased or built 4 gin plants, which began operating during that season. Between 1927 and 1930, 8 more gins were bought to make a total of 12 new or used plants. The gins scattered throughout the State were located at Tignall, Wrens (2 plants), Powder Springs, Omaha, Cadwell, Esom Hill, Cedartown, Gore, Middleton, and Morris Station. In a sense they were subsidiary to the Georgia Cotton Growers Association since the association controlled their common stock. They were, however, each separately incorporated under the laws of Georgia and not, as one might have expected, bound together into one organization.

The initial capital for the purchase of the first four gins was supplied by the Growers Finance Corporation, a subsidiary for making crop loans. Later these accounts were transferred to the Growers Supply Corporation, and in the end the gins came under the control of the board of directors of the Cotton Growers Association.

The Georgia Cotton Growers issued shares of stock which were sold to individuals and farmers in the community. It advanced the capital required by the local associations and held as security deeds to the property, notes from the gin corporations and from individual stockholders, and in some cases personal notes of boards of directors. All earnings above cost were to be turned over to the Georgia Cotton Growers in payment of the indebtedness. Earnings, however, failed to materialize; local members were not called upon to pay their stock subscriptions or notes; and in the end the Cotton Growers furnished all the capital.

The associations were organized with both common and preferred stock. The stock was made up of approximately 10 percent common held by the association, and 90 percent preferred. The preferred stock consisted of class A or community stock, which might be sold to anyone in the community; and class B stock, which was sold to producers. Common stock had a par value of \$1; and preferred stock, a value of \$10 per share. It was the policy of the association

<sup>36</sup> Buchanan, H. F. THE DEVELOPMENT OF COOPERATIVE COTTON GINS IN GEORGIA. Preliminary report. U. S. Department of Agriculture, Bureau of Agricultural Economics. 24 pp. 1927. [Mimeographed.] See p. 1.

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<sup>38</sup> BUCHANAN, H. F. THE DEVELOPMENT OF COOPERATIVE COTTON GINS IN GEORGIA. Preliminary report. U. S. Department of Agriculture, Bureau of Agricultural Economics. 24 pp. 1927. [Mimeographed.] See p. 1.



not to proceed with organization in a community until at least 50 percent of the stock had been turned over to farmers and a note or cash had been received in return. The majority of the stock was to be held by local farmers. What remained unsold was to be held available for purchase by producers at par value.

Since the holder of each share of common or preferred stock had one vote, the Cotton Growers had majority control of the local associations. By mutual agreement, however, it did not participate in the election of the local officers and the boards of directors. The boards of directors of the local associations consisted of five to nine members assisted by a supervisory committee. The board and the committee were elected annually.

Growers' earnings of each local gin corporation were allocated as follows:

1. All expenses of operation, maintenance, upkeep, improvements, depreciation, taxes, and betterments were paid first.
2. After paying these expenses, a reserve fund of not to exceed 5 percent of the net income was set aside.
3. Dividends not to exceed 8 percent could be paid on all stock.
4. Patronage dividends were then declared on all cotton at each gin. Payment was made to each individual member on the basis of his cotton delivered to the Georgia Cotton Growers Cooperative Association. Only members received cash dividends. All other dividends, that is, those made on nonmembers' ginnings and on members' cotton not delivered to the Cotton Growers, were turned over to the Georgia Cotton Growers for organization and promotion of new gins. Income on cottonseed and bagging and ties was returned to members on a per bale basis.

In general, until 1930 the Cotton Growers worked actively in organizing the locals, and then after getting them started it withdrew and allowed each board of directors to manage the affairs of its association practically without supervision.

From the beginning of 1930 the central office exercised greater control over the local associations and either hired or agreed upon the managements selected by the local boards of directors.<sup>29</sup>

The Georgia Cotton Growers cooperative gin plan is a good example of what often follows promotion from the "top down." The local groups were given considerable autonomy in the beginning, but because the association had control of the common stock, it was virtually able at any time to dictate the policies of each local group. Furthermore, the member-patrons of each local gin had very little financial interest in their plant, since their notes although negotiable, were given more or less as a matter of form with the understanding

<sup>29</sup> HERRIDMAN, O. W. THE GEORGIA COOPERATIVE GIN SET-UP. Federal Farm Board Special Report. 1931. [Unpublished.]

that payments upon them would be taken out of earnings. No cash was collected in payment for stock. Under these circumstances members of the local gins placed the responsibility for success of the gin on the Cotton Growers and failed to assume the responsibility of managing its affairs.

In 1933 the Georgia Cotton Growers Cooperative Association and its subsidiaries were placed in receivership. Unfortunately the plants were sold to private individuals, not to local cooperative associations, as had been done with the plants of the Texas Cotton Growers Gin Co. (p. 51-54); and with these sales, as often happens when the gins are not owned and controlled by the farmers in local communities, all traces of cooperative gin activity in Georgia disappeared.

### THE TEXAS COTTON GROWERS GIN CO.

The most extensive venture of cotton cooperatives in ginning cotton was sponsored by the Texas Cotton Growers Gin Co., a subsidiary of the Texas Cotton Cooperative Association of Dallas, Tex. This cotton gin subsidiary was organized in June 1927. Until April 1928 the company was called the Texas Cotton Growers Gin Holding Co., then it became the Texas Farm Bureau Gin Co., and in May 1930 it took its present name. The preliminary plans of organization called for the establishment of a central holding company and local gin associations at points where the cotton association membership and the volume of business were sufficient to support a gin. By 1928 the central company had under its general supervision 16 local gins, each with its own local board of directors. It operated actively until 1933 at which time plans were devised for the sale of its plants to local independent associations. The Texas Cotton Growers Gin Co., therefore, still operates only a few unsold plants.

