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THE COOPERATIVE MARKETING OF WHEAT IN WESTERN CANADA

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CANADIAN WHEAT POOL, WINNIPEG, MANITOBA, CANADA

THE SPECTACULAR emergence of the wheat pools in Western Canada and their remarkable development have given rise to an erroneous impression in some quarters that the pools are mushroom-like growths with shallow roots extending only into the post-war depression period. The true significance of the wheat pool movement can only be appreciated by envisaging it as the culmination of nearly four decades of strenuous and resourceful self-help on the part of enterprising prairie farmers to develop a satisfactory system of grain marketing by the application of the principles of cooperation.

The evolution of the wheat pools, or the struggles of prairie farmers to place the full control of Western Canada's principal industry—wheat production—in the hands of the producers, is given in the following chronological account which traces the organized farmers' steps for over two score years.

HISTORICAL BACKGROUND

Shortly after the completion of the Canadian Pacific Railway in 1885, which opened up the western plains, the production of wheat increased rapidly. An acute shortage of handling facilities soon developed. The Canadian Pacific Railway offered concessions to companies who would build elevators along its lines. The company also prohibited the use of flat warehouses for temporary storage and refused farmers the right to load their grain into cars from loading platforms. These severe restrictions virtually placed the private grain companies in a monopoly position, as farmers, having no alternative, were obliged to accept the price, grade and dockage the grain companies offered.

Farmers complained bitterly over the unfair treatment they received and finally a Royal Commission was appointed in 1899 to investigate the grain trade. The Commission held that the farmers' stand was justifiable and recommended reforms to remove the

¹ Read in the absence of Mr. Cairns, by H. C. Grant, Department of Agricultural Economics, University of Manitoba.

cause of the complaints. Many of the reforms were not put into practice and the farmers continued to fight for fair treatment. In 1901 they organized the Territorial Grain Growers' Association in what is now Saskatchewan. The new association strained every effort to improve the system of grain marketing. It took legal action against the Canadian Pacific Railway in 1903 and was successful in getting the car distribution clause of the Manitoba Grain Act recognized.

By 1905 the private line companies had gained almost complete control of the grain trade at country points. From previous experience farmers knew that local country elevators could not compete successfully with the firmly entrenched line companies so in 1906 they organized the Grain Growers' Grain Company. The new company purchased a seat on the Winnipeg Grain Exchange, where it operated a commission business. By means of loading platforms in the country and their own representative on the Winnipeg Grain Exchange, farmers at last escaped in part from the monopoly practices of private companies.

After six weeks of successful operation, the new company was suspended from the Winnipeg Grain Exchange because it declared its intention of paying a patronage dividend. The farmers' company offered to meet the objections raised by the Exchange but its application to be reinstated was refused. The Manitoba government finally lent its support, and eventually, the farmers' cause won and the company was reinstated as a member of the Exchange, but not before it agreed to abandon the patronage dividend.

Farmers were not satisfied with the improvements at country points and contended that local elevators were needed to serve the producers. An attempt was made to get the governments of the prairie provinces to acquire and operate a chain of elevators to safeguard the farmers' interests. The Alberta and Saskatchewan Governments refused to implement the proposal. The Manitoba Government acquired about 170 elevators during the years 1910-12. Due to a variety of reasons the venture proved a failure and after suffering a heavy loss the Manitoba Government leased the elevators to the Grain Growers' Grain Company in 1912.

The Saskatchewan Government appointed a commission in 1910 to make a study of the grain trade in the province and recommend steps to bring about improvements. The Saskatchewan Co-operative Elevator Company was formed in 1911 as a direct result

of the commission's report. The ownership and control of the company was vested in the farmers' hands. The Saskatchewan Government lent 85 per cent of the necessary capital to build the elevators, to be paid back on the amortization plan over a period of twenty years, and guaranteed the company's bank accounts. In 1913-14 the Alberta Farmers' Cooperative Elevator Company was organized. The provincial government provided 85 per cent of the necessary capital for the construction of elevators and guaranteed the company's bonds. The Alberta Government, unlike the Saskatchewan Government, did not guarantee the company's bank accounts, so it depended on its financial and selling agent, the Grain Growers' Grain Company, for working capital. The ownership and control of the new company were vested in the farmers' hands. Steps were taken in 1915 to amalgamate the three farmer companies which finally resulted in the union of the Alberta Farmers' Cooperative Elevator Company and the Grain Growers' Grain Company in 1917 under the name of the United Grain Growers' Limited. The Saskatchewan Cooperative Elevator Company continued to operate independently.

