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# THE COOPERATIVE ELEVATOR MOVEMENT

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A STUDY IN GRAIN MARKETING AT COUNTRY POINTS  
IN THE NORTH CENTRAL STATES

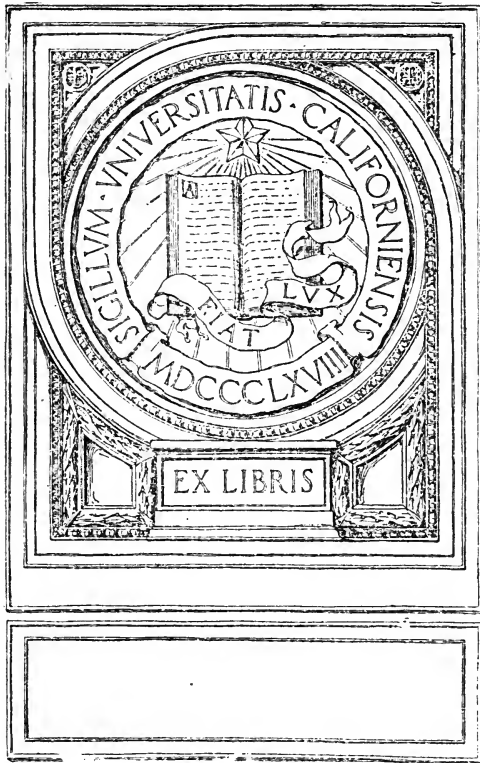
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DISSERTATION

*Submitted to the Faculty of Philosophy of the Catholic University of America in partial fulfillment of the requirements for the Doctorate in Philosophy*

BY  
JOSEPH B. KENKEL, C. PP. S.  
CATHOLIC UNIVERSITY OF AMERICA  
WASHINGTON, D. C.

1922



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## INTRODUCTION

The present treatise reviews a movement which has arisen among the grain growers of the North Central States, and which during recent years has spread at a rapid rate. Many grain growers of this region, because they have considered excessive the charges demanded by country grain dealers for the service they perform in marketing grain, have organized themselves into local associations for the purpose of marketing their grain cooperatively.

The term North Central States as used in these pages corresponds with the usage adopted by the United States Census Bureau. It includes the following States: Ohio, Indiana, Illinois, Iowa, Nebraska, Kansas, Missouri, North and South Dakota, Minnesota, Michigan, and Wisconsin. Although cooperative grain marketing is no longer confined to the States just named, nevertheless, the vast majority of the associations thus far organized are within the limits of this territory. It is in this region that the movement had its origin and its fullest development.

The term cooperation connotes essentially the voluntary association of persons for the attainment of a common object. In its more specific and technical usage, cooperation or cooperative enterprise designates a distinct type of business organization. When thus used, it stands for the application of certain business principles, whereby a concern adopting them is distinguished from sole proprietorship, the partnership, and the ordinary capital stock corporation. These principles are the so-called "one-man one-vote" feature, which allows to each member of the enterprise only one vote regardless of the amount of capital he may have invested in it; the limitation of the amount of capital each person may invest; and the distribution of savings in proportion to the amount of business each member or patron has transacted with the concern, after a stipulated rate of interest has been allowed on the invested

capital. Many of the cooperative grain marketing associations of the North Central States are conducted according to these principles, and an effort is made in this treatise to ascertain what percentage of the total number operate on this basis. But many associations not embodying these features have likewise been included in this discussion because they have been organized with the same end in view as the associations just referred to, and as such form part and parcel of the general movement to be described.

## CHAPTER I

### GENERAL CHARACTERISTICS AND COSTS OF GRAIN MARKETING

The Industrial Revolution, beginning in England toward the end of the eighteenth century, ushered in a new order in economic and social life. The marvelous expansion of commerce, trade, and industry consequent thereupon, extended to both city and country. The most profound changes in rural economy were the passing of the self-sufficing farm or community and the creation of a world market for agricultural products. Where formerly there had existed a series of local and restricted markets, now for some products there began to exist only one market and that a world-wide one. Where formerly the farm had been for the greater part a self-sufficing unit, now through the greater division of labor it produced largely for others and used and consumed what others produced or fashioned. These two fundamental facts of the present day were the most significant changes wrought in rural life through the application of steam and electricity to transportation and communication.<sup>1</sup>

With the passing of the household economy of the farm and the extension of the market for agricultural products, the system of marketing has undergone a vast change. In fact, an entirely new system has come into existence. Agricultural products today are generally marketed by agents who in economic terminology are called middlemen. A middleman in this sense is "one through whose hands goods pass from one trader to another or to a consumer."<sup>2</sup> Without enumerating these various agents or describing their respective functions in the marketing of the different agricultural products, it is sufficient to call attention to certain attitudes which have arisen in regard to the theory

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<sup>1</sup> Cf. Carver, T. N., *The Organization of Rural Interests*, in a Reprint from Yearbook of U. S. Dept. of Agri., 1913, pp. 239-40.

<sup>2</sup> Palgrave, R. H., *Dictionary of Political Economy*, Vol. III, p. 753.

and the practices of the middleman. These attitudes vary from that of absolute condemnation to that of unqualified approbation. Those representing the extreme wing of opposition regard him as one who by some devious way has insinuated himself between the producer and the consumer, performing no useful task for either and taking exorbitant profits from both. Those representing the extreme wing of approval regard the middleman as performing not only a very useful but also a necessary function in modern enterprise, and hold that the abuses which have crept in now and then are to be regarded as defects such as cling to all human institutions.

