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## Book Reviews

**Sunbury, Ben.** *The Fall of the Farm Credit Empire.* Ames: Iowa State University Press, 1988, 264 pp.

Shocks produced by macroeconomic policies and events of the 1980s revealed structural faults created by policies and practices of preceding decades in numerous institutions previously regarded as successes in U.S. financial markets. Among such institutions was the proud cooperative Farm Credit System. The System was born in 1916, structurally completed in 1933, fiscally independent by 1968 (Federal Land Banks, 1947), and largely freed of lending restraints in 1971. It responded in the 1970s with unprecedented growth, only to be brought to its knees in the 1980s and then “rescued” by legislation in 1985–87 that reformed the System and placed it on a path with a destination uncertain at the time the book (and this review) was written.

Sunbury provides a highly readable account of “The Fall” and rescue with a strong political focus, both inside and outside the System. He was executive assistant to three Farm Credit Administration (FCA) governors prior to his own retirement in 1988. His book is an early contribution to what is sure to be a burgeoning literature on institutional failure in financial markets generally and on those institutions specifically concerned with agriculture and its related sectors. With journalistic skills Sunbury identifies principal legislative actors as well as influential actors within the System and the FCA, the System’s regulator, itself an important part of the story.

The System is a nondepository lender, wholly dependent for its loanable funds on sales of debt instruments in financial markets. To acquire funds at interest rates that make the System competitive with other farm lenders requires that investors have a high level of confidence in the quality of the debt instruments. The confidence is built on strength from joint liability among the System’s lenders and “agency status” with respect to the U.S. government.

The market’s perception of implicit support from the government—i.e., “agency status”—is discussed rather fully in chapter 2 and again in chapter 4. Also discussed is the related concept of joint liability among System lenders, along with the thorny issue of each lender’s obligations to its own stockholders (p. 36). However, less attention is given to the System’s problem as a sector-specialized lender whose strength through diversification is limited largely to geographic dimensions, and thus is associated with joint liability among its geographically distributed lenders.

The System was begun with district Federal Land Banks (FLBs) and Federal Land Bank Associations (FLBAs), the latter operating as agents of FLBs. Nearly two decades later, Production Credit Associations (PCAs) were established to lend directly to farmers, discounting notes received with district Federal Intermediate Credit Banks (FICBs). Since their establishment in 1923, FICBs had failed to attract lending relations with commercial banks, which was attributed, weakly, to their remoteness from farmers (p. 6). The farmer thus faced two separately organized lenders within the System, a structure seen by many (Sunbury included) as bureaucratically flawed and costly for both farmer and System.

The rescue-related merging of FLB/FLBAs with FICB/PCAs is accepted uncritically—even welcomed—as a reform long overdue (chapter 5). The notion

of a comprehensive "one-stop" lender *is* appealing. Yet the separation needs more of an explanation than is suggested by the quote from the popular FCA Governor Robert Tootell that "the banks were started at different times for what seem to be different reasons" (p. 68). Why does the market generate separation outside the System? Why does the law differentiate between real estate and non-real estate loan contracts? Merging doubtless will continue (i.e., p. 77) though the gains may be a bit overstated.

Less attention is given to the Banks for Cooperatives (BCs), but chapter 10 contains a rather extensive discussion of farmer cooperatives. The discussion is interesting and insightful, though somewhat digressive in the general context of the book. It might have been more relevant to ask why the financial stress of the 1980s seemed to have had less impact on BCs than on other System lenders. After all, the incidence of bankruptcy and other stress among farmers was no greater than among farm-related firms in supply and product markets. Is there an explanation in the structural aspects of BCs? In management? Are there useful implications for other System lenders?

Perhaps of greatest interest is the treatment of tensions between the (public) FCA and the (private) cooperative Farm Credit System. The Farm Credit Act of 1953, characterized by Sunbury as the System's "declaration of independence" (p. 133), removed the FCA from the U.S. Department of Agriculture and made it an independent agency. Though an official government agency, funded by congressional appropriations, FCA passed all expenses through to System lenders who paid them, thus establishing that the entire organization was free of government support. Unfortunately, it may, as well, have led to the perception of FCA as the System's "Washington Office," its liaison and advocate with the Congress and executive department, and a subtle weakening, over time, of the arm's length" role in which FCA discharged its regulatory obligation. The rescue converted the relationship of FCA to the System from advocate to adversary.

