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WESTERN FARM ECONOMICS ASSOCIATION

Third Annual Meeting  
Oregon State College  
Corvallis, Oregon

June 13-17, 1929

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## AGRICULTURAL CLEARING HOUSE ASSOCIATIONS

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Schemes for organizing farmers into combinations of one sort or another calculated to solve their production and marketing problems have been numerous of late. Just now the clearing house plan is very much in the limelight. President Hoover mentioned it in his last message to Congress. The farm relief legislation just passed authorizes the new Farm Board to assist in the formation of clearing house associations. To date the movement seems to have confined itself to perishables,--fruits and vegetables; and with two or three exceptions, has had its development in the last decade. Organizations commonly designated as clearing houses include the California Vineyardists Association, The California Deciduous Fruit Association, The Florida Citrus Growers Clearing House Association, The Sebastopol Apple Growers Union of California, The Eastern Shore Farmers Association, a potato organization operating in Virginia and Maryland, The Rio Grande Potato Growers Association, operating in Texas, and the Northwest Fresh Prune Clearing House, operating in the Walla Walla district of Oregon and Washington. The method of handling fruit under Government control found existent in British Columbia, is also regarded as a type of clearing house. Because of their magnitude, attempts made last year to organize growers of dried prunes in California and Oregon under the so-called Parker Plan, are also worthy of special mention, even though these efforts never were brought to maturity.

If one is to judge from the present status of the aforementioned clearing house experiments the outlook for this type of association set-up seems precarious and uncertain. The Eastern Shore Farmers Association, The Sebastopol Apple Growers Union and The Northwest Fresh Prune Clearing House plan to discontinue operations this season. The Florida Citrus Clearing House Association, set up originally with the assistance of the Bureau of Agricultural Economics as a grower owned and controlled organization has the past season had its control and management captured by private shippers and is understood to have exercised little, if any, effective influence over marketing operations. If it continues to operate it will presumably be only as a trade association.

Not only is the destiny of existing associations veiled in doubt, but the clearing house movement itself has encountered vigorous opposition from many quarters, notably from leaders of the grower owned and controlled type of cooperative who see no good in joining forces with dealers. Mr. C. C. Teague, President of the California Fruit Growers Exchange and now a member of the Federal Farm Board, in an open letter<sup>1</sup> to a United States Congressman, states that, "The clearing house type of cooperative was tried out by the California Citrus Industry under the most favorable conditions possible, and failed. The California Citrus Union was formed a number of years ago, which was composed of practically one hundred percent of the citrus industry; the citrus industry marketing conditions were bad and regulated distribution badly needed. Besides the California Fruit Growers Exchange, which, if my memory serves me right, only controlled between 45 and 50% of the industry, there were only about 10 speculative shipper members of the organization to deal with. These shippers insisted that the Exchange was not to solicit membership. These speculative shippers were not educated along true cooperative lines, which looks to the common good of all and does not seek selfish advantage. The Exchange members found

<sup>1</sup>February 5, 1929.

it impossible to work with the other group and the thing was abandoned in about a year. The Exchange has grown steadily since that time, until it now controls over 75% of the industry. There never has been a successful clearing house made up of speculative shippers and cooperative shippers, and in my opinion there never will be."

Chas. W. Holman, Secretary of the National Cooperative Milk Producers Federation, in a statement made to the United States Senate and House when the recent farm legislation was under consideration, says: "To date no clearing house has succeeded when composed of cooperative associations, non-member producers and agents or firms engaged in competing with cooperative associations. The history of such ventures shows that they are composed of elements whose interests are so completely divergent and antagonistic that they cannot succeed."