Each gin was organized as a separate corporation with capital stock. Of the stock 49 percent was held by local members and 51 percent by the cotton marketing association. Stock could be owned by members only. Each share had a par value of \$100. In selling stock one serious mistake was made. Instead of requiring each member to pay cash or part cash, the association took notes with the general understanding that they would be paid from earnings of the corporation, and by following this policy it missed a real opportunity to tie the local membership into its program in a tangible way.

The bylaws provided that dividends not to exceed 8 percent would be paid on all stock. Of the net income available for distribution 60 percent was to be paid to the members, allocations being made proportionately with patronage; and 40 percent to the association. Non-members did not participate in the earnings in any way.

As the plan swung into operation very little cash was paid in by members. The gin company advanced the entire amount required to

purchase the gins from funds supplied by the parent association from its accumulated reserves. The members' notes were not retired out of earnings as the original plans directed; therefore, the notes of the farmer-members and the stock remained in the hands of the gin company.

Changes in the program soon were made. In 1928 the new company was incorporated under the cooperative laws of Texas largely to obtain the benefits and the exemptions provided by such laws. At that time the authorized capital was increased from \$200,000 to \$1,000,000. All stock in the company, except the directors' qualifying shares, was owned by the Texas Cotton Cooperative Association. The 1930 amendments again reverted to the original 1927 plan to give the local groups more responsibility in delivery policies and in control of the local gin plants. Well meaning as these plans were, they were never realized. The gin company continued to operate strictly under the control of the central board of directors, and its general manager was responsible for the affairs of all locals. Few local groups were given any responsibility. Consequently, there was considerable dissatisfaction, and this eventually was partly responsible for the liquidation of the corporation and the sale of plants to local cooperative gin associations.

The ginning operations of the subsidiaries were quite gratifying but their cotton operations proved disastrous. The original 16 gin plants ginned about 27,600 bales of cotton during their first season, 1927-28, and made a net income of nearly \$70,000 after adequate amounts for depreciation had been deducted. The second season the number of gins was increased to 34, and the volume increased to more than 52,000 bales. The season ended, however, with a loss of about \$250,000, after \$90,000 had been charged off for depreciation. The 1929-30 season was an extremely unfortunate one for the gin company, which at that time incurred the losses that finally led to abandonment of the plan for central ownership of a line of gins. The association, however, purchased cotton as usual from its patrons that season. Instead of selling the spot cotton each day or hedging its receipts, the company speculated upon the advice of the parent association and the American Cotton Growers Exchange. The final result was a loss of \$436,000 on its cotton account. During four of the first six seasons the gin company made losses totaling over \$850,000 after charging off depreciation. In the remaining two seasons the company made a net income of approximately \$100,000, after depreciation had been charged off. During the first 6 years \$500,000 was charged off for depreciation and \$125,000 spent on repairs.

At the peak of its development the Texas Cotton Growers Gin Co. operated 38 plants scattered over the State but located for the most part in northwest Texas. Some of these plants were well located and

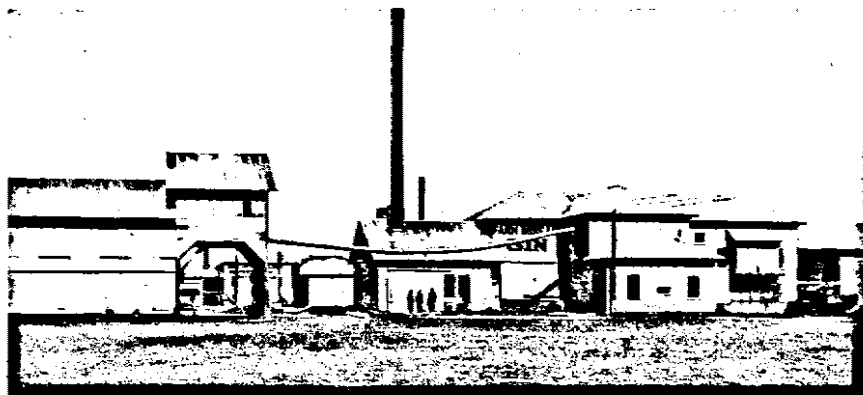


FIGURE 10.—A TEXAS COTTON GROWERS GIN COMPANY PLANT.

The modern facilities built from 1924-30 and operated by the Texas Cotton Growers Gin Co. raised competitive standards in Texas.

made substantial earnings each season; but others were poorly located or had little local support and lost money each year. Since the good plants had to carry the poor ones, and the burden was heavy, patronage dividends were paid nowhere and dissatisfaction arose among members in communities where the local units had considerable support and were prosperous. Under the original plan the members had been promised substantial savings from the operation of the plants, but losses in handling cotton prevented payment of patronage dividends at any time during the entire existence of the corporation. This fact was rather disheartening and members soon felt that their only advantage in patronizing the gins was the protection it gave their equities in the reserves of the parent association.

Gradually as dissatisfaction grew, a plan was developed for the liquidation of the gin company and the sale of the local plants. The plants were appraised; and, with the exception of three, they were sold to local independent cooperative gin associations organized to purchase them. Most of these local associations were financed initially by the Houston Bank for Cooperatives, and the Texas Cotton Growers Gin Co. In several instances the gin company gave further valuable assistance to groups in distress, generally in order to protect its second mortgages.

It is believed by the present manager of the association that failure to show earnings may be traced to (1) cutthroat competition aimed at choking the movement in its infancy; (2) serious cotton losses in 1928 and 1929, for which the cotton association was jointly responsible; (3) division of the cotton territory of the State among a number of cooperative marketing associations—this eventually led to discontinuation of the 1-percent reserve deductions and to sale of the gins for the purpose of returning old reserves especially to the members outside

the territory covered by the parent association; (4) depressed prices and markets from 1929 to 1933.