The very extremeness of these views inclines one to think that both of them contain truth mixed with error or *vice versa*. It is readily conceivable and even probable that the middleman is performing not only a useful but also a necessary function in the marketing of some agricultural products, while in the marketing of others he may be dispensed with entirely. Similarly, it is readily conceivable that in virtue of economic power the middleman may at times have taken exorbitant profits at the expense of both producer and consumer, while at other times he may have borne the losses that producers and consumers would have incurred under a system of direct distribution.<sup>3</sup>

In general it may be safely said that the functions which these middlemen perform are a necessary phase of the marketing process. But doubt has arisen in the minds of many farmers, and this holds true in a special manner of the grain growers, whether at least some of these functions might not be more economically performed by themselves. Thus it is readily seen that the real issue between the grain grower and the middleman relates to the fairness of the charge which the latter exacts for the service that he performs. It is this issue which lies at the basis of and offers the key to the explanation of the origin and growth of the movement described in these pages.

<sup>3</sup> Cf. Fetter, *The Theory of the Middleman*, and Kiely, *The Middleman in Practice*, both in Bailey, *Cyclopedia of American Agriculture*, Vol. IV, pp. 239-243; Taylor, Henry C., *Agricultural Economics*, pp. 357-365; Friday David, *The Economic Function of the Middleman*, a paper contributed to the National Conference on Marketing and Farm Credits, 1915, pp. 113-123.

Regardless of whether these functions are performed by middlemen or by the grain growers themselves, it is evident that the marketing of grain is a gigantic task when we contemplate the amount that is yearly shipped from the producing areas to the consuming centers. The annual production of grain in this country is stupendous in volume, and almost one-half of this immense amount is not consumed in the locality where it is grown. Thus, according to the United States Department of Agriculture, the volume of production in 1918 for the three principal grain crops was as follows: wheat, 940,987,000 bushels;<sup>4</sup> oats, 1,248,310,000 bushels;<sup>5</sup> corn, 2,917,450,000 bushels.<sup>6</sup> In that same year, of this amount 565,433,000 bushels of wheat,<sup>7</sup> 474,139,000 bushels of corn,<sup>8</sup> and 321,223,000 bushels of oats<sup>9</sup> were shipped out of the county in which the grain had been produced.

Almost the whole amount of grain that is not consumed in the immediate locality, passes through country grain elevators or warehouses<sup>10</sup> before it is shipped to the terminal or central markets for milling and final distribution to the consumer. From this fact it readily follows that elevators and warehouses serve an important economic purpose in every town of a surplus producing grain section. Their primary purpose is to provide a local market for the surplus grain of the community. They serve also as col-

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<sup>4</sup> *Yearbook*, 1919, p. 525.

<sup>5</sup> *Opus. cit.* p. 535.

<sup>6</sup> *Loc. cit.* p. 513.

<sup>7</sup> *Loc. cit.* p. 525.

<sup>8</sup> *Loc. cit.* p. 535.

<sup>9</sup> *Loc. cit.* p. 513.

<sup>10</sup> Warehouses are distinguished from elevators principally by their type of construction. The warehouses are low buildings especially adapted for handling grain in sacks, while the elevator is a high building especially adapted for handling grain in bulk. The warehouse was more common formerly when sack handling prevailed. In the North Central States almost all of the grain is handled in bulk, and this explains why the number of warehouses in this section is relatively insignificant. Cf. "Report of the Federal Trade Commission on the Grain Trade," Vol. I, *Country Grain Marketing*, pp. 23-25.

lecting points and as temporary storage places<sup>11</sup> for grain until such time as from numerous wagon-loads, car shipments may be made. Frequently the country elevators are also provided with cleaning and drying machinery to prepare unsatisfactory grain for shipment. Sometimes a flour mill is conducted in connection with the elevator, and usually sidelines, such as coal, lumber, fencing, cement, and other supplies, are also handled.<sup>12</sup>

Country grain elevators from the viewpoint of ownership and management may be divided into various types<sup>13</sup> but it is sufficient here to distinguish three classes, namely, those of the line elevator companies; the elevators owned and operated by local or independent dealers; and those owned and operated by the grain growers themselves through an association or corporation organized for this purpose. The line elevator company usually has its headquarters in one of the terminal market cities, and its distinguishing feature is its ownership and operation of two or more grain elevators located at different country stations.<sup>14</sup> The local or independent dealers are individuals, partnerships, or corporations, that own and manage only one grain

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<sup>11</sup> Sometimes individual growers may wish to have their grain stored in the elevator until such time as they care to sell it. For this service the elevator or warehouse usually charges a fee.

<sup>12</sup> Livingston and Seeds, *Marketing Grain at Country Points*, in Bulletin 558, pp. 5-10, U. S. Dept. of Agric.

<sup>13</sup> The Federal Trade Commission in its recent *Report on the Grain Trade*, distinguishes two general types of country grain elevators, namely, the line and individual houses. A line house it defines as "one operated by an organization which operates two or more houses located at different points" (Vol. I, p. 30). The individual house is "one which operates locally only and is managed without reference to the operation of other houses except in so far as it may be competitively affected by them" (*Ibidem*). Each of these general types the Commission divides into four sub-classes. The line type of house is divided into the "commercial line," corresponding to the line elevator company in our description; the "cooperative line," which is a collective name for two or more elevators owned and operated by a local association of grain growers; the "mill line," which is a collective name for two or more elevators owned and operated by millers; and the "malster line," which designates two or more elevators owned and operated by malsters or brewers. The same sub-classification is followed for the individual houses. (*Loc. cit.* pp. 30-3).