The Farm Credit Act of 1953 also established the Federal Farm Credit Board, an independent agency. Its largely nonpolitical operation is suggested by Sunbury to explain the board's effectiveness, which crested with the passage of the Farm Credit Act of 1971. The board was replaced, in the rescue legislation of 1985, by a three-member FCA Board, which quickly established a political agenda. An important argument of the book is that this politicization, although not a cause of the "The Fall," is likely to impede the recovery of the System and thus is not in the best long run interest of agriculture.

Though Sunbury portrays a generally positive historical view of the System, he strangely fails to mention important innovations made by the System. Examples are the amortized farm mortgage loan, introduced by the FLBs, and the budgeted loan, introduced by the PCAs. Both, of course, have long since been copied by other farm lenders. Yet they, and other lending innovations, suggest the important role played by System lenders as competitors in agriculture's financial markets.

Sunbury raised no question on what part(s) of the System might make the most sense to save. It would be difficult to do so when arguing so strongly for merger among System lenders. Also, to do so would require a more substantial review of System history, including the trial with Joint Stock Land Banks alongside the FLBs and the FICB experience preceding the PCAs.

One must return to the two decades centered on 1920 for a period of macro-economic shocks on agriculture comparable with those of the 1970s and 1980s. The former led to the structure of the System that performed so well, on the whole, in the long period before the 1980s. How well might it have performed in the absence of the legislation of 1971? Do we have substantial reasons for predicting comparable success for the reformed System, over the next five decades?

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**Reeves, James L. *The First 20 Years The Story of Mid-America Dairymen.* Republic, Mo.: Western Printing Company, 1989, 291 pp.**

Reeves' book describes the activities, people, economic conditions, and problems leading to the formation and operation of regional dairy marketing cooperatives in the central United States. Although the book centers on Mid-America Dairymen, Inc. (Mid-Am) and its predecessor organizations, the events, frustrations, policies, and actions were similar for all regional cooperatives formed during the late 1960s and early 1970s.

The first five chapters, which provide the historical setting, tell of the milk producers' intense determination to change the terms of trade for the products they marketed. Reeves describes the economic climate of the 1950s and early 1960s: the declining levels of price supports for milk, the increasing numbers of federal milk marketing orders, the growing size of processing firms, the overlapping of market areas of large firms, and the backward integration of chain stores into processing milk and dairy products.

The catalyst for action was the 1964 Lehigh Valley court decision. Many industry leaders thought this decision would remove all compensatory payment provisions from the federal order pricing and cause individual markets to be subject to predatory actions by processing firms and cooperatives located outside the local market areas.

Associated Dairymen, Inc. represented the first attempt by producer cooperatives to form an organization that could increase farm incomes. Reeves describes the circumstances leading to the formation of this federation of cooperatives and its early success in negotiating over-order premiums in some markets. There was a vision of even greater gains if producers were represented by only one large cooperative that could change the balance of power in negotiations with the decreasing numbers of large processing firms. The blueprint for future actions by dairy cooperatives provided by the Dairy Market Advisory Committee helped cooperative leaders and members make decisions for joint action.

Mid-America Dairymen was formed on July 1, 1968, with the consolidation of cooperatives in the St. Louis-Ozarks Marketing Association (SLOMA), Mid-America Dairymen of Kansas City, and Producers Creamery Company of Chilli-cothe. It would have been informative if Reeves had also described the events, disagreements, and persons involved in forming two regional cooperatives,

Associated Milk Producers, Inc. (AMPI) and Mid-Am, rather than a single cooperative for the region.

Mid-Am's internal organization and its mechanisms to obtain capital from its members were two major issues to be resolved in order to operate the firm successfully. Reeves describes the initial organization with four divisions and 100 districts, with each district representing approximately the same volume of milk. He also tells of the board's decision to hold executive sessions where the dairy farmer board members could hold discussions without the presence of the hired employees.

Many producer associations merged with Mid-Am during 1969 and the early seventies. Among the larger mergers described in the book were those with Central States Dairy Cooperative and Twin City Milk Producers Association.

Two major legal problems plagued Mid-Am during the early seventies. The first involved the National Farmer Organization controversy over the validity of contracts with producers. Legal suits and countersuits began in 1971; subsequent court rulings and appeals of ruling continue to this day.

