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AGRICULTURAL COOPERATIVES AND AGRICULTURAL ECONOMISTS

by

Raymond W. Miller

American Institute of Cooperation

Congress and the several state legislatures have enacted legislation allowing for the creation of farmer-owned, controlled, and administered cooperative corporations. These function within the scope of the respective statutes, in the interests of general welfare, by acting as service agencies for the marketing of the products of individual farmers or for the purchase of their essential farm requirements.

"A farm cooperative, basically, is the same as any other corporation in that it is given a charter by the state to organize and perform various business functions. Some of the oldest and best managed institutions in the nation are cooperative in structure.

"A farm cooperative is a legal entity with an objective different from that of most other corporations. The voting control of business corporations ordinarily is proportionate to money invested, and the ultimate objective of the company is to make a profit out of dealings with third parties. Most cooperative corporations or associations have the rule of one member - one vote, irrespective of capital investment or percentage of patronage.

"The end objective of the cooperative organization is to render service to patrons at cost in accord with their patronage and to maintain and enhance their dignity as men and women. Both marketing and purchasing types of cooperative business render valuable service to their owners and to the public." 1/

The Committee on Small Business of the United States House of Representatives recently completed a comprehensive study of "The Competition of Cooperatives With Other Forms of Business Enterprise." 2/ Its findings are worthy of the most careful consideration by all students of the problems of marketing. Conclusions of the Committee are basically to the effect that incorporated farm cooperatives are a necessary part of the national economy and are in the best interests of general welfare. The report suggests that the continued trend of economic concentration in industry makes the cooperative necessary as one instrument to combat monopolistic practices. The committee reported that cooperatives enjoy no preferential treatment not accorded to other types of business. Little danger to other forms of business organizations arise from the cooperatives, they conclude, in that the latter's participation in the nation's business is only nominal.

The basic principle of farm cooperatives is that they shall operate at cost for their patrons and members. There is nothing unique about this idea

1/ Cooperative Policy and Management, 1946, American Institute of Cooperation.

2/ Union Calendar No. 550, House Report No. 1888. 79th Congress, 2nd Session.

as it is widely employed by other forms of business enterprise in the commercial world. The Associated Press is one of the best known in the cooperative field. There are cooperative apartment houses, cafeterias, wholesale drug and buying groups, publishing houses and numerous other ventures outside of the farm cooperative field where people use a corporate structure to act as a business agent for them at cost.

The farm marketing cooperative, to qualify under the provisions of the Capper-Volstead Act ^{3/} the federal law called the Magna Carta of the farm cooperative movement, must market only for producers. It cannot act as a selling agency for speculators, middlemen, or anyone except the person who actually produces the crop. Each state has its own laws governing the organization and operation of agricultural cooperatives.

The adaptation of the cooperative principle in a farm service corporation is comparatively new. North America and northern Europe are the leaders in this movement. Business Week for April 27, 1946, published the latest Department of Agriculture and Bureau of Labor Statistics figures on farm cooperatives as follows:

	<u>Number of Marketing Associations</u>	<u>Membership</u>	<u>Business (Million Dollars)</u>
1929-30. . . .	10,546	2,630,000	\$2,310
1943-44. . . .	7,522	2,730,000	4,430

	<u>Number of Purchasing Associations</u>	<u>Membership</u>	<u>Business (Million Dollars)</u>
1929-30. . . .	1,454	470,000	\$ 190
1943-44. . . .	2,778	1,520,000	\$ 730

Farm marketing cooperatives exist in many fields of endeavor. Some are solely selling agents. They merely act as agents of individual farmers in the securing of markets without actually handling the product itself. Some maintain grading, and/or assembling facilities whereby the products of many farms are pooled and sold in uniform containers under established standards. Others further integrate the marketing function on the road to the consumer through extensive advertising, dealer service, and in some cases, retail outlets.

In the purchasing field, some cooperatives merely buy a product such as lumber, fertilizer or feed, in quantity lots for distribution to their members. Others establish manufacturing plants whereby raw material is milled or fabricated into food, fertilizer or machinery ready for farm use. Still others drill wells, maintain refineries and pipe lines and produce synthetic 'hay' -- gasoline and oil -- for the "iron horses" of the farm.