With improved business conditions the operating results of these same plants under ownership and control of independent local associations have been extremely gratifying; in fact, most of them are well on the way toward liquidation of the purchase price of their plants after only two or three seasons of operation.

Members who were critical of the old plan are satisfied now because they own and control their associations. Most of the associations have not distributed cash patronage dividends to date, but they have had unusually good earnings and have set up reserves to the credit of the member-patrons as equities in the assets of their association.

Despite the fact that the gin program of the Texas Cotton Cooperative Association has been abandoned, it accomplished much good through the modern facilities which it built and operated (fig. 10). Ginning rates in the areas where it operated became more reasonable, gin equipment improved materially, and service became an important part of the program of all gins.

#### MISSISSIPPI FARM BUREAU AND COTTON ASSOCIATION PROGRAMS

The Mississippi Farm Bureau and its protege, the Mississippi Farm Bureau Cotton Association, sponsored a cooperative gin program in the Hill section of Mississippi. The objectives of the program were similar to those of other cotton associations of that time. A gin at Moselle first organized as a stock company in 1924, later became the first gin in Mississippi to operate on a cooperative basis. In 1926 a second, the Magee Gin Co., was formed. The Moselle gin still operates under the general corporation laws of the State, whereas the Magee gin was recently reorganized under the Agricultural Association Law of 1928.

The first gin to be organized under the Agricultural Association Law was established at Ellisville, Miss., in 1928. It was financed in part by local grower-members and in part by the Mississippi Farm Bureau Federation. It was the first of a line of gins the Farm Bureau organized under—

a federated noncapital stock plan which provided for local ownership of gins through issuance of debenture bonds and for ginning and seed sales contracts with local members at local gins. It was proposed that the central federation would exist for the purpose of pooling and marketing cottonseed and writing group insurance, supplying standard equipment, and cooperative purchase of supplies. The management of the local gin was to be vested entirely in the local membership. On account of the failure of the Mississippi Farm Bureau Cotton Association, organized in 1929, and the resulting losses sustained by the Missis-

Mississippi Farm Bureau Federation and the subsequent necessitated changes in management, this program was delayed.<sup>40</sup>

Later in 1929 the Mississippi Cooperative Cotton Association was organized to replace the Mississippi Farm Bureau Cotton Association. The new association, with the cooperation of the Mississippi Farm Bureau Federation, formulated two plans for developing a cooperative gin program from the top down. Under the first plan, a centralized gin corporation owned by the cotton association would own all property of the local units, but each unit would be managed by a locally elected board of managers, subject to the supervision of the central gin corporation. Grower-members of the gin corporation would have contracts to market cottonseed through the gin corporation and to market cotton through the Mississippi Cooperative Cotton Association. The second plan called for a federation of locally owned gin cooperatives that would borrow money through the federation and be under contract with the federation to market cottonseed and perform other services. Although locally owned, this plan called for central control.

Both plans were abandoned because farmers at that time lacked interest in them; cotton prices were low; and the depression made it difficult to raise the necessary capital. Neither of them has been revived. The present movement, which is made up entirely of independent local cooperative gins has been developed with new leadership and under a philosophy entirely different from that which prevailed 10 years ago.

### THE CALIFORNIA COTTON COOPERATIVE ASSOCIATION

A plan advocated by the California Cotton Cooperative Association of Bakersfield for developing cooperative ginning activity in the San Joaquin Valley was watched with considerable interest for several years. The association, which was previously concerned with marketing the cotton of its members and operating a production credit corporation, entered the ginning business in 1936 solely in the interest of its farmer members. Its plan was of unusual interest because on the surface it appeared to be similar to the one that had so generally failed at the hands of cotton cooperatives from 1924 to 1933. Its objectives though not clearly apparent at first are worthy of the commendation of California farmers. Here was an entering wedge for local cooperative gins to follow. It pointed the way, operated successfully for several years, and has now given way to the locally owned cooperative gin which it is actively assisting with organization problems.

<sup>40</sup> Dickson, A. M. COOPERATIVE GINS IN MISSISSIPPI. Federal Farm Board Report. Mar. 20, 1931. [Unpublished.] See p. 3.

The association realized that crop loan facilities offered by cotton finance companies through local gins were becoming an obstacle to the future development of cooperative activity among cotton farmers in California. In fact, cotton finance companies and cottonseed-oil milling, cotton ginning, and cotton merchandising industries in the San Joaquin Valley had integrated their services so completely that any farmer arranging for credit from one of these sources was practically obligated to run the entire gamut of services offered by the others. This control, with all it implies, blocked the farmers' freedom of choice in selecting credit, ginning, and marketing agencies. It seemed that until the farmers together could build up a complete line of service to compete with this system—that is, services which would begin with financing the crop and continue through to the cotton mill, including the cottonseed-oil mill—they could not adequately protect their own interests.

The California Cotton Cooperative Association of Bakersfield has made considerable progress against this competition. In 1929, 2 years after it was founded, the association organized its own subsidiary production credit corporation to provide an independent source of financing that would enable its members to gin where they pleased and to sell cotton through their own association. Although this was a real step forward, the competitive agencies through rather widespread control of ginning and cottonseed-oil milling, and sometimes compressing, could still embarrass the cotton association with its limited operations.