The record of the two large cooperative companies is impressive. Both operated country and terminal elevators and export departments. Both had seats on the Winnipeg Grain Exchange and both used the existing market machinery and followed the trade customs. Both attempted, through direct competition, to give the producers better prices and better service than were received from private concerns. Up to 1923 the two companies had acquired about 900 country elevators and operated terminal facilities with a capacity of thirty million bushels. At the time of the Pool's appearance the two companies had a combined membership of 63,000 and handled about 25 per cent of the total amount of grain marketed in Canada. The cooperative companies eliminated many of the abuses prevalent in the grain trade and rendered invaluable services to the producers. As a result of the cooperative companies' activities farmers received a much wider knowledge of the grain business than they had hitherto. The undoubted commercial success of the companies proved the ability of the farmers to attend to their own business and indicated the possibilities of cooperation on a larger scale. In a word, they paved the way for the next important step—the Pool—in the evolution of an extensive farmer-owned and controlled marketing system.

Throughout the period of the agitation for, and the development of improved marketing machinery, the various educational or economic associations played an important rôle. The first of these, The Territorial Grain Growers' Association, which later changed its name to the Saskatchewan Grain Growers' Association, was instrumental in organizing the Grain Growers' Grain Company. Similar organizations in the other provinces, the United Farmers of Manitoba and the United Farmers of Alberta aided greatly the many much-needed reforms in grain marketing. These provincial educational associations spoke with one voice on federal and inter-provincial problems through the Canadian Council of Agriculture, a federation of the provincial bodies.

THE BIRTH OF THE POOL

The demand for some form of centralized marketing, similar to the plan the Pool now follows, grew immediately out of the farmers' experience with stable prices during the World War. In Canada, as in the United States, Australia and other countries, the wheat crop during the later years of the war was controlled by the government. During the crop years of 1917-18 and 1918-19 the Wheat Export Company, which represented the British Government, was the sole exporter of Canadian Wheat. The Board of Grain Supervisors, appointed by the Dominion Government, had complete control of the Canadian grain markets. For the crop year of 1919-20 the form of control was changed. A Royal Commission on Wheat Supplies was formed which had full charge of purchasing grain for Britain, France, and Italy. To meet this new type of purchasing agency the Dominion Government instituted the Canadian Wheat Board. The Wheat Board had complete control over the export and domestic distribution of all grain in Canada. Faced with many difficulties, the Board proved its ability to cope with the problems and render an account of its stewardship which met with hearty and widespread approval. In July, 1920, the Canadian Government announced that it had definitely decided to discontinue the Wheat Board and restore the open market for the handling of the 1920 crop.

To replace the Wheat Board a voluntary cooperative pool was suggested. The proposal was discussed by farmers throughout 1920 and 1921 until the great success of farmers' candidates at the polls in the federal election of 1921 changed the complexion

of the problem somewhat. The pool committee reported to the Canadian Council of Agriculture in 1921 that it had gone into the proposed pool very thoroughly and had found "that under existing conditions it will not be possible to secure such contracts assuring delivery to the pool for five years of all the wheat of farmers raising 60 per cent of the total," and that they "cannot recommend that the original project be further prosecuted for the time being." The Council accepted the committee's report and referred the matter of re-constituting the Wheat Board to the farmers' annual conventions. All three provincial organizations in convention, favored the re-establishment of the Canadian Wheat Board.