The second legal problem was related to the apparent attitude of the U.S. Justice Department that the Capper-Volstead Act should not be valid for regional cooperatives. The Justice Department filed an antitrust suit against Mid-Am in December 1973; an earlier suit had been filed against AMPI. Rather than continue with mounting legal fees, Mid-Am signed a consent decree in 1976. Then, in 1980 the Justice Department charged that Mid-Am had failed to comply with the consent decree provision that required the sale of two plants. Mid-Am said no buyers could be found. The judge ruled in Mid-Am's favor.

The Mid-Am board was also concerned with the position of consumer activist groups that prices of dairy products were too high. Reeves discusses the actions of the board to invite consumer leaders to board meetings and to promote interactions between consumers and dairy farmers.

Seasonal shortages of milk in Class I markets have been problems for the industry. Reeves describes the potential solution provided by the Associated Reserve Standby Pool Cooperative (ARSPC) and Mid-Am's membership in, withdrawal from, and re-entry into ARSPC.

Reeves discusses the disastrous year of 1974 when Mid-Am suffered large inventory losses from the change in price supports, which tilted prices downward on butter and nonfat dry milk, and the reduction in domestic sales of powder because of the large increase in imports, especially casein.

In an effort to deal with these losses, the board voted for a negative allocation, which meant that the loss would be allocated to each 1974 member. The allocation resulted in a membership loss.

In 1975, Gary Hanman, Mid-Am's senior corporate vice president, was named general manager, and Tom Townsend, formerly director of special projects, was named corporate vice president.

Reeve cites that 90 percent of resolutions adopted at Mid-Am's annual meetings have dealt with a law or regulation that affected dairying or dairy farmers. ADEPT (Agricultural and Dairy Educational Political Trust) is a political trust formed in 1970 by a group of dairy farmers and controlled by a committee representing contributors to the political action fund. Close coordination between the committee and the Mid-Am board and management ensures that its actions represent the interest of the contributors and Mid-Am members and

employees. Participation has grown from 11 percent of Mid-Am members to more than 50 percent.

The book also discusses problems with surplus milk production during the 1980s and Mid-Am's self-help program where producers shared in the cost of government purchases.

Additional Mid-Am activities reviewed by Reeves include:

- Member services: producer benefits for disasters; contaminated milk and health insurance; education programs for fieldmen, milk haulers, and producers; and young cooperator programs. (Chapter XXIV)
- Forays into the trucking industry from 1964 through 1980, when the industry was deregulated. (Chapter XXVI)
- Identification of markets for new products and research and development accomplishments, which included ultra pasteurization, a carbonated milk beverage, specialized dried dairy ingredients, and an ultrafiltrated cheese-making process. In 1988 Mid-Am was named Processor of the Year by *Dairy Foods* magazine. (Chapters XXV and XXVII)
- Advertising and promotion investments. Mid-Am and other producers have contributed funds to the American Dairy Association, the National Dairy Council, and Dairy Research, Inc. for programs in advertising, nutrition education, and research. (Chapter XXX)
- Growth through mergers and joint ventures. Names, locations, and products produced by Mid-Am processing plants. Activities in advertising, promotion, nutrition education, and product development. Leadership roles of Mid-Am members. Biographies of management personnel. Listing of board members and officers. (Chapters XXVIII through XXXIII)

In summary, Reeves has provided an excellent account of the activities and circumstances surrounding the formation and operation of Mid-America Dairy-men, Inc. It is recommended that the book be on the reading list for all students involved in agricultural marketing and all persons involved in dairy marketing or cooperative activities.

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**Torgerson, Truman. *Building Markets and People Cooperatively: The Lake to Lake Story*. Appleton, Wis: Graphic Communications, Inc., 1990, 352 pp.**

This book describes the 35-year history of a successful northeast Wisconsin dairy cooperative from start-up to eventual merger with a regional cooperative. The author, Truman Torgerson, was involved in establishing Lake to Lake and was its only manager. Torgerson describes the trials and tribulations of organizing and operating the cooperative and the humorous events and personal tragedies of the people who were involved. Readers of the book quickly sense Torgerson's personal pride in Lake to Lake and his dedication to the economic well-being of farmers.

The story begins in March 1945, when two dairy farmers from Manitowoc County, Wisconsin, came to Truman Torgerson, then a county agricultural

agent. They represented a small cheese cooperative of 21 members. Although post-World II days were relatively good times for agriculture, these farmers recognized the need to merge local cooperatives into a cooperative with a larger and more flexible plant. Farmers in northeast Wisconsin did not have a Grade A market at that time, and as a result milk prices were below the state average. These dairy farmers wanted to enter the Grade A market where prices were higher.