Before attempting to pass a final verdict upon clearing house arrangements it becomes imperative to have a clear understanding of the exact nature of such ventures,--their organic set-up and operating and management features. In its application to agriculture the term "clearing house" seems not to have been clearly defined or established. Mr. E. W. Stillwell, Manager of the Clearing House Division of the California Vineyardists, points out that the term "has been used to designate everything from a completely grower controlled and operated enterprise to a simple, daily working arrangement between shippers."<sup>2</sup> On the one hand, the term has been used to designate arrangements such as the Parker Plan for handling dried prunes in California and Oregon, calling for a grower-dealer combination aiming at a monopolistic control of the industry; on the other extreme is found the trade association type of combination that attempts little or no regulation of production, shipments or prices, but, aside from research, advertising, and standardization and grading activities more or less common to all clearing house associations, confines itself to the assembling, compiling and disseminating of statistics calculated to reveal and interpret the supply and demand situation. Where rigid regulation of shipments and price are invoked, violations are punishable by penalties; where the trade association type prevails, members are left free to act on their own initiative in the light of the knowledge placed at their command through the statistical agency. If there is any attempt at centralized control it takes the form of "recommendations", the violation of which involve no penalty more severe than expulsion from the association. There is no forfeiture of bonds or infliction of money penalties so characteristic of the severely regulated type of combination.

Whether the combination provides for rigid central control or is of the informational trade association type, the underlying objectives appear to be identical, namely, to widen distribution, maintain a more even flow of the commodity to market and stabilize the price.

The structural and operating features of the rigid, formal type of combination aiming at monopolistic and highly centralized control is well illustrated by the so-called Parker plan for handling dried prunes in California and Oregon. The plan never saw the light of day in either state because a sufficient sign-up of growers and dealers proved impossible of realization. Slightly modified forms of the same plan, however, have been actually incorporated by

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<sup>2</sup>Unpublished paper, dated April 13, 1928.

such organizations as the Sebastopol Apple Growers Union in California and the Eastern Shore Potato Growers. It is therefore in order to consider briefly the organic set-up involved in the Parker plan. This plan, by the way, was taken up and considered concurrently but independently by California and Oregon growers and shippers with no thought of merging interests. In both states growers were asked to affiliate either as individuals or as members of local cooperatives with a central marketing organization incorporated under state law, the control to rest with the growers. It was then proposed to make all packers and shippers agents of the Central Marketing Organization. The entire tonnage which was to have been as near 100% of all grower tonnage as possible, but in any event no less than 90%, was then to have been allocated to the shippers on a certain percentage basis, the percentage being arrived at by agreement among the shippers themselves. Among the packers and shippers in the California set-up would be included the California Prune and Apricot Association, and in Oregon, North Pacific Cooperative Prune Exchange, growers cooperatives, which had been performing the functions of packing, processing and selling prunes in their respective territories. Growers were privileged to select as their distributing agency any dealer or packer in the combination or to join a local cooperative. A uniform margin of cost for packing, processing and selling was prescribed for all private packers. A grower board or committee from the Central Marketing Organization was to exercise certain controls over distribution policy, and dictate a minimum price, below which no packer would be allowed to sell. Violation of any of the provisions of this agency contract involved the forfeiture of a \$10,000 bond and expulsion from the combination. The grower agreed to market only through shippers who had entered into contracts with the Central Marketing Organization and the shippers were to agree that they would handle only the fruit of grower members.

The Florida plan for handling citrus fruits as originally developed with the advice and assistance of the Federal Bureau of Agricultural Economics differs mainly from the Parker Plan in that the association does not take title to the fruit as does the Central Marketing Organization of the former, the shipper is free to buy outright for cash from the grower if he so chooses, has operations with grower members not being limited exclusively to an agency relationship, and the Florida contract makes no mention of price fixing or seasonal allotment of tonnage. With perishables and semi-perishables the smooth flow of the product to the various markets is a key problem, so greater emphasis is placed on this feature in the Florida plan, just as is done in the California Gravenstein apple deal, the California Vineyardists Association and the Eastern Shore Potato Growers Organization. Before this function was usurped by the shippers, the Management of the Florida Citrus Growers Clearing House Association had assigned to it the task of estimating the proper percentage to ship weekly to each market and the figure thus reached was allotted to each of the shippers in proportion to the total volume of fruit to be shipped by them during the season.