Consequently despite the unfortunate experiences of other cotton cooperatives in operating lines of gins, the association took the next step—it entered the ginning business during the 1936-37 season. It purchased plants at Arvin and San Joaquin and also leased for a period of 3 years a plant at Madera and another at Earlimart. It seemed that the cotton association in this way might become more effective as a marketing agency and increase the net returns from its members' cotton crops. From the beginning, however, the association has agreed that a plan for independent local cooperative gins might be worked out later when credit and other conditions would allow independent groups of farmers to operate local gins successfully.

Net returns from all four gins were divided equally at the end of the season between the cotton association and the patrons of the gins, after 10 percent of the net income had been set aside as a contingency reserve. Returns to patrons were allocated on the basis of volume of business and distributed by the issuance of gin reserve certificates in the cotton marketing association.

The volume ginned by the association plants was exceptionally high. During the 1936-37 season the 4 units ginned 18,623 bales of cotton. In 1937-38 their ginnings increased to a total of 29,521 bales, or an

average of 7,380 bales per unit. Volumes were large because the gins gave good services and also because cotton acreage in California was increasing very rapidly.

Despite the success this service had as an integral part of the association's cotton program, the association adopted a policy that provides for sale of its plants to local independent groups of farmers as soon as it is deemed advisable. The directors were convinced that the local cooperative gin association would be the most satisfactory type of organization upon which to build a long-time cooperative program for cotton farmers in California. By the close of the 1938-39 season the development of local cooperative gins had progressed to such an extent that the California Cotton Cooperative Association felt justified in abandoning its program of ownership for one of assisting local groups of farmers to organize (p. 36).

### PROBLEMS OF THE COTTON-ASSOCIATION GINS

After operating ginning facilities for about 10 years (1924-33), the cooperative cotton marketing associations in half a dozen States have rather generally abandoned their projects and sold their plants, mostly to local cooperative gin associations.

It seems rather clear that the following weaknesses were generally, though not always, present in the plans of the marketing associations: (1) Members did not invest in the local plants; the plants were thus handicapped in gaining and keeping the support of local members. (2) Most policies were determined by the central organization, local members having less voice in the affairs of the local than was originally intended. (3) Pooling of income and expenses of gins tended to stifle individual initiative and to penalize efficient local operation and loyal membership. Good plants had to carry poor ones, and some gins proved to be heavy liabilities. (4) Payment of patronage dividends was impossible during the life of the plan in several States. This was probably the largest single handicap met by the program. In one instance speculation in cotton led to large losses. (5) Reserves from one community were often invested in facilities in other communities from which the investors derived no benefit. (6) Supervision of gin plants scattered over a wide area was expensive and sometimes conducted by officials of the central association who had only superficial knowledge of ginning problems.

For these and other reasons farmers who saw locally owned cooperative gins operating successfully preferred local cooperative gins of their own.<sup>41</sup> The more recent experiences of the California Cotton Cooperative Association were quite different in many respects from those of earlier attempts.

<sup>41</sup> Herrmann, Omer W. LIQUIDATION OF THE TEXAS COTTON GROWERS GIN CO. F. C. A. Memorandum of March 9, 1934. (Unpublished.)



## ASSOCIATIONS OF LOCAL COOPERATIVE GINS

AT VARIOUS times during the last 10 years groups of local independent cooperative gin associations have united in overhead organizations to attain ends impossible to cooperative gins individually. At first some local associations gave little response to these efforts because they did not see the advantages of cooperation carried beyond local communities. Recently, however, State and district cooperative gin associations have met with general favor as representatives of gin associations in legislative and other matters of importance.

These associations and federations of independent local cooperative gins have developed separately from the group of cooperative marketing associations operated by cooperative cotton marketing associations in their respective territories. The two have little connection and should not be confused.

One rather obscure attempt was made in 1932 to bring local gins together in this way into a central unit or federation. Although it was not successful it marked the beginning of a new type of cooperation. A second federation began operating a cotton brokerage business, later purchased and erected an oil mill, and is just completing its third year in operating a cottonseed-crushing business. A third federation of cooperative gins for crushing cottonseed was organized in the spring of 1939. It will begin operations with the 1940-41 season. Such groups of local cooperative gin associations seem to have many possibilities for future development and may profoundly affect the methods and practices of ginning and marketing cotton and crushing cottonseed.

### ASSOCIATIONS OF OKLAHOMA COOPERATIVE GINS

Attempts have been made in Oklahoma at various times in the past to form associations and federations of cooperative gins for the purpose of providing services.

#### *The Oklahoma Cooperative Ginners Association*

In 1928 the cooperative gins that had been organized by the Farmers' Union united to form the Oklahoma Cooperative Ginners Association. A trade association relationship was established between the central association and its member gins, similar to that which existed between the Oklahoma Cotton Ginners Association and privately owned as well as line gins in the State. The principal functions of the new association were: To look after the affairs of cooperative gins in a general way, to represent these gins each year before the Corporation Commission when ginning rates were under consideration, and to assist them in legislative problems.

Although its membership does not include all cooperative gins in the State, the association nevertheless has looked out for the interest of them all in matters that pertain to their general welfare. In recent years, however, the association has not been especially active, since its functions have been largely taken over by the parent organization, the Oklahoma Farmers' Union.

### *The State Farmers' Union Cooperative Ginners Association*

Two attempts were made in 1930 and 1931 by the Farmers' Union to bring the cooperative gins in Oklahoma together into a federation under a proposed State Farmers' Union Cooperative Ginners Association. As outlined in its suggested bylaws (art. III, sec. 1), the purpose of the corporation was:

To assist in equipping elevators, cotton gins, oil mills and feed mills for the purpose of processing, manufacturing, buying and selling, and transporting all kinds of merchandise produced and consumed on the farm.

Membership was limited to associations incorporated under cooperative law. The board of directors was to be selected from the boards of the respective member associations except that "the President of the State Farmers' Union shall be ex officio chairman of the Board of Directors." After considerable effort at organization, the plan was dropped because of lack of interest.

