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COOPERATIVE MARKETING IN THE UNITED STATES<sup>1</sup>

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THE PAINTING of a picture of cooperative marketing in the United States in the few minutes at my disposal necessarily must call into play a broad brush and sweeping strokes. Details of the picture must be subordinated. It is a safe assumption that in a group of this kind the fundamentals of cooperation are so well understood that discussion of them may well be left out. I think, however, that a correct picture of organized marketing activities among farmers in the United States may not be obtained by our visitors from across the waters unless some little attention is given to the background of our developments.

When we discuss problems of production, of land ownership, tenancy arrangements and even of management practices, it is possible for us to draw upon the experiences of numbers of generations of the past. In the field of marketing and particularly in that of cooperative marketing, our experience is mostly of relatively recent date. It is true that we can find some traces of organized sales activity among farmers of earlier days but such instances are neither numerous nor particularly instructive to us in the solution of our present day problems.

The Rochdale pioneers, whose history is, of course, particularly well known to our British visitors, undertook their famous experiment less than a century ago. While that was the beginning of a consumers' purchasing movement and not an agricultural marketing development, the principles adopted by the flannel weavers in that humble enterprise of Toad Lane have been at the bottom of cooperative marketing developments. This has been true to such an extent that the term "Rochdale" has been used as a synonym for "cooperative" by many persons in describing agricultural cooperatives in America.

There were some developments among laborers in this country about the middle of the nineteenth century which gave encouragement to farmers. However, the first extensive stimulus to cooperative activity among farmers of the United States followed

<sup>1</sup> Acknowledgment is made to the Division of Cooperative Marketing for some of the statistics included.

in the wake of the Civil War in the late sixties and early seventies. A period of depressed prices for agricultural products resulted from post-war readjustments. Lands of the Middle West were being settled rapidly and production was expanding. An organization known as the Patrons of Husbandry, or more commonly as The Grange, was born during this period. Its originators, who consisted primarily of government workers in Washington under the leadership of Oliver H. Kelly, established what they conceived as a fraternal society for farmers, in 1867. Apparently, the tillers of the soil of that day were not greatly concerned with the possibilities of such a society. Their pressing problem was one of obtaining a sufficient margin between costs and selling prices to enable them to make ends meet. Growth of the Grange was by no means spectacular until organization emphasis was placed upon its economic possibilities. When farmers gained the impression that the Grange could serve them in marketing so as to get higher prices for their products and in purchasing and manufacturing so as to reduce their costs, then the movement spread like a prairie fire.

The Grange, not being established for business purposes, its leaders lacking in business experience, its organizers over-promising, its membership expecting the impossible, disintegrated about as rapidly as it had spread, so that by 1880 a large share of its business enterprises no longer were functioning. The order, however, continued to exist and for a long time has been one of the strong agricultural groups of the country. Its service since then has been as a general rather than as a marketing institution.

While the disastrous experiences of this period acted as a brake upon cooperative enthusiasm, they served a constructive purpose in that they inculcated in many minds a better appreciation of limitations and essentials. The growth during the years following was slow and consisted mainly in the development of isolated local units. Large numbers of such enterprises as farmers' grain elevator companies, cooperative creameries and other local enterprises have been established, mostly since the late eighties and particularly since the present century began. There were some scattered large-scale undertakings but they were the exception rather than the rule. More of the latter began to be in evidence about the war period. War conditions led to rapid and extensive organiza-

tion of market milk producers. As is well known to a group of agricultural economists, such as this, the period following the World War has been unfavorable to farm interests. As in the years following the Civil War, conditions in the early twenties were ripe for organization. Wheat pools, tobacco pools, cotton associations, potato exchanges, poultry associations and other activities were established on a large scale. Enthusiasm for cooperation was rampant. Its possibilities were thought to be unlimited. "Orderly marketing," "merchandising," "feeding the market," and other high-sounding terms were on the lips of organizers and enthusiasts. The intricacies of price-making forces were reduced to simple terms and control over these forces was assumed to be in the organized farmers' hands. Again, too much was expected. Again cooperation was oversold. Again it had to recede from some of its gains. However, plans were better than those of the period a half century earlier during the cooperative boom following the Civil War. Experience was greater. Better management was available. So while the failures have been numerous and significant, not all of the growth has been of the mushroom variety.