Just as the Parker Plan represented an attempt at extreme industry control, so the California Vineyardists Association as it operated last year exemplified the loosest form of trade association control. The Clearing house is but one of several divisions and the research and grape products divisions need not concern us here. The membership of the Clearing House Division is made up of all classes of responsible shipping agencies. The shippers make reports daily to the clearing house manager on sales consummated, prices received, and cars diverted and rejected. From the railroads daily reports are received covering carlot shipments by kinds of fruits, cars passing between leading gateways and any embargoes that may have been put into effect. From carlot

receivers in Eastern terminals, daily reports are received on the condition of fruit upon arrival, on track and unloaded, and prospective market demand. From the United States Government daily information is received covering carlot arrivals, cars on track, unloads, and weather conditions in the terminal markets. Once the information from these various sources is compiled it is quickly redistributed to the membership, and is accompanied by recommendations as to rate of shipment and territorial distribution. The failure of shippers in the past to give heed to these recommendations had led the management of the California Vineyardists Association to urge the adoption of a more stringent contract this season making it mandatory upon shippers to regulate the volume of shipment and direct the flow of fruit to the various markets according to instructions. Whether the management will be successful in getting the necessary sign-up of growers and dealers to this revised contract, and subsequently in enforcing its mandates, remains to be seen. The tremendous overproduction of grapes due to overplanting makes it practically a foregone conclusion that if a considerable proportion of the fruit is not left on the vines or diverted to byproducts, shipments will glut the markets and growers will get red-ink returns. But no single grower wants to see his grapes left on the vines or shunted into byproducts. The pressure exerted upon shippers to ship is therefore tremendous and only through united action can the disastrous consequences of glutted markets be overcome. The fact that shippers operating on consignment are remunerated on a quantity basis irrespective of the outcome to growers provides a strong incentive to disregard shipping mandates emanating from the clearing house management and may prove an insuperable obstacle to success.

In an attempt at appraisal of the clearing house movement, our conclusions will necessarily depend on what is contemplated by this expression. Since the term has been variously used to describe anything from a simple vehicle for interchanging statistical information to a system of marketing so revolutionary in character as to be regarded as a substitute for what is traditionally known as cooperative marketing, it seems in order to consider the elements of strength and weakness in schemes such as the Parker Plan as well as those modelled along trade association lines. The broad advantages are purported to be virtually the same for either type. Proponents of industry-wide organization whether it takes the form of a loose trade association or the more rigid form of the Parker type allege that with growers, processors and middleman thus united, harvesting, grading and processing practices can be standardized, distribution and advertising coordinated, price cutting minimized, glutted markets obviated, supply and demand equalized at better price levels, and trade confidence in consuming areas can be built up through the consequent stabilization of markets.

Leaders like Teague, Holman and Christensen, who have been staunch advocates of grower controlled cooperation view with apprehension any proposals looking toward the establishment of an alliance between dealers and growers. Many of them are lukewarm toward the relatively innocent form of organization involving a mere interchange of information, but are openly hostile to schemes of the nature of the Parker plan or modified forms thereof. They feel that this type of combination is being heralded in many quarters as a substitute for cooperative marketing, that many growers so regard it, and that therefore it tends to undermine or retard the development of cooperative marketing without giving the grower anything of substance to take its place. They argue with much force that grower-dealer combinations cannot possibly succeed for any length of time because the interests of shippers and grower cooperatives are so fundamentally divergent that they cannot in the very nature of things find a

common ground of interest except in such matters as the interchange of statistical information, advertising and the like. Growers through their cooperatives are interested in reducing the margin between what the consumer pays and the grower receives, while packers and shippers insofar as it affects their returns are interested in increasing that margin. These combinations provide for an allotment to existing packers and shippers of the great bulk of the grower tonnage. This naturally prevents any cooperative that is packing and shipping, from soliciting additional grower patronage during the interim when the agreement is in effect, just as it places the brakes upon the growth of private packer and shipper business. Thus the growth of the cooperative movement is retarded. Not only this, but if the experiment breaks down the grower is befuddled and tends to lose confidence in anything cooperative.