### *Farmers' Union Insurance for Cooperative Gins*

In 1921 the executive committee of the Oklahoma Farmers' Union authorized its officers to accept funds in payment of premiums, and to approve and to issue insurance policies covering fire, lightning, tornado, and hail risks on farm properties. For this new function the Farmers Union created a new department in the State organization and through it began writing farm insurance in 1922 with 243 policyholders. Operations were carried on in much the same way as in many other farmers' insurance companies; that is, on an assessment basis. One of the requirements, however, was that each policyholder must be a paid-up member of the Farmers' Union.

Before the Farmers' Union entered the field of farm insurance the Oklahoma State Grange had been instrumental in obtaining legislation which enabled farmers' insurance organizations to write fire, lightning, tornado, and hail insurance without meeting the requirements of the mutual insurance law. Further amendments provided that no specific minimum number of members was required of the Farmers' Union as was the case under the mutual insurance law which required a minimum of 1,000 policyholders before a company could operate.<sup>42</sup>

<sup>42</sup> Insurance Laws of Oklahoma. Art. V, 008, 6829-7 S. L. 1921, ch. 83, sec. 1, p. 108 attending Session laws of 1917, ch. 146, sec. 1, p. 243.

From 1921 to 1928 the policies written were confined largely to farm dwellings and buildings. In 1928, however, the membership authorized the insurance department to write insurance on the facilities of cooperative institutions such as cotton gins, grain elevators, cream stations, and creameries. At the outset these policies were confined to fire and tornado coverage. Rates established by the Oklahoma Insurance Commission were used. Premiums were collected by assessment. The policy of dividing the insurance with an outside mutual company has been generally followed in order to split the risks.

During the first year of operations, 1928, 38 farmers' cooperative gin associations obtained half of their insurance through the Farmers' Union and half through a well-recognized mutual insurance company. The insurance written by the union that year aggregated \$200,000. In 1929, 72 cooperative gin associations carried insurance with the Farmers' Union amounting to \$380,549. Since then the number of cooperatives insuring with the Farmers' Union has varied from year to year.

Specific figures are not available as to the savings accruing from the operation of cooperative gin insurance because all types of insurance are combined in one department. It is generally believed, however, that the cooperative gins have benefited materially by their cooperation in this insurance project so far as fire and tornado insurance is concerned.

Prior to 1934 workmen's compensation insurance was a serious problem for the cooperative and other gins in Oklahoma. Rates until that time were excessively high. Despite this fact, gins could not afford to be without some sort of protection from possible claims of their employees. Furthermore, State legislation required insurance under the Workmen's Compensation Act. Under these conditions it appeared to the Farmers' Union that compensation insurance for cooperative gins might be a profitable undertaking.

The first compensation policies were written in 1929. In the beginning the venture appeared to be very profitable, but by 1932 there were so many claims, many of them questionable, that the compensation feature of the insurance program was abandoned as "exceedingly dangerous and unprofitable." Since that time the State of Oklahoma has created "the State insurance fund," administered by the State industrial commission, for the purpose of insuring employers against liability for compensation under the State workmen's compensation law. The act provides, among other things, that risks be classified. On the basis of this classification and because their claims for compensation from employees have been generally satisfactory, the cooperative gins as a group receive a group rate which results in considerable savings as compared with rates paid by commercial gins.

The insurance activities of the Farmers' Union are still being operated as a department of that organization. All assets of the State union are thus pledged to secure possible losses of individual policyholders, whether they be farmers who have insured their farm buildings or cooperatives that have insured their physical facilities. The risks are, therefore, borne jointly by the Oklahoma Farmers' Union and the individual policyholder. The policyholder takes care of losses by paying annual assessments after the extent of the losses have been determined.

A statement of January 1, 1938, which covers all types of insurance, indicates that from 1933 to 1937, inclusive, there was—

a net increase in total receipts of the insurance department of 45.6 percent \* \* \*. In 1933 the percent of expense to premiums was 20.2; in 1936, 23.5; and in 1937, only 18.5. The increase to reserves in 1937 over 1936 was 33.7 percent.

### *The Oklahoma Cooperative Gin Federation*

In 1932 a group of 27 cooperative gins united to form the Oklahoma Cooperative Gin Federation. The membership of the federation was increased later in the season to 32 gin associations, which had a combined membership of more than 4,300 farmers. These associations ginned approximately 75,000 bales of cotton annually, purchased and sold approximately 30,000 tons of cottonseed, handled bagging and ties valued at approximately \$65,000, and purchased repairs and parts at a cost of \$16,000.

The federation was a sincere attempt on the part of local cooperative gins to organize themselves for their own mutual protection and benefit. The federation was an independent organization with no affiliation with the Oklahoma Farmers' Union, the Oklahoma Cotton Growers' Association, or any other group.

The purposes of the Oklahoma Cooperative Gin Federation, as set forth in article 6 of the articles of incorporation, were:

SECTION 1. To buy, sell, handle, ship, and store all goods, supplies, and articles as may be needed, required, or used by the stockholders hereof.

SEC. 2. To buy, sell, handle, store, and ship any and all products produced, processed, or handled by the stockholders hereof and/or to act as the selling agent of the said stockholders in the handling of such articles, goods, or commodities.

SEC. 3. To inaugurate and install for and in behalf of the stockholders a uniform system of records and accounts; to provide for a uniform audit of all such records and accounts; and to provide a system of analyses of all costs of operation.

SEC. 4. To acquire and hold, sell, and convey, such real and personal property as may be deemed necessary or convenient for the conduct and operation of this corporation.