With Truman Torgerson's help, they formed a small committee of farmers to study the Grade A market alternatives. On December 8, 1945, nearly 500 dairy farmers attended a countywide meeting where the Lake to Lake idea was presented. Farmers were asked to sign a contract to commit their milk to the cooperative for five years. The goal of 500 farmer-members or 10,000 cows was achieved by July 1946, and a formal organizational meeting was held. Financing was 10 dollars per cow, with a goal of \$200,000. By July 1948 farmer-members had surpassed that goal by committing \$438,740.

The author attributes the early success of Lake to Lake to a winning team of employees and strong communication links. Early employees possessed leadership ability, milk processing expertise, and financial management skills. Because Torgerson saw the need to keep directors and members informed, two regularly scheduled written communications were prepared—"The Director Drift" and "Member Memos." These two communication links continued throughout Lake to Lake's 35 years.

The importance of a cooperative's community involvement comes out strong in the book. The community of Kiel, Wisconsin, recognized the value of Lake to Lake. When the dairy plant faced a waste disposal problem, the community supported a bond referendum for a new sewage treatment plant.

Lake to Lake's original goal was to produce and market cheese, and cheese manufacturing began in 1949. Lake to Lake signed an agreement to market all its cheese through Land O'Lakes, which established a lasting loyalty to the regional cooperative. It wasn't long, however, before Lake to Lake had established its own Lake to Lake brand identity for cheese. Lake to Lake agreed to market in other than Land O'Lakes territory.

At the urging of members, Lake to Lake merged with another cooperative and entered the milk bottling business. Later, it acquired more dairies and added ice cream to its product line.

Lake to Lake established its own set of six cooperative operating principles, which stated that the cooperative should: (1) Operate and conduct business in a manner that will command the respect of others in the industry. (2) Attempt to operate the cooperative so that a ready line of credit will be available in time of need. (3) Be free to take risks in the interest of members when it is advisable to do so. (4) Employ capable personnel and compensate them properly. (5) Operate to help members improve their economic position. (6) Retain the cooperative's independence from political parties and from government help to the greatest extent possible.

Lake to Lake also believed that all employees were of utmost importance to the success of the organization and recognized both employees and members for their achievements. Believing that cooperative education was the responsibility of the cooperative, Lake to Lake developed a young cooperators program.

The author describes the mid-1960s as one of the more vexing and challenging periods in Lake to Lake's history. Low farm prices had spawned the National



Farmers Organization (NFO), which attacked cooperatives for doing nothing to help farmers. There were anti-Torgerson rallies, milk dumpings, bullets through milk tank trucks, fence cuttings, and other harsh activities against farmers who did not join NFO.

In 1966, the Chicago Federal Milk Marketing Order was voted out. The fluid milk market was in turmoil. Lake to Lake joined with six other cooperatives to form Central Milk Sales Agency to jointly sell milk in Chicago. It later became the Central Milk Producers Cooperative, a federated marketing agency in common for the Chicago market.

In the chapters of the book that describe the 1970s, the author tells of the early leaders, directors, employees, and members of Lake to Lake. Torgerson also describes the 1970s as a period of active legislative effort by dairy cooperatives through the National Milk Producers Federation. Dairy price support legislation, countering attacks against the Capper Volstead Act, and dairy import protection were among key legislative activities.

In 1980, the last year of Lake to Lake's independence, sales of \$130 million and earnings of \$3.6 million were new records. Despite its success, Lake to Lake believed that the greater economies of size, variety, market research, and advertising that would be possible through a merger with Land O'Lakes would bring increased opportunities for their farmers.

The author describes the great care that went into the merger with Land O'Lakes. After 18 months of negotiations and planning, 83.1 percent of the Lake to Lake membership voted for the merger, and Lake to Lake became an autonomous division within Land O'Lakes.

In summary, the book provides an excellent success story of a dairy cooperative. It is valuable reading for current and newer member-patrons of cooperatives who often do not know about the struggles and sacrifices of their predecessors. The author also presents excellent principles and philosophy for successful operation and management of a cooperative. The importance of good employees, communications with directors and members, leadership development, cooperative education, and sound business practices stands out. Lastly, the book will be of great interest to those who have known the employees, directors, officers, and members of Lake to Lake during its 35-year history.

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