It is the writer's conviction that the extreme form of combination where centralized control of shipments and price exists is as obnoxious to the packer and shipper as it is detrimental to the grower cooperative movement. The packer or shipper does not willingly join such a combination unless he can control it. Not only does he object to having a board or committee of growers dictate the price at which he shall buy and sell, but if he subjects himself to price regulation and agrees to operate on a fixed margin and confine his operations to a stipulated tonnage allotment, he foregoes the opportunity of profiting from speculation, and limits his volume of business to a prescribed amount. If the margin agreed upon is high the field will not only prove inviting to interlopers but the grower will be driven into the arms of the cooperatives that happen to belong to the combination. This is true because if reasonably efficient the cooperative will be able to make a better showing in net returns to grower members. On the other hand if the prescribed margin is low, marginal operators will lack the incentive to join the combination and the combination cannot be successfully consummated. The conclusion seems inescapable that either all the packers and shippers, including new ones, must be brought into the fold, or virtually all the growers must come in. If the former condition obtains, it is an open question whether the courts would not frown upon the arrangement, as non-member growers, by reason of the terms that impose upon packers and shippers the obligation to confine their operations to members, would be denied a market outlet for their product. In any event, if any considerable percentage of growers should remain outside the combination, their tonnage would prove a disturbing, probably a disruptive, influence in the attempt to control market price. The experience of the Eastern Shore Farmers' Association and others, tends to show that non-member packers and shippers find it relatively easy to wean away even the growers who are a party to the combination simply through offers of a higher price for their product than the combination can pay. It should be borne in mind, too, that if the margin prescribed for the packer-shipper members of the combination is attractive, interlopers cannot only "bootleg" by offering grower members a slightly higher price than the combination can meet, but they can undermine the trade contracts of packer-shipper members through price cutting. It was this experience that led Mr. Bomberger, a former member of the Quotation Committee of The Eastern Shore Farmers' Association to suggest in a letter to the writer that, "A clearing house organization should not be attempted unless a large majority of the dealers are in harmony with the plan of operation, or as an alternative, at least ninety percent and better ninety-five percent of all growers in a given area be signed up. Failing either of these requirements there is a good opportunity for "bootlegging" enough of the product to disturb the market". Where the industry is large and growers therefore numerous the difficulty of getting a ninety percent sign-up is well nigh insuperable. Those promoting the Parker plan for marketing

California dried prunes succeeded in getting only a 50-60% sign-up after a most strenuous campaign. It is no less difficult to get dealers to agree on the seasonal tonnage that should be allotted to each of them. Every dealer or packer thinks his percentage allotment should be higher than that proposed. When an attempt was made in Oregon last year (1928) to get prune growers and packers into a combination modelled on the Parker plan, it proved impossible to effect a reconciliation of the tonnage claims of packers even though there were less than a dozen involved. If contrary to expectations, such an agreement could be effected in the first instance, every effort at renewal of the contract upon date of expiration would witness a recurrence of this clash of interests.

Mention has been made of the fact that price fixing is one of the leading features of grower-dealer combinations. The practical difficulties of price fixing are well known. If the packer-shipper element of the combination attempts to agree on price, there is an infraction of anti-trust laws. If, in order to escape legal complications, this duty is assigned to a board or committee of growers the price set is likely to be too high. If, in consequence, shipments do not move readily into the markets, member growers may become alarmed, turn disloyal and proceed to sell for cash to any "bootlegger" that happens along. If the combination does not possess a virtual monopoly, the price fixed will have to harmonize with that of the market. It is debatable whether a body with the unwieldy proportions of a board or committee can introduce the necessary flexibility into its operations to avoid the losses that are apt to accrue from failure to pursue assiduously market developments.

If one were to consult the experience of industries outside the realm of agriculture he would doubtless be impressed with the fact that where effectual control looking to a more stabilized condition is desired, industrial leaders are turning more and more to consolidation of ownership for lasting results. The pooling device, so frequently called into play in an earlier generation has proved its impotence in accomplishing this objective and probably would have fallen largely into disuse even though the passage of anti-trust legislation hastened its demise. The loose contractual arrangements characteristic of pools are too unstable to cope successfully with modern conditions. Agriculture can doubtless save itself much lost motion and painful experimentation by giving heed to the experience of industry. She should cease flirting with unstable combinations of the Parker type that only serve to impede true progress toward the attainment of a stabilized agriculture. It is doubtful whether any considerable degree of production, distribution and price control will be perfected except through a program calling for the merger of the ownership of commodities and in considerable degree at least the merging of physical handling facilities. This argues for the continued expansion of cooperative marketing organizations into larger and larger units and is in harmony with the program of the Federal Farm Board. At best, however, this program is one of long standing and should it ever reach fruition, would afford but a partial, albeit important solution, to the host of problems assailing agriculture.