SEC. 5. To purchase, construct, own, and operate cotton gins, oil mills, and all other facilities needed in the preparation for market of products handled, processed, or produced by the stockholders hereof.

SEC. 6. To establish a reserve at the option of the board of directors in an amount not to exceed the paid-in capital stock.

SEC. 7. To act as the fiscal agent of the stockholders of said corporation in negotiating for and borrowing money for the purpose of refinancing indebtedness of the stockholders hereof.

SEC. 8. To act as fiscal agent for any group of producers of cotton in securing money with which to construct a cotton gin to be operated as set forth in article 3 of this instrument, which gin is to become a stockholder in this corporation.

SEC. 9. To associate its members together for any and all purposes to their mutual benefit and to engage in any activity necessary, convenient, or proper for the accomplishment of such purpose as may be permitted by law.

SEC. 10. To have and to exercise all powers granted, authorized, or allowed by the laws of the State of Oklahoma to corporations, provided that the association shall not deal with products of nonmembers in an amount greater in value than are handled for its members.

The federation was in active operation for only one season. It began its program at a rather inopportune time. The country was in the depths of an economic depression and cotton prices were correspondingly low. The price paid for cottonseed hardly paid for the ginning. Capital was difficult to raise and shortage of funds was a continuous handicap to the organization. The management was inexperienced in the problems of cooperative gins, such as handling cottonseed, bagging and ties, and supplies. Nevertheless during its period of operation the federation assisted many of its members in obtaining loans to refinance their indebtedness, and it handled some cottonseed on a brokerage basis.

Intense competition in the territory both in buying and selling cotton and cottonseed, along with an unfavorable crop and market situation, presented obstacles which were almost impossible to surmount. Oklahoma cooperative gins now feel that a cooperative oil mill is a logical solution of their cottonseed and gin supply handling problems.

## ASSOCIATIONS OF TEXAS LOCAL COOPERATIVE GINS

### *The Texas Cooperative Gin Co.*

To form large organizations with centralized control was the prevailing policy of the Federal Farm Board from 1929 to 1933. The Board dealt only with an overhead agency in making loans, thereby forcing all local associations which desired financial assistance to make applications through central organizations (p. 47-48). In conformity with this policy the Federal Farm Board generally denied any requests for assistance from local cooperative gins, with the suggestion that the cooperative gins form an overhead central association or join an existing organization and obtain loans through this central association.

The Board made a number of attempts to organize farmers to gin their own cotton. In practically every instance the organizations proceeded from the top down. In the case of the Texas Cooperative Gin Co., of Quanah, Tex., which did not get beyond the organization stage however, it was proposed that a group of locally owned cooperative society gins form a central organization.

The stated purposes of the Texas Cooperative Gin Co., as outlined in its articles of incorporation, were—

to engage in any activity in connection with the packing, marketing, storing, handling, and/or utilization of any agricultural products produced or delivered to it by its stockholders, and/or in manufacture and marketing of the byproducts thereof; and/or in financing the manufacture, selling, and/or supplying to its stockholder members of machinery, equipment, and supplies, or assisting groups of producers in organizing cooperative gins or other facilities under the society plan.

This proposed federation of society gins was incorporated on July 10, 1930, for a period of 50 years. Its articles provided for capital stock in the amount of \$50,000 divided into 500 shares with a par value of \$100 each carrying dividends not to exceed 8 percent. Stock ownership was limited to cooperative associations engaged in the processing or marketing of agricultural products and organized under the Farmers Cooperative Society Act. Each gin was governed by a local board of directors and was allowed one vote in the central.

The Texas Cooperative Gin Co., in addition to assisting its members in handling supplies and cottonseed, financed local cooperative gin associations with funds received from Federal Farm Board loans. Under this arrangement the overhead agency could borrow from the Federal Farm Board for financing and operating physical facilities of local associations. The central organization, of course, would underwrite the loans to locals, thus tying the system together from the standpoint of financial responsibility.

One of the principal reasons for the local society gins' interest in this plan at that time was their need for financial assistance. Had it not been for the possibility of such assistance, it is doubtful that the local cooperative gins would have contemplated forming a central organization.

Reasons why this organization did not actually begin operations have not been determined, but it is believed that there was not a sufficient number of local cooperative society gins in Texas which were interested in the services offered by such an overhead agency. It is probable that lack of interest on the part of local cooperative gins and difficulty in knowing in advance whether the Federal Farm Board would give assistance probably also contribute to the failure of the central organization to begin operations.

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### *The Texas Cooperative Ginners Association*

After a number of years of operation cooperative gins in Texas began to feel the need for an overhead organization. Problems connected with the ginner's code during the 1933-34 season made the need greater, and in response to a call by the Texas Cooperative Council, a meeting of all cooperative gin associations in Texas was called in Dallas during April 1934. As a result of this meeting the Texas Cooperative Ginners Association was formed.

The Texas Cooperative Ginners Association has a trade association relationship to its member gins. The purposes for which this association was formed are rather general. They are as follows:

The purpose for which the Texas Cooperative Ginners' Association is organized is to engage in any activity in connection with the marketing or selling of the agricultural products of its members, or with the harvesting, preserving, drying, processing, canning, packing, storing, handling, shipping, or utilization thereof, or the manufacturing or marketing of the byproducts thereof; or in connection with the manufacturing, selling, or supplying to its members of machinery, equipment or supplies; or in the financing of the above enumerated activities; or in any one or more of the activities specified herein.<sup>42</sup>

The activities of the Texas Cooperative Ginners Association have been confined largely to legislative problems and to promotion of education for officials and members. The Cooperative Research and Service Division of the Farm Credit Administration and the Houston Bank for Cooperatives have united with the association in sponsoring each year a series of cooperative gin meetings in Texas in which board members and managers of all Texas cooperative gin associations have participated.