The farmers' representatives, who had a strong voice in the House of Commons at Ottawa, urged the government, in 1922, to listen to the almost unanimous voice of the prairie farmers and re-establish the Canadian Wheat Board. The federal government replied that the 1919 Board was established under the special war measure and that it had no constitutional power to create such a board in peace time. But the farmers would not give in and prevailed upon the government to pass the legislation within its power leaving the interested provinces to pass the necessary supplementary legislation and nominate the members of the Board. Special sessions of the legislatures were called in Alberta and Saskatchewan, both of which passed the necessary legislation. Manitoba could not follow suit in 1922 so the farmers were forced to sell their crop in 1922 on the open market. In April, 1923, the Manitoba Government introduced a wheat board bill but it was defeated by a vote of 24 to 21. The Saskatchewan and Alberta Governments continued their efforts to form a wheat board without Manitoba, but in June, 1923, they announced that they were unable to create a board "Combining all the necessary elements of experience, ability and public confidence."

In the meantime farmers had sold their crops of 1921 and 1922 below cost of production. Farmers throughout the west were in a desperate plight. They had been urged by the federal and provincial governments, and by numerous patriotic societies, to strain every effort to produce more and more food. With the cessation of hostilities, the disruption of European purchasing power, and the so-called return of normalcy, the farmers found themselves heavily in debt and unable to liquidate the heavy obligations they had incurred during the period of expansion and

inflated prices which occurred during and following the war, with the ruinous prices which they received for their crops of 1921 and 1922. But they were not dismayed by the failure of the governments to set up a wheat board and with grim determination they returned with renewed vigor to formulate plans for a cooperative pool.

In the early part of August, 1923, a committee representing the United Farmers of Alberta, the unorganized farmer, the press, the government, the banks and other business interests, proceeded with the preliminary work of organizing a pool. The drive started on August 20, 1923. The objective set was 50 per cent of the 1922 acreage of wheat. The contract provided that if the objective was not reached by September 5, 1923, the trustees of the pool could proceed with the organization after the signatories had been given an opportunity to withdraw. The drive was carried on with great enthusiasm by volunteers who gave their time gratis. Bankers, business and professional men and farmers turned out in droves and scoured the country for signatures. When the drive ended on September 5, 1923, the pool was only five per cent short of its objective. Members were given until September 22, 1923, to withdraw. The additional acreage signed between September 5 and September 22 was greater than the acreage withdrawn.

The campaign for signatures in Saskatchewan started on August 29, 1923. The Saskatchewan contract, unlike the one used in Alberta, specifically stated that if 50 per cent of the 1922 acreage was not signed up by September 12, 1923, the contract was null and void. The time allowed was too short as when September 12 arrived the objective had not been reached. However, waivers were secured to extend the date for reaching the objective. The campaign was carried on throughout the winter of 1923-24 and the objective reached in the summer of 1924. The United Farmers of Manitoba postponed their drive until 1924.

Late in September, 1923 steps were taken to put the Alberta Pool in operation. After a few weeks' negotiation the elevator companies signed a contract, similar to the one used by the Wheat Board in 1919-1920, to handle pool wheat. The Canadian Bankers Association agreed to advance the Pool a line of credit for \$15,000,000 at 6½ per cent interest, on the security of terminal warehouse receipts, and an initial payment of 75 cents per bushel basis No. 1 Northern at Fort William. The Alberta Pool opened

for business on October 19, 1923. Although faced with many difficulties pioneering in a new field, the Alberta Pool carried its first year's operations to a successful conclusion by marketing over 34 million bushels of wheat at a cost of one-half of a cent per bushel.

In the summer of 1924 the farmers of Manitoba and Saskatchewan joined the pools in great numbers. Permanent boards of the three pools were soon elected. Representatives of the three pool boards met in Regina late in July, 1924, and organized under Dominion Charter, the Canadian Cooperative Wheat Producers Limited, commonly known as the Central Selling Agency or the Canadian Wheat Pool.