<sup>14</sup> While a line elevator company must own and operate at least two elevators before it can be called a line company, most of the line companies own and operate many more than that number. Cf. *Report of the Federal Trade Commission on the Grain Trade*, Vol. I, p. 30.



elevator; and they usually have their headquarters at the country station where their elevator is located. The third class of elevators referred to, are owned and operated by associations of the grain growers themselves instead of by an outside agent. It is this feature which has led these elevators to be classed as cooperative, and in the succeeding pages the terms, farmers' elevator company, cooperative elevator company, and cooperative grain marketing association, will be used synonymously unless otherwise indicated. The elevators thus owned and managed are furthermore distinguished from the line elevator companies by the fact that the cooperative elevator company generally owns and manages but one elevator,<sup>15</sup> and has its headquarters at the place where its elevator is located.<sup>16</sup>

Grain is purchased at the country elevator according to four methods: at a flat rate, by grade, by grade subject to dockage, and by grade after cleaning. The price paid for grain at country stations is regulated in the main<sup>17</sup> by the price paid in the terminal markets. A margin sufficiently wide is taken to cover costs of operating and at the same time to provide a profit.<sup>18</sup>

Grain is sold by the country elevator according to three methods: "on track," "to arrive," or it is "consigned." When the grain is sold "on track," the buyer pays the freight charges, and when the sale is one "to arrive," the seller pays them. In both instances, a specified time, varying

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<sup>15</sup> Several of the cooperative elevator companies own and operate more than one elevator. These companies the Federal Trade Commission in its *Report on the Grain Trade*, refers to as "cooperative line" companies.

<sup>16</sup> Besides the owners of elevators and warehouses, there are a number of other agents who buy grain at country stations, the principal ones of whom are track buyers, who purchase grain from both farmers and elevator owners, and resell to whatever buyer offers the best price; scoop-shovelers, who buy grain from the farmers and usually "scoop" or shovel the grain directly from the wagon into the car; terminal dealers, who are representatives of terminal market dealers, and buy grain directly from the farmers; brokers, who buy and sell grain on a commission basis. See Report of the Federal Trade Commission, *Opus cit.* pp. 95-97. The combined purchasing of these various agents does not, however, affect the statement that most of the grain shipped from country stations passes through the local elevator or warehouse.

<sup>17</sup> Competitive conditions at country stations also have an influence in determining the price paid.

<sup>18</sup> Livingston and Seeds, *Opus cit.* pp. 6-10.

generally from three to fifteen days, is fixed within which shipment must be made, or again, the grain must be at the destination of the buyer within that time accordingly as the terms of sale have been framed.<sup>19</sup>

When grain is sold either "on track" or "to arrive," to interior mills or to dealers in places where there is no inspection, there are generally no other charges than those of freight. Should the sale be one "to arrive" and to a place where there is inspection and weighing, the consignor in this instance pays these charges. Also in sales "on track," if the seller guarantees the weight and grade of the shipment, he generally pays these charges to verify the guarantee.<sup>20</sup>

The third method of sale is that of consigning. When grain is consigned, it is sent to a commission merchant in a terminal market city, who either sells the grain at once, stores it in a terminal elevator, or has it held in cars if this be the wish of the consignor. If the grain is stored in a terminal elevator, the consignor is credited with a receipt which specifies the amount, kind, and quality of grain stored. When the consignor wishes to sell his grain, he informs his commission merchant, who thereupon sells the grain "in store." The receipt for the grain is then indorsed to the purchaser, and this indorsement gives him title to the grain. The commission merchant then renders an account sale of the transaction, whereupon he remits to the consignor any balance due him.<sup>21</sup>

Most of the grain shipped from country stations to the primary markets, is bought and resold on the grain exchanges or boards of trade. Almost all of the cooperative elevator companies, as also the local or independent dealers, sell their grain on the exchange by hiring the services of a commission merchant. Those line elevator companies whose total amount of grain handled is comparatively large, sell their grain on the exchanges through their own repre-

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<sup>19</sup> *Opus cit.* p. 11.

<sup>20</sup> *Ibidem.*

<sup>21</sup> *Loc. cit.* p. 12; Siebel Harris, *Methods of Marketing the Grain Crop*, pp. 362-65, in *Annals of the American Academy of Pol. and Soc. Science*, Vol. 38 (1911).

sentatives.<sup>22</sup> The vast majority of the grain sold on the exchanges or boards of trade, is bought by the terminal elevator companies, although in a few terminal markets<sup>23</sup> much of it is bought by millers, and also by other dealers.

The two principal activities of the terminal elevator companies, in addition to the buying and selling of grain, are the storing and mixing of it. When they accept grain for storage from country shippers awaiting more favorable market conditions, they do not sell that grain, nor do they mix it unless requested to do so. They demand, however, a storage fee, and this constitutes one of the sources of their profits. Through mixing grain of various grades, the terminal elevator companies can realize additional profits. The explanation of these profits is bound up with the system of double inspection in vogue. Grain is inspected before it is stored in terminal elevators and again before it is taken out. By judiciously mixing grain of a higher grade with that of a lower, it is frequently possible to mix the whole bulk so as still to meet the requirements of the higher grade. Thus, much of the grain that is bought by the terminal elevator companies, is resold at a higher grade than at which it was purchased. After the grain is thus mixed, and if the market is favorable, the terminal companies sell their grain to exporters and to other shippers.