The settling down process has enabled leaders to see problems more nearly in their proper perspective. They have been weaned away from blind faith in size and monopoly control. They recognize that there may be a place for local ventures as well as for large central bodies. They recognize that it takes more than signatures to contracts to assure success.

Against this background, I believe I can best portray for you the present status of cooperative marketing by taking up for brief review the developments in the various groups of products such as grain, dairy, livestock, fruits and vegetables, cotton and so on.

Our statistical data of cooperative development are by no means complete, but surveys indicate the existence of about 12,000 purchasing and marketing associations. These associations are estimated to have a total membership of about three million and to carry on an annual volume of business of better than two billion dollars. The middle western states occupy a prominent place in cooperative marketing because of the large number of farmers' grain elevator organizations, cooperative creameries and cheese factories, and livestock shipping associations in that area. Thus in a survey made by the United States Department of Agriculture, over 5,000 associations doing a business of over 800 million dol-

lars were listed in the West North Central groups of states.<sup>2</sup> The East North Central group had over 3,000 associations handling over 500 million dollars. On the Pacific Coast, the volume of business handled is large because of the existence of a number of large associations. In this group of states 665 associations had a total volume of about 300 million dollars. The Southern, the New England, the Middle Atlantic and the Mountain areas do not have as extensive a development.

Naturally, in a country with such varying conditions and commodities as the United States, a wide range of organization forms are found. Classified on the basis of area, some are purely local while others are engaged in nation-wide distribution. On the basis of plan of organization, some are organized with capital stock so that membership is dependent upon the ownership of one or more shares of stock; others are non-stock or membership associations. Some adhere strictly to cooperative principles; others have little or nothing to distinguish them from the ordinary business company. Some purchase or take title to the products on delivery; others act merely as selling agents. Some pool the returns for the season, some for shorter periods and some practice no definite price pooling. Some aim to do business only with members; others accept products without regard to membership. Some place considerable reliance upon membership contracts binding members to deliver products; others impose no obligation of delivery. Of the larger organizations, we find two general classes. One is the federation which is made up of definite local organizations; the other is the centralized form in which locals, if any, are informal. In the former, the producer is a member of his local association and that, in turn, is a member of the overhead organization, or a district unit may intervene. In the centralized form of organization the producer holds membership directly in the central organization.

In order to give a better concept of developments in the United States, I shall summarize very briefly the situation with respect to some of the more important groups of commodities.

#### GRAIN

There were some farmers' grain elevators established during the seventies when the Grange had its rapid growth. However, the

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<sup>2</sup> Minnesota, Iowa, Missouri, North Dakota, South Dakota, Nebraska and Kansas.

present development is for the most part of more recent date. During the latter part of the last century and the beginning of the present, competition among grain buyers at many local points was restricted to the extent that much dissatisfaction arose among farmers. Groups of farmers attempting to establish their own elevators to overcome the situation found the organized opposition too strong. Temporarily higher prices were employed by competitors to wean the producers away from their own organization. Boycotts in terminal markets made it difficult to sell grain. Cars for shipping the grain were sometimes difficult for farmers' groups to obtain. Such obstacles created a situation which appeared insurmountable but gradually, here and there, farmers' elevators managed to meet the situation. They were helped by the fact that one or two commission firms in the central market decided to defy the organized grain trade and cater to the farmers' elevator patronage. In order to expand their own volume these firms became active organizers of new groups and this gave added impetus to the movement.

Farmers' elevators are now well established. There probably are in the neighborhood of 4,000 of them in operation, mostly in the middle western states. A typical elevator company is a capital stock organization in which farmers are stockholders. With few exceptions, such a company restricts its activities to a single elevator serving a community around a given local shipping point. Farmers' elevators frequently have been criticized for their failure to adhere more closely to cooperative principles. The customary practice is for these elevators to buy for cash all grain offered to them without regard to membership of the seller. The ruling market price is paid. If profits result beyond the requirements for reserves, patronage dividends may be paid although this practice is by no means universal. The absence of suitable cooperative legislation in earlier days forced many of the original farmers' elevators to organize on the ordinary stock company plan. The custom of restricting voting power and limiting dividends on capital stock has become more common in later years. Where patronage dividends are paid, they frequently are paid only to stockholders. In many companies, considerable stock is owned by non-farmers and in some instances such concerns may find it difficult to resist the temptation to operate on a basis of paying sizeable dividends on the stock.