COOPERATIVE STRUCTURE OF WHEAT POOLS

The structure of the Wheat Pool is built on a firm cooperative foundation. The first cardinal principle of the Pool is democratic control by the producers. Each member has only one vote and therefore exercises a voice in the management of his association equal to any other voice. The second cardinal principle of the Pool is that it is a non-profit organization—one which operates solely to render efficient services to its members at cost and not to earn a profit on capital invested. The membership of the Pool is open to any wheat grower in the western provinces. The membership embraces every nationality on the prairies and includes H. R. H. The Prince of Wales, Dukes, Earls, Counts, mortgage companies, trust and real estate companies, merchants, landlords and tenants. The present (June, 1930) membership of the three western wheat pools is 142,800 compared to 91,000 in 1924, the first year all three pools were in operation. The present membership of the three western coarse grains pools, which are operated by the wheat pools, is 69,300. Some farmers are members of the Wheat Pool and not members of the coarse grains pool, and vice versa, but in the great majority of cases the members of the coarse grains pool are also members of the Wheat Pool. In addition to marketing the grain for the members of the three western pools the Canadian Wheat Pool also markets grain for 13,400 members of the Ontario Grain Pool and also for the grain growers of British Columbia who belong to the Alberta Wheat Pool. There are approximately 250,000 farms in Western Canada; the wheat pool

membership, therefore, represents about 57 per cent of the farms in the three prairie provinces.

One of the chief reasons for the solidarity and stability of the Pool is the relatively large percentage of its members who formerly belonged to various types of agricultural cooperative associations in Continental Europe and consumers' cooperatives in Great Britain. The contribution that these members have made to the Pool throughout its development and the splendid example they set to new recruits by their loyalty and unselfish devotion to the cooperative cause throughout, particularly in times of trouble and depression, cannot be over-emphasized.

To become for the first time a member of any of the provincial wheat pools it is necessary to sign a five-year contract, pay the nominal sum of one dollar for a share of capital stock (a legal technicality to enable the member to vote) and pay a fee of \$2 to be used for organization purposes. Membership in the Pool may be renewed merely by signing the new contract on the expiration of the old one.

THE CONTRACT

The form of the contract used by the pools in Canada is essentially the same as the one used by the United States wheat pools in the early years of their operations. Unlike the United States wheat pools, however, the Canadian pools have stuck to the rigid five-year contract.

The first five-year contract expired in August, 1928, and at that time all members were free to sign or not to sign the new contract which included the marketing of the crops of 1928 to 1932, inclusive. The membership of the Pool under the new contract is considerably greater than under the old one. The provisions of the contract, which has stood the test of the courts and is legally enforceable in each of the provinces, are essentially the same. The main features of the contract are: The Association agrees to act on behalf of the member in all capacities necessary for the co-operative marketing of the member's grain under what is commonly known as the "pooling" system. From the proceeds of the wheat sold, the Association may deduct such sums as are necessary for the general operation of the Pool. A further sum not exceeding one per cent of the gross selling price of the wheat may be deducted and applied to a commercial reserve fund to be used for

any of the proper purposes of the Association. A further sum not exceeding two cents per bushel may be deducted from the proceeds of each grower's wheat to be applied to an elevator reserve fund, for the purpose of acquiring elevator facilities for the handling of pool wheat. The total net balance accruing from the wheat delivered by any member may be paid out to the member from time to time as the directors of the Association see fit. The Association may borrow money for the general operations of the Pool and may pledge the wheat delivered to it by its members, or paper evidencing title to such wheat, as collateral security for such loans. In the event of a member failing to abide by his agreement with the Association, the latter has the power to enter into possession of the member's wheat lands and to possess the member's wheat and deliver same through the proper Pool channels, and any expenses, legal or otherwise, involved in such proceedings may be charged against the proceeds accruing to the member from such wheat. The Association may join with any other agency for the cooperative marketing of the member's wheat. The member must market through the Pool all his wheat, excepting what is used for seed and feed, during the term of the contract. The member may, upon application to the Pool's head office, receive permission to sell feed or seed wheat. If the member does sell wheat on the open market contrary to his agreement with the Pool, he shall pay to the Association twenty-five cents per bushel as liquidated damages on the full amount disposed of improperly. The member must ship his wheat in accordance with instructions issued by the Association or one of its associate companies.

MEMBERSHIP CONTROL

The entire organization is constructed, from the individual member to the Central Board, in a manner which provides for the complete and thoroughly democratic control by the members, of every department of every branch and subsidiary of the association. Each of the provinces is first divided into districts on the basis of membership; each district is in turn subdivided into ten sub-districts. Every grower in every sub-district is free once a year to nominate his choice for a delegate. An election is held every autumn and the nominee who receives the largest number of votes (voting is by ballot marked by the preferential system) is declared

the representative of all the members in his sub-district. The ten delegates from each district then elect their representative to the governing body or board of the provincial pool. The delegates meet twice a year to study the reports presented by the board and various departments and to formulate policies and instruct the board how they wish the affairs of the association to be conducted. In order that members may keep in touch with the head office and keep well posted regarding the operations of their association, some 1,500 voluntary cooperative locals have been organized.