This then in brief outline describes the present grain marketing system. It now remains to consider what compensation is demanded by each of the agents handling grain from the time that it enters the country elevator until it has been sold in the terminal markets to the terminal elevator companies, the millers, and other dealers.

In 1913, the United States Department of Labor conducted a survey, the object of which was to "ascertain the relation existing between wheat prices and retail prices of

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<sup>22</sup> In 1918, line elevator companies owned 10 memberships on the Chicago Board of Trade, according to the Federal Trade Commission (*Report on the Grain Trade*, Vol. II, p. 75). They also owned 69 at Minneapolis (p. 143); 8 at Kansas City (p. 160); 13 at Omaha (p. 165); 7 at Peoria (p. 176); 5 at Indianapolis (p. 180); 4 at St. Louis (p. 172), and 1 at Toledo (p. 182).

<sup>23</sup> Especially in Minneapolis, and to some extent in Duluth. *Opus cit.* pp. 143 and 155.

flour, and second to determine the cost of distribution or the price accretions as the wheat and flour pass through the various hands from producer to consumer."<sup>24</sup> The enquiry was limited to hard winter wheat and flour made from it, and since Kansas is the leading State in the production of hard winter wheat, the data for the survey were gathered from that State. The years selected for study were, 1906, 1910, and 1911. Each year was divided into two periods, quotations being taken for the months of March and October.<sup>25</sup>

According to the results of this survey, the elevator operator usually buys wheat at about three cents per bushel below the price at which he can sell it "on track" at the time. Naturally the operator is desirous of greater profits, but competition generally holds him at this margin.<sup>26</sup>

The freight rate per car lot is governed by the distance shipped. "The rates in 1911 from the stations from which wheat prices were obtained ranged from 8.5 to 14.5 cents per hundred pounds, or 5.1 to 8.7 cents per bushel. An accurate average for the State could not easily be computed, but probably a fair estimate of the average rate from the hard wheat area in Kansas to Kansas City is about 12 cents per 100 pounds, or 7.2 cents per bushel."<sup>27</sup>

Commission men and jobbers<sup>28</sup> receive on the average of one cent per bushel for handling wheat.<sup>29</sup>

If wheat is stored in terminal elevators, there is an additional charge. In Kansas City the charge was one cent per bushel for the first twenty days or part thereof, and one-fortieth of a cent for each subsequent day.<sup>30</sup>

From this survey it is seen that in 1911, when the price level for all services was considerably lower than at pres-

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<sup>24</sup> Bulletin of the U. S. Dept. of Labor, No. 130, *Wheat and Flour Prices, from Farmer to Consumer*, p. 5.

<sup>25</sup> *Ibidem*.

<sup>26</sup> *Opus cit.* p. 10.

<sup>27</sup> *Loc. cit.* p. 10.

<sup>28</sup> The grain jobber differs from the commission merchant in this that the former buys and sells grain on his own account, assuming the risk of loss. The commission merchant buys and sells for another, and receives a compensation or commission for his service.

<sup>29</sup> *Loc. cit.* p. 11.

<sup>30</sup> *Ibidem*.

ent, the price to be paid by the consumer for a bushel of wheat had increased by 12 cents over the price received by the grower before the wheat had been sold in the terminal markets. A survey similar in scope to the one just described, was conducted by the United States Department of Agriculture in 1914, and the results arrived at were practically identical. In commenting upon the margins taken by the various agents handling grain, the report says: "The weakest link in the chain of marketing Kansas wheat is the country elevator. Compared with the value and the difficulty of the service rendered, the margin taken by the country elevator is perhaps larger than that taken by any other middleman in the marketing of wheat."<sup>31</sup> This has been emphatically the conviction of many grain growers not only in regard to the marketing of wheat but of other kinds of grain as well. It is because they have considered the service rendered by the local middleman handling grain not worth the cost that they have organized themselves into associations for the purpose of owning and operating grain elevators at country points. A review of their efforts and accomplishments as exemplified in the North Central States, is given in the succeeding chapters.

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<sup>31</sup> *House Doc. No. 1271, 63d Cong. 3d sess., p. 28.*



## CHAPTER II

### HISTORICAL SURVEY OF COOPERATIVE GRAIN MARKETING IN THE NORTH CENTRAL STATES

Cooperative grain marketing was not extensively engaged in by the grain growers of the North Central States until the beginning of the present century, and prior to that date the information available regarding this form of enterprise is very meagre. It may, however, be said that the origin of cooperative grain marketing is roughly contemporaneous with the close of the Civil War. It was shortly after that conflict, in 1867, that the first great rural organization of this country, namely, the Order of the Patrons of Husbandry, more commonly known as the Grange, was founded, and through its activities a number of cooperative grain elevator companies were formed.

