CHAPTER 10

PROGRESS OF COOPERATIVES IN THE U. S.

Our Country Lags In Cooperatives. It was brought out in Chapter 9 of this book that despite the steady progress of the cooperative movement in this country, we are still several paces behind our European cousins in the relative percentage of the amount of cooperative business done when compared to the amount of farm products sold through private channels. Cooperative education has been comparatively slow in this country. However, farmers are daily learning more about the advantages of cooperative marketing and buying with the result that more and more are turning to cooperatives as one way of solving their difficulties. It must be remembered, however, that cooperatives will not solve all the ills peculiar to agriculture. It is simply a means of improving its financial standing regarding the marketing or purchasing of commodities. However, cooperation in certain areas of America compares favorably with the marketing programs of foreign countries.

The First Cooperative Survey. In 1937 the first actual survey of farm cooperatives ever attempted in this country was begun. This survey was conducted jointly by about 30 state colleges of agriculture, the district bank of cooperatives, and the Farm Credit Administration. These various agencies made personal visits to these cooperatives to learn first hand, just what they were doing, how they were doing it, and all other points that they thought might be of interest to the farmers of the country. This survey included not only farm cooperatives, as we generally understand the term, but also farm mutual associations, such as fire insurance companies, and mutual irrigation companies. Since the completion of the 1937 survey, the real picture of cooperatives in this country can be presented for the first time.

The Cooperative Picture At A Glance. The 1937 survey brought out the fact that both marketing and purchasing cooperatives were found in every state in the Union, including Puerto Rico. These marketing associations were selling every conceivable form of farm products, while the purchasing associations were buying mainly feeds, seeds, fertilizers, spray materials, farm machinery and numerous other items for its members. Some of these associations have been functioning constantly since 1870, while more than 2,000 are over 25
years old. Most of the older associations are located in three midwestern states: Minnesota, Wisconsin, and Iowa.

**Purchasing Associations Increasing.** The 1937 survey brought out the interesting fact that the number of purchasing associations had increased more rapidly in recent years than had the marketing associations. One branch of the purchasing associations that had gained the most growth was the cooperative oil stations. Increased power farming, coupled with a wide margin of profits in fuel oil at that time, accounted for the phenomenal growth of these cooperatives. Cotton gins was another type of cooperative that loomed large in the cooperative horizon within recent years. Cooperatively owned grain elevators and livestock shipping associations have also been developed extensively between the years of 1910 and 1920.

**Volume Of Business.** In the 1937 survey, it was found that more than 15,000 cooperatives and mutual companies were operating in the United States, of which 1,900 were farmers’ mutual insurance companies, and 2,500 mutual irrigation companies. The net sales of these cooperatives in 1936 aggregated more than $2,000,000,000. Of this amount, dairy commodities ranked first, grain second, and livestock third. Next in line were fruit and vegetables, cotton, eggs and poultry, tobacco and wool. Most of these associations annually sold between 50 and 100 thousand dollars worth of farm products.

**Cooperatives Render Services.** Although the main function of a farm cooperative is to market farm commodities or to purchase farm supplies, these organizations also perform a wide variety of services. Such services include grading, packing, processing, storing, ginning, trucking, financing, advertising, testing, orchard management, pest control, and protection against frost. Seventy-three per cent of the cooperatives were found to be performing one or more of the above named services for their farmer-members. Of the 2,538 purchasing associations listed, 27 per cent performed other services in addition to the actual purchasing of farm supplies for their patrons.

**Patronage Dividends.** During 1936, more than $25,000,000 was returned to the patrons in approximately 4,000 cooperatives, which indicates how rapidly the Cooperative Movement is developing in this country. Of this number, the purchasing cooperatives paid the largest returns to their patrons compared to any one branch of the marketing cooperatives. However, even these figures do not tell the whole story. Many of the younger cooperatives often vote to re-invest a part of their earnings in their own association or to establish a strong reserve for future lean years. Some cooperatives also
have a policy of rendering services as near cost as possible, without trying to build up a surplus for annual distribution to their members.

Legal Status Of Cooperatives. In order that farm cooperatives could operate legally within the various states, legislative bodies in the numerous states had to enact suitable laws. Every state in the Union now has provisions for the legality of the operation of cooperatives. Also, the Capper-Volstead Act, passed by Congress in 1922, aided materially in clarifying the status of cooperatives. Of the 15,000 cooperatives in the United States, more than 77 per cent are incorporated under their respective state cooperative laws. Cooperatives can incorporate under either stock or non-stock laws.

Democratic Control Of Cooperatives. Eighty-six per cent of the cooperatives functioning in this country strictly adhere to the Rochdale principle of one-man one-vote rule. However, about 12 per cent of the cooperatives, located mainly in Missouri and Illinois, allow ownership of stock or other membership equities to determine voting privileges. On the Pacific coast, voting privileges are based either on patronage or on a combination of patronage and membership. These later marketing associations feel that there is a distinct limitation to the one-man, one-vote idea when there is a big variation in tonnage patronage of the membership, and that democratic control is best served in such cases by the inclusion of the tonnage factor.

