



*Potatoes are graded in the field by this farmer who obtains credit from his production credit association. Part of the proceeds will be used to retire the member's loan. The money was advanced to him on a budget plan—the first payment for plowing and planting, the second for spraying and cultivation, and the third for harvesting.*

operative one-man one-vote principle. Every farmer who obtains a loan purchases a small amount of stock in his association, so that eventually the organization may be owned entirely by the farmers who borrow from it.

### **Credit Has Role in Development of Cooperatives**

Over the years the extension of credit has been an important factor in the development of farmers' cooperative associations. In order to operate successfully, a cooperative must have a sound financial structure. If the business requires a building and equipment, adequate funds must be available to meet these capital expenditures and also to finance current operating expenses. Cooperatives have three main sources of funds: (1) Proceeds from the sale of capital stock to members, deductions from receipts for commodities marketed or supplies resold that are retained by the cooperative as a capital contribution from

patrons, and membership fees paid as entrance requirements or annual dues; (2) the money which the cooperative is able to earn or save on its operations; and (3) credit sources such as banks, which lend money subject to repayment from the business operations of the co-op itself.

A substantial percentage of Wisconsin cooperatives require that new members purchase capital stock. When the national survey of farmer cooperatives was made in 1937, all of the Wisconsin cooperative associations were visited. Over 900 of them, it was found, required the initial purchase of capital stock or certificates, or membership fees. About 25 provided for the payment of annual dues; 100 did not require any financial contribution. In 1936, the business of the marketing and purchasing cooperatives of Wisconsin resulted in net earnings of \$1,562,000, after all expenses of the year's operations were met. Almost half of this amount, \$730,000, was returned to the

patrons as dividends. The cooperatives used the remainder to improve their financial position, thus increasing the equities of the farmer-patrons in their associations.

Some Wisconsin cooperatives have a revolving-capital plan of operation. Under this plan deductions are made from the current proceeds of sales or from accumulated earnings, and these "capital retains" are held by the associations, which issue stock or certificates to patrons. After a sufficient amount of capital has been accumulated, capital retains deducted from subsequent sales are used to retire the oldest outstanding obligations issued in a prior year. Over a period of years the entire capital structure revolves. New members and younger farmers not only acquire an interest in the association but also provide capital in proportion to their patronage. The use of this plan is more than just a method of financing a cooperative. The plan involves a principle of equity which is designed not only to provide adequate capital, but also maintain the ownership and control of a co-op's business in the hands of members who are actually engaged in the production of agricultural commodities.

In accordance with the findings of the national survey of farmer cooperatives, 436 Wisconsin associations, or 41 percent of those covered by the survey, were using borrowed funds in 1936. At different times during that year, 62 of these associations had maximum borrowings of \$1,135,000 outstanding from the St. Paul Bank for Cooperatives; 148 associations, \$931,000 from individuals; 187 associations, \$782,000 from commercial banks; and the remaining 39 associations had

*Example of how the revolving fund plan of financing works: Capital supplied by the members in 1 year is returned in a later year*

Year	Capital retained <sup>1</sup>	Capital returned	Total in revolving fund
1933.....	\$5,000	.....	\$5,000
1934.....	5,000	.....	10,000
1935.....	5,000	.....	15,000
1936.....	5,000	.....	20,000
1937.....	5,000	.....	25,000
1938.....	5,000	\$5,000	25,000
1939.....	5,000	5,000	25,000

<sup>1</sup> In this example it is assumed that the amount retained is the same each year. In actual practice the amount of an association's business will vary from year to year, and the amount retained will likewise vary.

peak borrowings of \$479,000 outstanding from a number of other credit sources.

There were a number of purposes for which the associations had required credit in 1936. Of the maximum outstanding amounts borrowed from all sources, 54 percent were made for the construction of physical facilities such as buildings and equipment, 42 percent for operating capital, and 4 percent as "commodity loans."

The St. Paul Bank for Cooperatives is 1 of 12 such institutions set up by the Farm Credit Administration in 1933 in the various farm credit districts, exclusively to serve the credit needs of farmers' cooperative associations. From organization through December 31, 1940, the St. Paul bank had made loans to Wisconsin cooperatives aggregating nearly \$4,000,000. The amount of such loans outstanding at the end of December 1940 was approximately \$1,031,000, indicating to what extent funds had been loaned, utilized, and repaid in financing the operations of Wisconsin cooperatives.

The services of the banks for cooperatives have opened a new and per-

manent source of credit to farmers' cooperatives and have also been an important factor in lowering interest rates to farmers' associations in Wisconsin and elsewhere.

### Cooperative Assets Top 18 Million Dollars

The total assets of farmers' marketing and purchasing associations in Wisconsin aggregated \$18,701,000 in 1936. Of this amount more than \$7,000,000 was in current assets, of which \$2,610,000 was in inventory and \$1,923,000 was cash. Against their assets of \$18,701,000 these cooperatives had debts—representing money borrowed for customary operations, current accounts, and accruals payable, etc., amounting to \$6,696,000—leaving a total net worth at that time of \$12,005,000.

The North Central States lead the country in cooperative business—in number of associations, volume of business, and in equitable distribution of benefits to farmer-members. Wisconsin associations are near the heart of this tremendous cooperative empire. Farmers and dairymen have pioneered in the development of cooperative

business since the days of Anne Pickett. Guided by far-sighted leadership and cooperative effort, Wisconsin changed from a second-rate wheat State to the position of the leading State in the dairy industry.

The achievements of Wisconsin co-ops are not confined to the past. Many splendid accomplishments are as fresh as yesterday. What this State's co-ops have done to develop cooperative livestock marketing and adapt it to truck transportation may tell the livestock marketing story for the entire Nation. Wisconsin holds an outstanding position in the fast-growing expansion of farm supply co-ops.

### Wisconsin Co-ops Look Ahead

Wisconsin farmers have built a firm foundation of cooperative accomplishments. They have shown that through their cooperative associations they are able to keep abreast of important changes in marketing conditions. They have, therefore, every reason to view with confidence the far-reaching possibilities of what cooperation in the future can mean to them individually, as a group, and to the State.

**T**HE Cooperative Research and Service Division of the Farm Credit Administration conducts research studies and service activities relating to problems of management, organization, policies, merchandising, sales, costs, competition, and membership, arising in connection with the cooperative marketing of agricultural products and the cooperative purchase of farm supplies and services; publishes the results of such studies; confers and advises with officials of farmers' cooperative associations; and cooperates with educational agencies, cooperative associations, and others in the dissemination of information relating to cooperative principles and practices.