Because of the important influence that the Grange has exercised upon subsequent cooperative efforts among the farmers of this country, it may be well to outline briefly the salient characteristics of this organization. The Grange was designed to improve the social, educational, and economic status of the American farmer. It was a secret, fraternal Order of farmers, founded on December 4th, 1867, at the National Capital.<sup>1</sup> The Grange was conceived and planned by Oliver Hudson Kelley,<sup>2</sup> a clerk at the time in the U. S. Post Office Department. Travelling through the South, he was singularly struck with the lack of a progressive spirit among the farmers of that region. Being

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<sup>1</sup> The literature on the Grange is very extensive. A brief exposition of the Order, its aims and achievements, by Kenyon L. Butterfield, may be found in the *Forum*, Vol. 3, pp. 231-242 (April, 1901). For an extensive treatment and bibliography, the reader is referred to Solon Buck, *The Granger Movement*. This volume is the nineteenth in the Harvard Historical Studies, and is without doubt the most authoritative work on this subject.

<sup>2</sup> Kelley wrote a history of the Grange, which contains an account of its origin and activities in its early years. The title of the work is: *Origin and Progress of the Order of the Patrons of Husbandry in the United States; a History from 1866-1873*. Kelley died in his home at Washington, D. C., Jan. 20, 1913.

a Freemason and fully cognizant of the value of organization, he came to the conclusion that a national secret order of farmers was needed to further the industrial reconstruction necessary in the South and at the same time to advance agriculture throughout the country.

He enlisted the services of W. M. Ireland, another clerk in the Post Office Department, and of William Saunders, a clerk in the Agricultural Bureau, and conjointly they wrote a circular,<sup>3</sup> which outlined the deficiencies of the existing agricultural societies, and at the same time proposed a new organization, modeled upon the order of Freemasonry. The object was to be the advancement of agriculture and the creation of a closer bond of union among all the farmers of the country.

The founders immediately framed a constitution and worked out a ritual. They organized also a subordinate Grange at Washington, D. C., to serve as a school of instruction.<sup>4</sup> After this preliminary work had been done, the scene of activities shifted to the Canadian Northwest, where, it was thought, the time was ripe for the introduction of the order because of the discontent among the farmers there and their growing desire to find some means of joint action against the oppressive railroads and monopolies.<sup>5</sup>

The success looked for in the Northwest was, however, not achieved at once. The constitution as originally drawn up and the circulars advertising the order, emphasized the fraternal, social, and educational rather than the financial or economic benefits to be derived from membership. The farmers on the other hand were primarily interested here as elsewhere, in economic gain. On account of this fact, the Grange soon enlarged the scope of its activities so as to include various business features. Cooperative buying of farm supplies, selling of farm produce, the cooperative manufacture of farm implements, banking and insurance

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<sup>3</sup> Quoted in *A Documentary History of American Industrial Society*, Vol. X, pp. 74-76.

<sup>4</sup> S. J. Buck, *Opus cit.* p. 43.

<sup>5</sup> For a description of the rural conditions in the Northwest following immediately upon the Civil War, see Albert Shaw, *Cooperation in the Northwest*, p. 334, in Johns Hopkins University Studies in Historical and Political Science, Sixth Series.



conducted along cooperative lines—these were some of the business enterprises sponsored by the National Grange. These cooperative ventures soon became the leading feature of the Granger Movement, the leading cause of its marvelous growth during the years 1873-75,<sup>6</sup> and the leading cause of its equally rapid decline during the late seventies.

The various cooperative selling agencies of the Grange were all based on the general idea that the relation between the farmer and the consumer of his products had become too indirect and intermediate by the introduction of an unnecessarily large number of middlemen, who were absorbing the farmers' profits. This principle was clearly stated in the platform or declaration of purposes adopted by the National Grange at its annual convention in 1874:

"For our business interests we desire to bring producers and consumers, farmers and manufacturers, into the most direct and friendly relations possible. Hence, we must dispense with a surplus of middlemen, not that we are unfriendly to them, but we do not need them. Their surplus and their exactions diminish our profits."<sup>7</sup>

It was with this purpose of bringing "producers and consumers into the most direct and friendly relations and to dispense with a surplus of middlemen," that several cooperative grain elevator companies were organized in the North Central States through the activities of the Grange. In Iowa, the Grangers maintained that they owned one-third of the grain elevators and warehouses in the State.<sup>8</sup> Not so much success was achieved in other States, although according to one writer, "in a number of states the farmers at the time owned a considerable number of elevators."<sup>9</sup>

Whatever the precise number of elevator companies that may have been organized through the activities of the

<sup>6</sup> According to Professor Buck's computations, the total number of members of the Grange on October 1, 1875, was 758,767. Of these 390,734 were in the North Central States. *Opus cit.* pp. 58-59.

<sup>7</sup> *Proceedings of the National Grange*, Seventh Session, 1874. Quoted in *A Documentary History of American Industrial Society*, Vol. X, p. 99.

<sup>8</sup> S. J. Buck, *Opus cit.* p. 243; Cf. B. H. Hibbard, *Cooperation in the Grain Elevator Business*, in Bailey's "Cyclopedia of American Agriculture," Vol. IV, p. 267. Professor Hibbard says: "It is reported on fairly good authority that over half of the elevators in Iowa were once in the hands of Grange cooperators."

<sup>9</sup> H. E. Erdman, *The Farmers' Elevator Movement in Ohio*, p. 139, Bulletin 331, Ohio Agricultural Experiment Station.