Attention may be called at this point to the difference in organization procedure in the United States and Canada. While the farmers in the United States first organized local companies, Canadian farmers entered the terminal market at the outset and as a result organized cooperative line elevator companies in the western provinces, each company owning and operating a chain of elevators. For the local farmers' elevators of the United States to play any part in the terminal market some form of overhead organization must be created. After local elevators were well established, the natural thing to do was to consider the next step—that of entering the terminal market. That has been attempted in various ways but without any very outstanding success up to the present. There are several farmers' commission companies selling grain in terminal markets. Eleven such agencies are reported to have handled somewhat less than 50 million bushels of grain during the 1928-29 season. The United States Grain Growers, launched about 10 years ago, had the end in view of becoming a national sales outlet but dissipated its strength before becoming an active operating unit. A subsequent movement known as the Grain Marketing Company failed to acquire the needed support and was abandoned. The Farmers' National Grain Corporation organized last fall under Federal Farm Board auspices is the latest enterprise.

The wave of interest in pooling movements following the war led to the organization of grain pools in a number of states. The earlier pool organizations formed in the Pacific Northwest have discontinued operations. Pools in the Middle West and Southwest have not acquired sufficient support to become very prominent in the market. They do not occupy a position comparable to that achieved by the pools of Western Canada.

#### DAIRY PRODUCTS

Local cooperative creameries are found at many points, particularly in Minnesota, Wisconsin and northern Iowa. Out of 856 creameries in Minnesota, 671 are cooperative. They made 186 million pounds of butter in 1928 out of a total production in the state of 273 million pounds. These creameries ordinarily are formed with capital stock. However, they adhere much more closely to such cooperative principles as one-man-one-vote, restricted dividends on capital stock, and the apportionment of bene-



fits on the basis of patronage, than do elevators. While some farmers' creameries pay farmers cash on delivery, the customary plan is for payment to be made once a month for butterfat delivered during the previous month. This plan makes it possible for creameries to operate more nearly on a cost basis and eliminates a good many of the speculative hazards.

Cooperative creameries have established some central selling organizations. Outstanding among these is the Land O'Lakes Creameries, Inc., an overhead organization consisting of over 400 creameries located chiefly in Minnesota and adjoining states. Last year this organization handled 93 million pounds of butter and also sold considerable quantities of sweet cream, milk powder, casein, eggs and poultry. It has rendered very valuable service in quality improvement, standardization, advertising, establishing new market contacts and in developing by-products.

A few central cooperative creameries have been established in areas where the cow population is not sufficiently dense to support local creameries.

Wisconsin is by far the leading cheese producing state and it numbers within its borders several hundred cooperative cheese factories. A number of these have developed a central selling organization known as the National Cheese Producers Federation to serve as the sales outlet for the product of member factories.

Market milk producers' organizations constitute a field of cooperative activity which, in the main, appears to be highly successful. Sporadic attempts at organization among producers of fluid milk for metropolitan centers go back to the seventies. However, the modern movement is largely the outgrowth of the situation which arose during the World War period. Milk distribution in our larger cities is mainly in the hands of large dealers. There is no semblance of equality of bargaining power between the individual small producer and the large distributor who buys his milk. Retail milk prices had remained unchanged in many cities for a long period prior to the war. Consumers had become accustomed to paying a certain price for milk just as they were accustomed to an unchanging price for street car rides, telephone calls and the like. Rising feed and labor costs made imperative an increase in price to the farmers for their milk. But dealers were loath to make a change which would involve raising the price to their customers. It was under circumstances such as these that

milk producers in many metropolitan areas held protest meetings leading to demands for increased prices backed up by threats to withhold milk if their demands were not granted. Milk "strikes" or boycotts resulted at several points and in many of them the producers emerged victorious. There was a period of uncertainty during which local authorities in some cities started the prosecution of leaders of milk producer groups under the anti-trust laws on the grounds that such boycotts were conspiracies to fix prices and restrain trade. The producers received favorable decisions in cases which reached the trial stage.