In Manitoba where the members sign a five-year contract to deliver their grain to a Pool country elevator, as well as to the Pool, the local units have considerable responsibility, but in the other two provinces the locals have no definite responsibility, their participation in the affairs of the Pool being upon a purely voluntary basis. A serious effort by the provincial head office is made to keep the locals alive and active and many new ones are constantly being organized, and old ones reorganized by the field service department, but there are many casualties and a large number of them are inactive.

INTER-PROVINCIAL ORGANIZATION

The provincial pools have complete jurisdiction within the provincial boundaries including complete control of country and in-terminal handling facilities, relations with members and all business excepting that pertaining to the actual marketing of the grain for which purpose the Central Selling Agency was organized in order to eliminate any possibility of competition between the provincial pools. Pool members in each province are directly represented on the board of the Central Selling Agency or the Canadian Wheat Pool, as the governing body of Central consists of nine directors, three from each provincial board. The three representatives from each province on the Central Board are elected by and from and are responsible to their respective provincial boards. The Central Board meets once each month just prior to the provincial monthly board meetings. The representatives of each province render a report covering the operations of Central to their respective boards each month. The head office of Central is situated in Winnipeg; branch offices are maintained in several Canadian cities and also at New York, Paris, London and Buenos Aires. The Selling Agency also has agents in all the principal wheat

importing countries of the world, which agents serve Pool members by supervising their business in 60 ports of 20 different countries.

THE AIMS AND ACCOMPLISHMENTS OF THE WHEAT POOL

The primary object of the Wheat Pool is, of course, to improve the economic and social welfare of the prairie farmers by contributing to a fuller realization of the policy of "better farming, better business, and better living." The principal aims of the Wheat Pool, accompanied by a brief summary of what has been accomplished in each case to date, are given herewith:

1. To extend the system of cooperative marketing whereby farmer-owned and controlled associations, operated for mutual service at cost to all patrons, will displace private or joint stock companies operated for the benefit of a few. Since its inception in 1923 the Pool has received from its members 1,056 million bushels of wheat and 115 million bushels of coarse grains. Since 1924 when the Pool handled 37 per cent of all the wheat delivered in Western Canada the Pool has marketed each year from 51 to 54 per cent of all the wheat delivered by farmers in Western Canada. The Pool now operates 1,636 country elevators with a total capacity of 57,550,000 bushels, and 12 terminal elevators with a combined capacity of 38,426,250 bushels. These facilities have been operated on the basis of service at cost to all members and although they have in most instances charged very considerably less than competitive houses for handling and service, they have already returned several million dollars in patronage dividends. By allowing small deductions to be made each year Pool members have built up an elevator and commercial reserve of 29 million dollars.

2. Increase the farmer's independence and income by giving him a voice in the selling of his crop. A well managed cooperative association with control of a large volume of grain should, a priori, get somewhat better returns for its members than the typical individual farmer who sells his grain, without knowledge of market conditions, in a haphazard manner. The question of the Pool's influence on the general level of wheat prices is a moot one and one that certainly cannot be answered at all satisfactorily at present, indeed if ever in view of the many complicated and frequently conflicting influences which have a bearing on the problem, and