The Texas Cooperative Ginners Association has been responsible for considerable unity of action among cooperative gin associations and will probably lead to future cooperation among gins in organizing oil mills and cooperative cotton marketing associations. The organization of district cooperative ginner's associations is a direct outgrowth of the educational program sponsored by the Texas Cooperative Ginners Association and the Farm Credit Administration. District associations have been organized in areas adjacent to Lubbock, Childress, Abilene, Greenville, Taylor, Corpus Christi and Harlingen gins.

### *The Cooperative Gin Service and Supply Co.*

In April 1937, 69 local cooperative gin associations located in all parts of Texas formed an association known as the Cooperative Gin Service & Supply Co. with headquarters at Houston, Tex.

The Cooperative Gin Service & Supply Co. was organized for the specific purpose of furnishing farm supplies and business services to cooperative gin associations. This association formed a subsidiary

<sup>42</sup> Articles of Incorporation, Texas Cooperative Ginners Association, May 11, 1934, art. II.

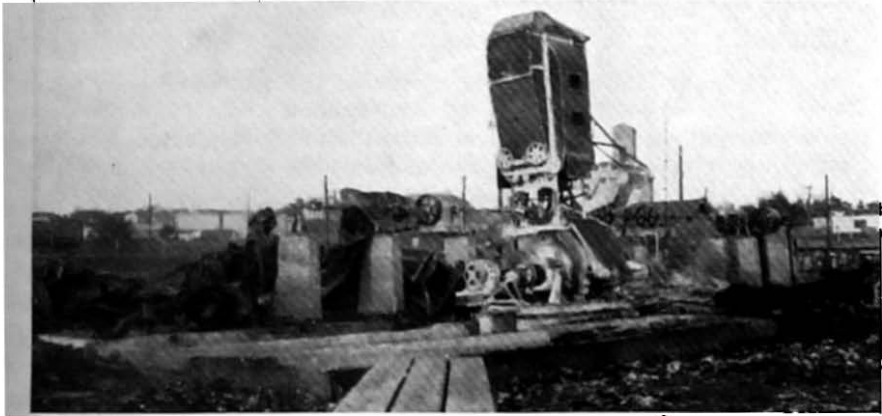


FIGURE 11.—A GIN PLANT DESTROYED BY FIRE.  
Large savings are possible through cooperative gin-insurance.

company known as the Farmers Cooperative Insurance Co. to write fire and windstorm insurance on the physical facilities of the member gin associations (fig. 11). Although the Cooperative Gin Service & Supply Co. has been operating less than 2 years, early reports indicate that it has over \$1,000,000 in fire and windstorm insurance on its books at this time. All policies were reinsured in the beginning for the protection of the association during its formative years. As its financial position strengthened the Farmers Insurance Co. has carried a greater proportion of the risk. The company plans in the near future to assist its member associations to purchase bagging and ties and other gin supplies and repairs, and will act generally as their representative in matters pertaining to their welfare. The company now (September 1939) has a membership of about 150 cooperative gins.

#### *Plains Cooperative Gins, Inc.*

Several years ago the officials of cooperative gins in northwest Texas, with the thought in mind of developing an organization to assist them with their cotton marketing problems, attempted to build a cotton marketing organization around local cooperative gin associations located in that territory. There were enough local associations to support such a federation, and many of them had 10 years or more of experience. As a result the Plains Cooperative Gins, Inc., with headquarters at Lubbock, Tex., became the first federation of this kind to organize and operate successfully.

The association was incorporated in 1936 for a term of 50 years with an authorized capital of \$1,000,000, divided between common and preferred stock. The articles also provide for a board of directors of seven members selected by the member-stockholder gins, each entitled to one vote. The member referred to in this instance is a local cooperative gin.

The purposes of the Plains Cooperative Gins, Inc., as stated in its bylaws are—

\* \* \* to engage in any activity in connection with the marketing or selling of cotton and/or cottonseed or of any other agricultural products of the member-stockholders; or with the harvesting, processing, packing, storing, handling, shipping, or utilization thereof; or the manufacturing or marketing of the by-products thereof; or in connection with the manufacturing, selling, or supplying to its member-stockholders of machinery, equipment, or supplies; or in the financing of the above-enumerated activities or in any one or more of the activities specified herein.

The Plains Cooperative Gins, Inc., began with a membership of 21 local cooperative gin associations. During the first year it operated rather conservatively and offered only one service to its member-stockholders—selling cotton purchased by member gins from their farmer-members. Very little capital was required for this operation because all business was handled on a brokerage commission basis. The local cooperative gin shipped samples to the federation at Lubbock where they were placed on tables and sold to the highest bidder. For this service the federation at first charged the member gins 50 cents per bale but later reduced the price to 25 cents. The burden of financing the cotton fell entirely on the local gin, but this burden was not heavy because most gins follow the policy of selling their receipts during the day of purchase or the next day.

Although not all local members patronized the association during the first season, the federation was able to do enough business in handling cotton to show a net income at the end of the season of approximately \$5,000.

Encouraged by the cooperation received from their member associations, the federation proposed to enter the field of crushing cottonseed.<sup>44</sup> During the spring and summer months the federation obtained a loan for the purchase and erection of an oil mill at Lubbock, Tex. A second-hand plant was purchased in another part of the State and moved to Lubbock where it was erected on land owned by the association. After considerable opposition from the trade and some delay in erecting the plant, the association began to crush seed in November 1937.

During the 1939-40 season the Plains Cooperative Gins, Inc., had a membership of 29 local cooperative gins, all operating in the territory adjacent to Lubbock.