Grange,<sup>10</sup> most of them shared its fate toward the end of the seventies. Badly managed because of the farmers' lack of business experience, opposed by the established grain dealers, and unsupported by their own members because of their loss of confidence in the Grange under whose direction they were started, most of these companies were short-lived.<sup>11</sup>

At the beginning of 1880, the Grange in the North Central States as elsewhere, had practically ceased to function. Since that time it has gradually revived, and is again one of the prominent rural organizations in the United States. At present, its principal efforts are directed toward the social and educational improvement of the American farmer, its original aim.<sup>12</sup>

The Grange failing to achieve its purpose, other organizations soon arose to take its place. The most prominent of these was the Farmers' Alliance.<sup>13</sup> Through its influence and activities, cooperative enterprises were formed similar to those already described. But business cooperation became more and more an incidental feature of its program of social reform. It sought to achieve its ends rather through political action, and as such lost its immediate industrial character.

Many cooperative elevator companies were organized during the decade of the eighties. Thirty-nine of these re-

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<sup>10</sup> *The Encyclopedia of Social Reform* (Bliss, Editor-in-Chief) in its article on cooperation in the United States, says that at one time the Grangers conducted 32 elevators in connection with their marketing activities. The Federal Trade Commission in its recent *Report on the Grain Trade*, states that nine cooperative elevator companies reported as having been organized prior to 1880, Vol. I, p. 47.

<sup>11</sup> B. H. Hibbard, *Opus cit.* p. 236; Erdman, *Opus cit.* p. 139. See also general causes of failure of the Grange in Buck, *Opus cit.* pp. 274-277; A. C. Warner, *Three Phases of Cooperation in West*, pp. 387-391, in Johns Hopkins University Studies, Sixth Series.

<sup>12</sup> Paul L. Vogt, *Introduction to Rural Sociology*, p. 249; cf. Kenyon L. Butterfield, *Chapters in Rural Progress*, pp. 136-162.

<sup>13</sup> For an exposition of the objects and achievements of the *Farmers' Alliance*, the reader is referred to Frank Drew, *The Present Farmers' Movement*, in "Political Science Quarterly," Vol. VI, pp. 282-310. See also N. A. Dunning, *The Farmers' Alliance History and Agricultural Digest*, especially, pp. 225-7.

ported as still operating in 1918, when the Federal Trade Commission made its survey of country grain marketing.<sup>14</sup> No doubt several others were organized but disappeared under the stress of competition, or failed because of poor management and non-support on the part of their own members.<sup>15</sup>

The cooperative elevator movement made considerable progress during the nineties, especially from 1895 to 1900. One hundred and thirty-three companies reported to the Federal Trade Commission as having been organized prior to 1900.<sup>16</sup> This represented an increase of 94 companies within ten years, and an increase of 69 since 1895, because 64 companies reported as having been organized prior to that date.<sup>17</sup>

As to the number of companies formed in the different states, between the years 1890 and 1900, no definite information is available except for Minnesota. In 1915, there were in that State, thirty companies that had been organized prior to 1900.<sup>18</sup> On the other hand, as Professor Weld's survey shows, comparatively few companies were organized in that State prior to 1890.<sup>19</sup> Several companies were begun also in the States of North and South Dakota,<sup>20</sup> Illinois,<sup>21</sup> and Kansas.<sup>22</sup> How many were organized in each of these States and how many were still in operation at the

<sup>14</sup> *Opus cit.* Vol. I, p. 47.

<sup>15</sup> John L. Coulter, *Cooperation among Farmers*, p. 120; O. N. Refsell, *The Farmers' Elevator Movement*, p. 874, in "Journal of Political Economy," Vol. 22 (Nov., 1914); L. D. Weld, *Farmers' Elevators in Minnesota*, p. 5, Bulletin 152, Agricultural Experiment Station; Charles Wolcott, *A Gigantic Conspiracy; The Northwestern Wheat Ring*, pp. 16-27.

<sup>16</sup> *Opus cit.* p. 47.

<sup>17</sup> *Ibidem.* A number of the so-called farmers' or cooperative elevators of this period were not such in any adequate sense of the word. "They were nothing more in fact than independents, the companies operating them being composed largely of local business men with a few farmers to give them the name." *Opus cit.* p. 81.

<sup>18</sup> Durand and Jansen, *Farmers' Elevators in Minnesota, 1914-15*, p. 9. Bulletin 164, Agricultural Experiment Station.

<sup>19</sup> *Opus cit.* p. 5.

<sup>20</sup> Charles Wolcott, *Opus cit.* p. 27.

<sup>21</sup> *American Cooperative Journal*, Vol. III, p. 23 (Sept., 1907).

<sup>22</sup> *Nineteenth Biennial Report of the Kansas State Board of Agriculture*, p. 156.

beginning of 1900, it is impossible to ascertain from available data. It is probable, however, that the majority of the companies formed during this decade outside of Minnesota, were in North and South Dakota. In these States, the movement had made some progress during the preceding decade, and suspicion was rife among the farmers there that a combination existed which was depressing the prices farmers were receiving for their grain.

The relatively growing increase in the number of cooperative elevator companies organized during the period between 1890 and 1900, and especially since 1895, is very probably to be explained in the light of the changing conditions that began to surround country grain marketing at that time. As will presently appear in detail, the line elevator companies and the local or independent dealers, through various sorts of agreements entered into among themselves, were gradually eliminating competition from country grain buying, so that at the end of the decade competition in a large number of country stations was practically non-existent. That the line companies and the independent dealers were guilty of stifling competition, the farmers were thoroughly convinced. On the other hand, through experience they had learned how they frequently had brought about the ruin of their own enterprises by not supporting them when their competitors were temporarily paying higher prices for grain than did their own companies. As a means of redress, therefore, against these growing abuses of the established grain dealers, it is highly probable that the farmers resorted more frequently to organizing elevator companies, and that they supported them even though their competitors were offering apparently better bargains.