It became recognized that something more permanent than the initial rather loosely formed associations was necessary. At present we find well-established associations serving many of the larger metropolitan areas. Some of these restrict their activities largely to collective bargaining, not actually handling either the milk or the payments therefor. Surplus milk is handled by the distributors by special arrangements. Other groups are sales organizations which sell to distributors their requirements of fluid milk and take care of surplus milk themselves by manufacture or processing. In some cases, more commonly in smaller markets, the producers' organization has gone the entire route by establishing cooperative distributing plants delivering to the consumer.

#### LIVESTOCK

Nearly all of the existing cooperative development in livestock marketing has come into existence during the past 15 or 20 years. There are several thousand cooperative shipping associations, most of which are rather informal enterprises. A simple association is formed, a board of directors elected, and a manager employed. Shipping associations commonly serve farmers around a single shipping point. In a few states, organizations are on a county basis rather than on a local community basis. Stock is shipped on certain days. The farmer delivers the stock to the local shipping yards. The association manager receives it, weighs it, grades it or places an identifying mark on the animals. He has charge of the loading and shipping to the terminal yards or to the packer. Payment is made after returns are received from the market, making any extensive operating capital unnecessary.

Cooperative commission associations have now been established in many of the terminal markets to handle the sale of stock in such

markets both for local cooperatives and individual farmers. These commission associations handle sales of livestock in the same way as private commission firms except that any excess left from the commissions charged after paying expenses and setting up reserves is refunded to the members. Some of these associations have become the leading agencies in their markets. The largest of these enterprises, the Central Cooperative Association at South St. Paul, Minnesota, handled nearly 37 million dollars worth of business last year which represented about 30 per cent of the receipts at that market. Twenty-eight commission associations located in 22 markets handled approximately 315 million dollars worth of business in 1929. Upwards of 13 million animals were handled by these associations.

Unlike some of the European countries, notably Denmark, the United States has not developed cooperative slaughtering or meat packing plants. Some years ago, several such enterprises were launched but for the most part they represented the activities of professional promoters who played on the farmers' prejudices towards the large meat packers in selling them stock in these ventures. Most of them were poorly conceived, inadequately financed and improperly directed. The natural outcome was failure.

### COTTON

There have been various movements to organize cooperative cotton warehousing or marketing enterprises. However, the development of cooperative selling has not proceeded to the same extent as in grain. There is no development in cotton corresponding to the farmers' elevator movement for grain. The low cotton prices following the war led to a concerted organization movement among cotton growers, the organizations commonly being formed on the centralized plan with members signing contracts requiring them to deliver their cotton to the organization. Such associations were formed in the different cotton states, and in some cases where different types of cotton are grown, more than one organization was established in a state. During the season 1928-29, 16 associations handled 1,163,957 bales, or 8 per cent of the total crop. A central selling organization has been formed to act as a sales outlet for the various associations.

## FRUITS AND VEGETABLES

Cooperative marketing developments for fruits and vegetables present a greater variety of organization than is true for most other classes of products. There is less standardization as to plan of organization or operation and they range in size from small local groups to large enterprises controlling the sale of a large proportion of the output of a given product and being engaged in national distribution. Among some of the outstanding illustrations, may be mentioned the California Fruit Growers Exchange which markets over 70 per cent of the sales of citrus fruits from California. This is a federation made up of about 11,000 growers who are grouped into approximately 200 local associations, which in turn are united into 20 district groups which make up the Exchange. For the past 25 years, this organization has been an important factor in marketing citrus fruits. It maintains an extensive sales organization with representatives in the leading markets. Careful attention is paid to quality and grade and demand is developed by consistent advertising. Other well known organizations include the American Cranberry Exchange, which markets about two-thirds of the cranberries produced in Massachusetts, New Jersey and Wisconsin; the Eastern Shore of Virginia Produce Exchange; the Michigan Potato Exchange; the Florida Citrus Exchange and the California Prune and Apricot growers.

The United States Department of Agriculture has estimated the volume of 1,269 fruit and vegetable associations for the year 1928 at 300 million dollars.