^{3/} Public Law 146, approved February 18, 1922, 42 Stats 388. Original bill, HR 2373, 67th Congress.

The profit business world should study the farm cooperative movement and recognize that it is a permanent part of American business life. Farm cooperatives are seldom formed save when ordinary business functions are uneconomical or unavailable. The reluctance of industry to market "open formula feeds" and give quantity discounts was largely responsible for the organization of farmer cooperative purchasing associations.

In the marketing of products, the producer has found that by pooling them with his neighbor and by exercising control over them a little further toward the table or wardrobe of the consumer, he is able to get a larger return for his efforts without increasing the consumer's cost.

The farm cooperative will, in all probability, increase in magnitude and influence in the immediate years ahead. It has gone through a period of trial and error. It has often lacked efficient direction and managerial personnel, membership educated in cooperative principles, and the appreciation and understanding of buyers or suppliers. These conditions, however, are largely being eradicated.

Several schools of business administration today are recognizing these new phases of the American economy. They are giving, or preparing to give, courses in the administration of farm cooperatives. Nearly all of the land-grant colleges have such offerings in the field of farm economics with a direct bearing upon the philosophy that marketing and purchasing is as much a farm function as plowing and harvesting. But have these courses provided enough training in the field to do what the business schools have done for business majors? How many of our land-grant colleges provide more than just an introductory course in agricultural cooperation? Are students in our agricultural colleges exposed to the possibilities and limitations of the cooperative form of doing business? Some of our studies indicate that relatively few agricultural students major in this field of work. Should the cooperatives look to the business schools or to the land-grant colleges as a source of replacements in management?

Cooperative entities over the years have developed activities and programs which help protect the farmer from exploitation. Their scientific laboratories are carrying on intensive research both in the fields of improved farm products in the interests of the consumer, and in supporting the production of quality farm supplies. Are colleges in their spheres as public agencies doing an adequate job of research in the membership, management, business and legal aspects of agricultural cooperative organization?

The farm cooperative has acted as a yardstick and measuring rod for the efficiency of business in general. There are large areas in America where profit and non-profit farm supply and marketing organizations operate in peace and good fellowship.

American business has naturally made many mistakes amidst its multiple successes. Perhaps no greater error has been made by business management than by failing to recognize that farm people have a legal right under state and federal law to act through a service corporation in the business world. The same principle that has dominated the insurance field, wherein mutual insurance of all types is in the majority, nevertheless has been looked upon as nefarious when used by farm people to help them enjoy a life cycle with a goodly measure of the blessings of a material civilization.

Today the farm cooperative is accepted as an integral unit of the American business economy. In addition to its normal economic functions it acts as a stabilizing influence in a social economy. It is democratic and representative in form. It is largely built upon the theory of the New England town meeting based on the one man-one vote principle. It is different from the ordinary pecuniary corporation in the fact that money invested therein is not a determining factor in the selection of directors or the control of management. These are handled on a personal rather than a moneyed basis.

"The intrinsic value of agricultural joint effort is evidenced by the fact that millions of farm families have entrusted billions of dollars of agricultural business to these, their own service organizations. The overwhelming majority of such groups is living up to the best traditions of cooperative theory and history. The value of agricultural cooperatives as a part of the farmer's economic existence is being demonstrated daily by thousands of efficiently operated farmer-owned business concerns.

"Their worth to the nation as a whole cannot be too strongly emphasized. The cooperative, in improving and stabilizing the farmer's returns, has greatly increased his purchasing power. Thus he is able to improve the production machinery and capacity of his farm, keeping up with advanced methods. The result is more economical and greater production, both of which are reflected in better prices and more uniform supply as to quantity and quality for the consumer.

"Members of that small percentage of cooperatives which have failed to assume proper moral, social, and economic responsibility should insist on reorganization. This is imperative, not only for the families directly concerned, but so that the farmer cooperative, as such, can hold its head high among the groups that are creating a living ethical democracy on this continent.