It is indeed primarily in the light of the abuses practiced by the line elevator companies and the local or independent dealers that the cooperative elevator movement can be properly understood. In these abuses lie the causes which prompted the grain growers anew to organize elevator companies even though their previous efforts had ended in frequent failure.

There is little doubt that a considerable amount of competition prevailed in country grain buying prior to 1890.<sup>23</sup> Competition, however, gradually gave way to combination, which tended to minimize competition or in very many places to eliminate it altogether. The state of affairs thereby created was the cause of widespread dissatisfaction among the farmers. Their repeated complaints induced Senator LaFollette to introduce into the United States Senate, on June 25, 1906, a resolution directing the Interstate Commerce Commission to make an investigation of the alleged abuses existing in grain buying and shipping.<sup>24</sup> The resolution was adopted, and on October 15th of the same year the Commission began its hearings at Chicago. Hearings were held also at Kansas City, Omaha, Des Moines, Milwaukee, Minneapolis, and Duluth.<sup>25</sup>

These hearings disclosed the fact that the dissatisfaction of the grain growers was not without justification. Various agreements or arrangements were shown to have existed toward the end of the last and at the beginning of the present century, all of which had the general effect of eliminating competition in country grain buying. In the Northwestern States of Minnesota, North Dakota, and South Dakota, these agreements were particularly prevalent among the line elevator companies,<sup>26</sup> but the local dealers also were frequently partners.

One of these agreements operated as follows: It was first decided what percentage of the grain at a country station each elevator operating there should receive. Those elevators that received more than their allotted percentage

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<sup>23</sup> See, however, Wolcott, *Opus cit.* That there was much dissatisfaction prior to that date among the grain growers of Minnesota, North and South Dakota, because of alleged abuses in country grain buying, is unquestioned. That abuses existed similar in kind to the ones to be described, is also established, but there is no evidence that they were as prevalent as during the latter nineties and the first few years after 1900.

<sup>24</sup> *Congressional Record*, XL, Pt. 10, p. 9091.

<sup>25</sup> The investigation was printed as *Senate Doc. No. 278*, 59th Cong., 2d sess.

<sup>26</sup> The line companies were, however, also far more numerous in the Northwest than were the local or independent dealers. See Report of the Federal Trade Commission, *Opus cit.* p. 51.

of grain were required to pay a penalty to those that got less than the amount to which they were entitled in virtue of the contract. Each of these elevators rendered a statement of its receipts to a central office, which acted as a sort of clearing house. The amounts of grain purchased by each elevator were tabulated by the central office and compared with the amounts to which each elevator was entitled. Those that received more than their allotted share, through the central office paid the penalty, usually two and one-half cents per bushel on wheat, to those elevators that had received less.<sup>27</sup> One agreement of this kind included forty line elevator companies, which together controlled approximately 950 elevators.<sup>28</sup>

These agreements were, however, not always confined to the amount of grain that each elevator was entitled to and the penalty to be imposed for not living up to the agreements, but they included at times also arrangements as to prices to be paid and the amount of dockage to be taken.<sup>29</sup>

Agreements of this kind of course destroyed almost all incentive to obtain a fair share of the grain at a country station by increasing the price. If dealers failed to get their fair share of grain, they would be recompensed at the end of the month, or whenever settlement was made, by the penalties enforced on those who had received more than their share according to the terms of the contract.

In the States further to the south, namely, Nebraska, Iowa, Illinois, and to some extent Kansas, agreements existed among the grain dealers, the purpose of which was the same as that of those already described. In this territory the elevators of the local or independent dealers were more numerous than those of the line companies,<sup>30</sup> but apparently the latter exerted more influence in procuring and maintaining these agreements. Both classes, however, operated through the State Grain Dealers' Associations, of which

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<sup>27</sup> Sen. Doc., *Opus cit.* pp. 932, 940, 941.

<sup>28</sup> *Opus cit.* p. 941.

<sup>29</sup> See "Memorandum of Agreement at Worthington, Minn.," Interstate Commerce Commission, *Docket* 875, Vol. II, 1906. Quoted also in Sen. Doc., *Loc. cit.* p. 970.

<sup>30</sup> Report of the Federal Trade Commission, *Loc. cit.* p. 51.

they were members.<sup>31</sup> These associations had been formed for legitimate and laudable purposes,<sup>32</sup> but they soon acquired large power and abused it so that they practically dictated the price to be paid for grain and the conditions under which grain was to be bought and sold.

The following quotation, which records the findings of fact of the referee in the case, *State v. Omaha Elevator Company*,<sup>33</sup> is illustrative of the conditions prevailing in country grain buying toward the year 1900 and somewhat later, at very many country stations in the States just named. According to the findings of the referee, which the court sustained:

"Some time prior to the year 1899 an association known as the Nebraska Grain Dealers' Association was organized in this State, which adopted a constitution and by-laws under which it operated. Its officers consisted of a president, vice-president, secretary, treasurer, and a governing board, consisting of the president, secretary, and three other members of the association. \* \* \*