Operating Costs. As was to be expected, it was found that larger cooperatives operate more efficiently than the smaller ones because of a greater volume of business. The average selling expense found by the 1937 survey amounted to about 7 per cent of the value of the commodities. Naturally, where several services were performed by the cooperative, instead of one, the sales expense increases with the number of services performed. The survey also concluded that many of the cooperatives were operating on a volume of business too small for maximum efficiency.

Fire Insurance Companies. The Farmers' mutual fire insurance companies were found to be the oldest form of cooperatives in existence in this country, some being over 100 years old at the time of the survey. Over 3,000,000 farmers were insured against fire hazards for an average amount of approximately $3,665. Not all states were included under this type of cooperative insurance; the North Central and Mid-Atlantic states being the most prominent in this activity. The primary purpose of these mutual fire insurance cooperatives is to operate on a cost basis. Usually each member is annually assessed a sum of money to cover average losses for the
year. However, if an unusual number of losses occur in any one year, whereby the regular assessment is insufficient to cover the losses incurred, the members may be subjected to an extra assessment for that year. However, the rates of the mutual companies are generally considerably lower than those of the regular "old line" insurance companies. The 1937 survey indicated that 1900 of these cooperatives were in operation at that time.

Irrigation Companies. There are about 2,500 mutual irrigation companies in this country, most of which are located in the main western states. The purpose of such mutual companies is to obtain irrigation water for its members at cost. Such companies are operated on a nonprofit basis. This form of cooperative is relatively small in numbers, the average membership usually running somewhere between 40 and 80 farmers.

Financing Cooperatives. Not all farm cooperatives possess all the capital needed for their operating expenses. Many cooperatives, especially those organizations functioning as non-stock companies, usually borrow funds for a portion of the year to finance their operations. About half of all the cooperatives in the country used borrowed funds at one time or another during the year for a short period. Tobacco, cotton, fruit and vegetable cooperatives are the heaviest borrowers in this regard.

Volume of Borrowed Capital. For the year 1936, over $314,000,000 was borrowed by the various cooperatives of the United States. The two main sources of credit for these cooperatives were commercial banks and the government bank for cooperatives. Bond issues and the U. S. Reclamation Service helped the irrigation companies to finance their activities. Borrowed capital was found by the 1937 survey to be hired out at interest rates ranging from one to eleven per cent, depending upon the size of the loan, location, term of loan, source of credit, and the purpose for which the money was to be used. Unless the loan was a large one, the usual rate of interest was, in most instances, about 5 per cent.

The Banks For Cooperatives. One obstacle that has hindered the Cooperative Movement in this country has been the lack of capital. In 1933, Congress recognized this drawback by passing what is now known as the Farm Credit Act. This Act provided for the establishment of 13 banks for cooperatives; one for each of the 12 Farm Credit districts located in various parts of the country, and a central, or mother bank, located at Washington, D.C. During its first five years of existence, the banks loaned over $837,000,000 to various farm cooperative associations located in all sections of the country.
In Summary. Statistics are often dry and uninteresting. Neverthe-
less, in order to present a true picture of conditions as they
actually exist, such figures are almost necessary. After one reads
the large amount of capital involved in the functioning of the various
types of cooperatives now active in the United States, he can com-
mence to realize the tremendous possibilities that this form of enter-
prise offers, because there is still a great deal more room for farm
cooperatives in these United States.

GUIDE QUESTIONS FOR CHAPTER 10

1. How does the percentage of farm business done through coopera-
tives in this country compare with the percentage of farm products
handled by European cooperatives?
2. Who conducted the first cooperative survey in this country and
when was it conducted.
3. How many cooperative associations were 25 years old at the time
of this cooperative survey?
4. Name three types of cooperative purchasing associations that
have gained the greatest momentum in late years.
5. What was the extent of business done by the cooperatives in this
country during 1936?
6. Name five services commonly performed by cooperatives besides
selling or purchasing farm commodities.
7. How much money was returned in the form of dividends to 4,000
of these cooperatives in 1936?
8. Why must a cooperative society operate under the cooperative
laws of the state?
9. Why is the one-man one-vote principle regarded as a safe plan
of cooperative control?
10. What is the average operating expense of marketing farm pro-
ducts in terms of percentage value of the products?
11. Explain the plan of the mutual fire insurance companies.
12. What is the main purpose of the mutual irrigation companies?
13. Do stock or nonstock cooperatives generally have to depend upon
borrowed capital?
14. Name two common sources of credit usually available to coopera-
tives who have to borrow capital.
15. Name four factors which often determine the rate of interest that
cooperatives have to pay for borrowed capital.
16. Explain the purpose of the banks for cooperatives.