While pressing forward toward this objective other more immediate means of stabilizing conditions should not be thrust aside without careful deliberation. Industry is finding the trade association type of organization exceedingly helpful. The trade statistics gathered through this channel tend to dispel ignorant competition with all the disruptive influences that pervade that type of competition and substitutes enlightened competition based on an adequate knowledge of basic statistics. It is doubtless true that there are leaders of the cooperative movement who frown upon proposals to form an alliance with



private interests even for so inoffensive a purpose as the interchange of statistical information. But it cannot be gainsaid that the private processor and middleman is destined to be with us for a long time to come and more is to be gained than lost by a policy of mutual helpfulness in those directions where each is dependent upon the other for assistance. No one possessed of vision will deny the need on the part of every agricultural industry for adequate statistics revealing supply and demand trends currently and over a period of time. Neither private processors and dealers nor cooperatives can get anything like a complete and hence true picture of the competitive situation working alone. To be sure, national and state agencies are attempting to meet the situation in a measure through the issuance of crop and market reports, but when one stops to consider the vast number of industries that go to make up agriculture, and the tremendous expense involved in promptly gathering, compiling and disseminating statistics of a sufficiently comprehensive and detailed character to enable recipients to use them as indices of supply and demand conditions, one is led to doubt whether the government should be asked or can be expected to undertake this gigantic task alone. The Federal Farm Board has a real opportunity for added usefulness in ascertaining the possibilities and limitations of the trade association type of statistical set-up. Judged superficially, it appears that each industry should be encouraged to set up as much of its own statistical machinery as lies within its power. Federal and State agencies might then be called upon to help plug the gaps. With every agency cooperating to keep all interests advised of trends in production, trade demand, stocks on hand, costs and prices, a powerful stabilizing influence operating to produce a smoother flow of commodities to market would be manifest and a growing tendency for farmers to adapt production to demand requirements would gradually develop.

DISCUSSION

Mr. Dunmeier

In every important particular I agree entirely with Dr. Nelson. It seems to me that there is no clear cut classification of that sort of an organization to which the term "clearing house" is applied. Each one is somewhat different but they vary between two types -- The type that think that they can get together and name price in a way to give the grower more, and the other type that sees this organization only as an organization for pooling information. As far as I know, the first type that puts emphasis on naming the price is inevitably leading to disaster. It is called umbrella holding. The people in the organization get together and hold prices up. There is the factor that Dr. Nelson has called the "bootleggers". The others hold the umbrella for the out-sider and they have the surplus and they have to keep it or sell it and that has ruined quite a number of cooperatives. While the price is being held up, somebody will sell under that price. It is a big factor in the failure of the Kentucky Tobacco Association. I think they did too much umbrella holding. I think it was a big factor in the lack of success of the Sun-Maid Raisin people of California. Now that idea is very strong among the growers in my locality. My work in Washington takes me among the growers in Washington a great deal. It is wonderful how they think that if 80% or 90% get together, they can hold the price up higher.

The other type of organization is the information organization. It is a very unstable organization but I believe it has made some contributions. I believe that in the C. V. A. it has done some good. If there is anybody here who can correct me on that, I would like to have my errors pointed out.

In Washington at the present time there is a very loose organization. They call it the Shipper's Council. One in the Wenatchee-Okanogan region and another in the Yakima region. It is really an organization greatly similar in character to the Traffic Association in those regions. They have for a long time collected a great amount of valuable information of interest to the general trade and carry on with the shippers council. The shippers council have meetings of dealers in which they get together and talk over the situation.

There is nothing very formal about this. It is not as formal as the Lumbermens Trade Association. It is an informal discussion. The thing that protects the grower is that the cooperatives are not in with the rest. The private individual in the shippers council must get all he can for his fruit so that his clientele will fare as well as the clientele of the cooperatives, and it has caused a more intelligent type of distribution. So far as I have been able to ascertain the greatest benefits have come to the comparatively small operator. He has got more out of it than the big operators did but he has kept everybody operating just a little bit less in the dark as to what his competitors were doing, how much they had sold, what they had to sell, and what they think as to moving the crop out, and at what price, I think that it has done some good.