"Now that the war is over, cooperatives have a tremendously increased opportunity to serve. Their members and officials recognize more than ever that the dictator form of government countenanced no cooperative effort. Citizens join voluntary associations only within a free government.

"The strongest bulwark of stability for the agricultural industry that has appeared over the near horizon is cooperation!" 4/

So far we have discussed the Agricultural Cooperative part of my topic. Now let us turn to the part of the Agricultural Economist. I know you as agricultural economists either on the firing line or in teaching, appreciate the importance of the questions we have discussed. However, if cooperation is to develop in the agricultural field on a sound basis close coordination in the world of ideas and practice must be maintained. In my experience, although some cooperatives look to college men for guidance and advice and college men use cooperatives for teaching material, the relationship is not as close as it should be for the best interest of all. May I put this question? How can closer relations be developed between agricultural cooperatives and the land-grant colleges in the fields of training involving economics and sociology so

that the colleges will prepare men adequately to teach sound principles of cooperation? How can the colleges teach students to be qualified to fit into the operating picture in an association as a member, officer, or employee of an association? If the land-grant colleges are not doing the job, should the agricultural cooperatives look to the business schools for such training as has been suggested by some cooperative leaders?

Cooperative associations apparently are not looking to the colleges as a source for their replacements. Is it due to lack of training, to oversight on the part of the cooperative leaders, or inability or unwillingness by the cooperatives to meet starting salaries for college graduates in alternative opportunities?

Our surveys indicate that few extension men and vocational agricultural teachers obtain training in college in marketing and cooperation. In our present economic set-up where cooperatives act as pace-setters must we not include such training in their programs if farmers and vocational-agricultural students are to understand the implications of what we have been discussing this morning?

If we are failing to train college men for this field, what courses are lacking? Should we, in addition to the production courses add courses in marketing, cooperative principles, accounting, public speaking, and public relations to the curriculum of a man planning to go into cooperation as a life work? Or should the cooperative aspects be included in our law, accounting, business management, corporation, finance, and other courses? Where do visits to and study of cooperatives fit in the development of the curriculum?

Perhaps one field which has not been plowed thoroughly enough is that of research in the principles, operation and achievements of agricultural cooperative associations.

More training in college will help in the future. However, many men already in cooperative work realize their need for more training. What can the agricultural economists do to promote more in-training courses for these men? Some colleges have already held short courses, some institutes, some a series of lectures on special topics and some have assisted in GI in-training programs. Two types of need exist, one, further training for extension workers and vocational-agricultural teachers so that they can help guide intelligently the destinies of existing associations; two, training for directors and employees of associations who are anxious to better prepare themselves for their jobs. These needs can be met in different ways, depending on the local situation. Such schools, conferences, and clinics as have been held have demonstrated the usefulness of such training in developing leaders. Some of the methods used have included members meetings, in-training programs, internships, schools for employees by larger associations, summer work with cooperatives by college students, short courses for extension workers and vocational-agricultural teachers and cooperative institutes for directors.

There is a real need for more research and teaching both resident and extension in the field of economics particularly in marketing and cooperation. The question is how can it be done within the bounds of limited personnel and funds that are available. Unless the agricultural colleges which have the experience and background take the leadership in research and teaching in this field, the development of cooperatives to fill their real place as pace-setters will be retarded. The agricultural economists are in a key position in the

development of this program. It seems to me it is your responsibility. The results will depend on the degree to which you settle into the harness and pull your share of the load.

The farm cooperative is not a passing phase in the business world. It is here to stay. It will probably have a continuing moderate growth. Such growth, however, will be determined by the way the rest of the business world appreciates, comprehends and works with it. The land-grant colleges for many years have taken the lead in teaching sound production practices. More recently teaching of the social sciences has been developing. The extent to which the land-grant colleges seek and teach the truth about the place of the agricultural cooperative in our competitive economic society will in a large measure determine its development in the future. If its growth is to be sound and in the direction it should take, is it not the responsibility of the land-grant colleges to provide the leadership in research and teaching both at the colleges and in extension? Is it not their duty to point out the limitations and possibilities of this form of doing business?