the impossibility of even making safe assumptions of what might or might not have happened had there been no Pool. Unfortunately in the early period of the Pool's organization there was a good deal of loose talk about the influence which could be exerted upon world wheat prices if half of the Canadian crop could be placed under one control. It is my personal opinion that such talk had the very unfortunate, although very natural effect of giving the average Pool member an exaggerated notion of what the Pool could reasonably hope to accomplish, which has added to some extent already, and perhaps will to a greater extent in the future, add to the problem of maintaining a satisfactory membership. It is argued by some people, and not without good reasons, that in order to get a cooperative off to a good start with a large membership it is necessary to paint an exaggerated picture of what such an organization can do. In any event, most cooperative associations bear a slight resemblance to political parties in that their accomplishments fall somewhat short of the promises made during the organizing campaign. Although it is admittedly true that in the early days of the Pool many statements were made, largely by enthusiastic local organizers, which you as economists could not subscribe to, it is also true that the officials of the Pool are suffering from no illusions regarding the power of the Pool to enhance wheat prices above the level justified by the supply of and demand for wheat, and world-wide economic conditions. While the Pool controls about half of the Canadian wheat crop, and while Canada exports on the average nearly 40 per cent of the total volume of wheat which enters into international commerce, the Canadian crop after all is only about 10 per cent of the total world crop. The Pool controls, therefore, only about 5 per cent of the world's wheat crop and its officials are not so foolish as to think they can exercise such control for the purpose of raising world wheat prices. The Pool makes no attempt to get monopoly prices as it realizes it could not do so if it tried, and any attempt to do so could not but be harmful to Pool members in the long run. The Pool is prepared at all times to sell wheat at fair prices and has not since its inception deliberately checked the flow of its wheat into consumptive channels by demanding unfair prices or prices above the normal level determined by the prevailing supply and demand conditions. The Pool's selling policy is to sell its wheat as rapidly as the demand for it materializes and

to avoid at all times taking a set or stubborn attitude toward the market, but rather to always strive to supply the consumers with a flow of wheat adequate to meet their requirements and at prices which will as nearly as possible ensure the maximum consumption at home and abroad and the minimum carry-over from one year to another.

The question of the influence of the operations of large pools on the general level of commodity prices is much too large a one to attempt to discuss in a paper of this nature, and I will have to leave it with the rather dogmatic statement that there are times and circumstances when the operations of the Pool may raise materially the level of prices in certain markets and appreciably in all or nearly all markets not influenced by special government regulations. On the other hand, it is only fair to state that there are times when the uncertainty regarding the operations of large cooperatives particularly during periods of generally demoralized confidence may prevent speculators entering the market when the demand and risk-carrying capacity of the cooperatives are not equal to the supply offered, which lack of speculative purchasing may cause a very considerable drop in price. The problem of whether two totally different systems of marketing, one a large cooperative pool and the other a commodity exchange, each controlling a large part of the trade, can operate smoothly at the same time, and to the best advantage of both organized and unorganized producers is one worthy of careful study and analysis.

But to come back to the question of what the Wheat Pool has accomplished in its second aim—to increase the farmer's income—even if we assume that the net result of Wheat Pool operations on the general level of wheat prices has been nil we have been able to demonstrate to the satisfaction of the rank and file of our membership and to a goodly number of non-Pool farmers as well that in every year since the Pool's inception up to the period for which the records are complete, the Pool member has received appreciably higher net returns for his grain than the average non-Pool farmer.

3. To reduce the margin between the producer and the consumer by reducing costs through taking advantage of the economies of large scale operations. By virtue of the very large volume of business the provincial pools' overhead expenses have averaged only about $\frac{1}{2}$ a cent per bushel and the entire overhead expenses

incurred by Central in marketing wheat have always been materially less than $\frac{1}{4}$ cent per bushel.

4. Insure the farmer against the losses and uncertainty resulting from widely fluctuating speculative markets. Under the old plan some farmers got top prices, some bottom prices, and many got prices ranging in between these two extremes. Under the new plan all the Pool farmers get the same price for the same quality of product regardless of what time during the year they deliver their grain. The Pool farmer by pooling his resources and accepting a conservative advance upon delivery of his grain has to a considerable extent replaced the speculator and now carries his product until the consumer wishes it.

5. To improve the farmers' social life by bringing together the maximum number to join in their work for their mutual advantage. As a result of active participation in the management and control of his own business, the greater independence, self-reliance, and improved psychological outlook of the average prairie farmer are most remarkable.

6. To give every encouragement to the extension of better farming methods and assist in every way possible to reduce the costs of production. The educational field service and research departments of the Pool have contributed a good deal to better farming by instructing Pool members regarding possible improvements in agricultural technique and by the active participation in many of the better seed and farm improvement campaigns.