## POULTRY AND EGGS

Poultry producers in the United States, may, in general, be classified into two groups, the farm flock producers and the commercial producers. The former maintain poultry as one of the enterprises in a general or diversified type of farming. Poultry tends to be a sideline on these farms in most cases. In the case of the commercial producers, poultry is the principal enterprise. Such producers are found most commonly near metropolitan markets or in areas, such as some sections of the Pacific Coast, where conditions are especially favorable.

While the bulk of the supply comes from farm flocks, it is in the commercial poultry areas that most progress has been made in

cooperative selling. It is difficult to organize the general farmers for the sale of a sideline product. Their volume of business is not sufficiently large to stimulate the care needed to obtain the highest quality. The largest associations are found on the Pacific Coast. Several of these associations have a central selling agency known as the Pacific Egg Producers with headquarters in New York City to sell the eggs shipped by these organizations to eastern markets.

Fifty-three associations reported handling a total of something over 4 million cases (30 dozen eggs to the case) in 1928, the sales totalling in the neighborhood of 40 million dollars.

### WOOL

A number of wool associations have been established, ranging from the informal local pool which receives bids on the wool delivered by its members and sells it to the highest bidder with little or no grading, to the large association equipped with warehouses, and selling wool on the basis of commercial grades. Sixty-two associations reported nearly 16 million pounds of wool handled in 1928.

### TOBACCO

The situation in tobacco markets following the war was such that tobacco growers organized extensively and rapidly for selling. Unfortunately, set backs have been unusually severe in this field with the consequence that all of the larger developments have been forced to discontinue operations. Tobacco cooperatives suffered from a variety of problems. Growers were led to expect too much. Prices held at unnatural levels stimulated over-production. In one or two cases, there were some outstanding illustrations of mismanagement. The concentrated outlets for most types of tobacco leaf is also a factor not without significance.

### COOPERATIVE PURCHASING

Presumably, this discussion is intended to devote itself to marketing rather than to purchasing. However, a brief mention of buying activities may not be out of place. Some marketing associations also handle supplies. This is especially true of farmers'

elevators. Many of these deal in lumber, fuel, drain tile, cement and other bulky supplies needed by the farmer. There are a few outstanding associations devoted entirely to cooperative buying. One of these has its headquarters here at Ithaca, namely the G. L. F. Exchange. The Eastern States Farmers' Exchange in Massachusetts is another illustration. Both of these associations are in areas where milk producers require large quantities of concentrated feeds for their herds. The Fruit Growers Supply Company is a purchasing association for members of the California Fruit Growers Exchange. There are some farmers' cooperative stores but these are not numerous. A recent development which has achieved considerable success has been the organization of a number of cooperative oil stations to handle gasoline, kerosene and lubricating oils for farmers' tractors and automobiles.

#### GENERAL ORGANIZATIONS

The farmers of the United States have several general organizations which take more or less interest in cooperative marketing. Such associations often foster the development of cooperative business organizations. At times, it appears unfortunate that there are several such groups in place of a single body. Friction between such groups may dissipate the enthusiasm of some farmers for organization. When it comes to presenting the farmers' side in legislative matters, a babble of voices is not conducive to securing the most effective presentation of the case.

As a concluding generalization, it might be said that cooperative marketing in the United States appears to have outgrown, in the main, the stage in which it was regarded as a panacea for all the economic ills of agriculture. The relationship of agricultural cooperation to price is understood much better than some years ago, although there is still room for improvement. Cooperative associations are being viewed more in their proper light as business ventures. It is becoming more commonly understood that cooperatives are service-rendering enterprises and that the success which they attain is dependent upon their ability to serve. The peculiarly important place occupied by the member is understood better than it was a decade ago and more consideration is being given to keeping members acquainted with the business of their organization. Membership relations constitute a field which still has many prob-

lems to be solved. There is need for more wide spread education in the fundamentals. There has been enough of propaganda urging organization; there is still room for much educational work. Our cooperative movement will grow and expand only as rapidly and to the extent that farmers are ready and willing to undertake and support these developments. On the whole, much progress has been made. The stage appears to be set for steady and conservative growth for the future.