As a customary subsidiary activity to seed crushing, the oil mill handles bagging and ties for its member associations. Other gin sup-

<sup>44</sup> Practically all cooperative gins in that area purchase some cotton because of competition, largely from oil mills wishing to acquire cottonseed. In competing for seed, the old line oil mill gins pay more for cotton than the price for which they can sell it; they make up the loss from their seed and ginning accounts. Under these conditions the cooperative gins find it difficult to compete with them. It is believed that by entering the field of oil milling the cooperative gins should be better able to compete with the old line gins and increase the grower's total income from his cotton crop.

plies, no doubt, will be added later. The bagging and tie business fits in conveniently with oil-mill operation. The delivery problem is negligible since most of the seed is brought to the mill by truck and the bagging and ties taken out on the return trip. The savings made are considerable since the oil mill can purchase bagging and ties at wholesale in carlots and distribute them to individual gins.

The oil mill may make advances to the gins during the spring and summer months for repair materials, supplies, and the cost of repair labor.<sup>42</sup>

### *Netex Cooperative Gins Co.*

The second federation of cooperative gins for the purpose of operating a cottonseed oil mill is the Netex Cooperative Gins Co. This organization began with 30 local cooperative gins as members. It plans to purchase existing oil-mill facilities located at Wolfe City or at Greenville, Tex., or to erect new facilities.

Operations will begin with the 1939-40 season. The Netex Cooperative Gins Co. is the outgrowth of the Northeast Texas Cooperative Ginners Association, an informal group organized by cooperative gins in that section of the State in 1935.

## GENERAL OBSERVATIONS

THE cooperative cotton gin has demonstrated its worth as a local cooperative institution, but when one views its long-time possibilities as the foundation for a completely integrated cooperative program for cotton it appears to have potentialities which have only begun to be explored. To date (1939) the cooperative gin association has largely confined its activities to ginning and wrapping cotton and to handling cottonseed, bale cotton, and farm supplies. Two federations of cooperative gins have already organized cottonseed-oil mills; and another, a cooperative gin insurance company. Although these services have materially increased the farmer's income, further efficiencies and economies are necessary; continued development along these lines is likely and desirable.

It appears that the trend toward organization of federations of cooperative gins will continue. If this be the case, groups of cooperative gins should consider the following in the formulation of a complete cooperative program for cotton:

1. The development and operation of a plan in cooperation with the State experimental stations and the United States Department of Agriculture for breeding and multiplication of improved seed on a nonprofit basis for distribution at cost to members of cooperative gins.

<sup>42</sup> For further details see Burgess, J. S. CRUSHING COTTONSEED COOPERATIVELY. FCA Circ C-114, 27, pp. illus. 1932.

# Other Publications Available

In addition to this circular, the following publications of the Farm Credit Administration may be of interest to cotton cooperatives:

## COTTON

- Accounting Principles for Cooperative Cotton Gin Associations**  
Bulletin No. 2, *Otis T. Weaver*
- Analysis of the Business Operations of Cooperative Cotton Gins in Oklahoma, 1933-34**, Bulletin No. 12, *Otis T. Weaver and Omer W. Herrmann*
- Early Developments in Cooperative Cotton Marketing**  
Circular No. C-101, *O. W. Herrmann and Chastina Gardner*
- Organizing a Cooperative Cotton Gin**  
Circular No. C-109, *Otis T. Weaver and U. H. Prickett*
- Crushing Cottonseed Cooperatively**  
Circular No. C-114, *John S. Burgess, Jr.*
- Using Your Co-Op Gin**, Circular No. E-9, *Otis T. Weaver*

## COOPERATION IN GENERAL

- Cooperative Purchasing of Farm Supplies**  
Bulletin No. 1, *Joseph G. Knapp and John H. Lister*
- Cooperative Marketing of Agricultural Products**  
Bulletin No. 3, *Ward W. Fetrow*
- Membership Relations of Cooperative Associations**  
Bulletin No. 9, *J. W. Jones*
- Farmers' Purchasing Associations in Wisconsin**  
Bulletin No. 20, *Rudolph K. Froker and Joseph G. Knapp*
- Farmers' Mutual Windstorm Insurance Companies**  
Bulletin No. 21, *Gordon A. Bubolz*
- Cooperative Purchasing of Farm Supplies in Mississippi**  
Bulletin No. 22, *John H. Lister and Gerald M. Francis*
- Problems and Trends in Farmers' Mutual Fire Insurance**  
Bulletin No. 23, *V. N. Valgren*
- A Statistical Handbook of Farmers' Cooperatives**  
Bulletin No. 26, *French M. Hyre, Whiton Powell, and Others*
- Accounting Procedure for Cooperative Grain Elevators**  
Bulletin No. 28, *E. B. Ballow*
- Operations of Cooperative Grain Elevators in Kansas and Oklahoma**, Bulletin No. 30, *Harold Hedges*
- Cooperative Farm Supply Purchasing in the British Isles**  
Bulletin No. 31, *Joseph G. Knapp*
- Organization and Operation of Cooperative Irrigation Companies**  
Circular No. C-102, *Wells A. Hutchins*
- Refrigerated Food Lockers**, Circular No. C-107, *L. B. Mann*
- Organizing a Farmers' Cooperative**, Circular No. C-108, *S. D. Sanders*
- Co-Ops in Agriculture**, Circular No. C-111, *French M. Hyre*
- Farmers' Retail Petroleum Associations**  
Circular No. C-113, *Joseph G. Knapp and French M. Hyre*

*Except those for sale only, these may be obtained free of charge, as long as a supply is available, from the*

**Director of Information and Extension  
Farm Credit Administration, Washington, D. C.**