"There were about 1,200 grain dealers, all told, in the State on April 1, 1905, of whom 770 belonged to said Nebraska Grain Dealers' Association, and about 200 more in sympathy with such association. To accomplish the objects of said association, \* \* \* various expedients were resorted to by it, some of which were as follows: (a) A price committee, consisting of persons chosen from five of the leading corporation members of said association, was formed, whose business it was to fix the prices which should be paid for grain by the various members of said association throughout the State, and the other regular dealers who worked in harmony with said association. All such members and persons were notified by card what such prices were, and as members of such association and regular dealers they were expected and required to fix their bids for grain on the basis of the prices sent to them on the cards, and they were not to pay any more for grain than other regular dealers in the same locality. For the purpose of facilitating the business, the State was divided into 13

<sup>31</sup> In the Northwestern territory, including Southern Minnesota, South Dakota and Northern Nebraska, the grain dealers belonged to the Tri-State Association. This Association seems not to have been strongly organized nor to have made the cooperative elevator companies the special object of attack as did the Associations further to the South. See Sen. Doc. *Loc. cit.* pp. 10-11.

<sup>32</sup> See by-laws of the Iowa State Grain Dealers' Association in Interstate Commerce Commission Docket No. 875, Vol. II, 1906. Quoted also in Sen. Doc. *Loc. cit.* p. 656.

<sup>33</sup> 75 Nebraska, 655; 110 N. W., 874. Quoted also in Report of the Federal Trade Commission, *Loc. cit.* p. 85.

districts, and it was the duty of some member of the association selected for that purpose on account of his or its superior location and facilities for that purpose, to send cards to all regular dealers in his district. The prices were changed as often as the fluctuations of the market made it necessary; sometimes every day and sometimes less often. The new prices always went into effect on the morning of the day succeeding the issuance of the cards, and never on the same day. In said manner and by said method uniformity of prices was maintained among the members of said association and other regular dealers over the State. Regular dealers were those who were in harmony with the purpose and objects of said association."

Through agreements of the kind described, competition in country grain buying had become practically non-existent in very many places. Such conditions prevailing, it is not surprising that the grain growers in many localities resorted to building and operating grain elevators themselves. Nor is it surprising that their ventures frequently ended in failure, for the elevator companies that they organized became the object of special attack by the established grain dealers.

At times the farmers experienced considerable difficulty in securing sites on which to build their elevators,<sup>34</sup> because the railroads refused this privilege, offering as a reason for refusal that elevator facilities were already sufficient for the volume of grain to be handled at the local stations.

A cooperative company once established, a favorite and common method resorted to by the line companies and independent dealers of bringing about the company's failure consisted in temporarily bidding a higher price for grain than the market would warrant.<sup>35</sup> The object in view was of course to create dissatisfaction among the members of the cooperative company. Tempted by the prospect of immediate gain from the higher prices paid by competing dealers and thinking that their quantity of grain contributed to their own company could not materially affect its fortunes, members very frequently disposed of their grain at the elevators of competing dealers,<sup>36</sup> and thus they di-

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<sup>34</sup> Sen. Doc. *Loc. cit.* pp. 43, 496-502, 515, 648.

<sup>35</sup> *Opus cit.* pp. 498, 651.

<sup>36</sup> *Ibidem.*



rectly contributed to the more complete control of the latter and indirectly brought financial disaster to their own concerns. Hence, any cooperative company which could hope to achieve success in face of the destructive competition of the grain dealers who held the field would have to include some feature in its plan of organization which would insure the continued support of its members in spite of apparent better bargains at competing dealers.

A plan of such "enforced loyalty" had been devised as early as 1889, by the farmers living near the village of Rockwell, Cerro Gordo County, Iowa.<sup>87</sup> This protective measure consisted in a so-called "penalty clause," which they embodied in the by-laws of their organization. The clause provided that any member of the company who sold his grain to any other dealer would have to pay one-half cent per bushel to the company for every bushel sold in this way. It was figured that this rate of assessment in relation to the volume of grain to be marketed by the company would be sufficient to maintain the elevator on a paying basis regardless of whether the members would dispose of their grain at their own elevator or at that of a rival dealer. The results to be achieved by this clause are comprehensively stated by Mr. Refsell in an article contributed to the *Journal of Political Economy*.<sup>88</sup> "Under this arrangement the farmers' company would not be tempted greatly to bid a high price against its competitor when doing so would involve a loss. Neither could the company be ruined by the high price paid by a competitor, even though these prices would prevent the farmers' company from procuring the grain. The income would still be the same as before, while its expenses would be slightly decreased. In reality, its condition would be improved by its being outbid by its competitor for the grain marketed by its own members."

With this penalty clause as its principal weapon, the cooperative elevator company at Rockwell entered upon the struggle against the firmly entrenched grain dealers. The

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<sup>87</sup> Brochure entitled, *Brief History of the Farmers' Cooperative Grain Dealers' Association of Iowa*, issued by the Association.

<sup>88</sup> Vol. 22, p. 891 (Nov., 1914).

battle ensuing waxed into a very spirited contest. Every form of competition was brought to bear upon the company, but to no avail. Filled with determination and willing to impose upon themselves the assessment of one-half cent per bushel for the sake of insuring their own interests, the farmers of Rockwell emerged victorious from the conflict.

The penalty clause was destined to play an important role in the further development of the cooperative elevator movement. The resistance offered the farmers at Rockwell had been so great, however, that farmers generally were not anxious to enter upon a similar struggle. The movement apparently made very little progress in the States of Nebraska, Illinois, and Kansas before 1900, and in Iowa it seems there were no companies formed during the decade of the nineties. Gradually, however, here and there the grain growers began to organize companies, so that at the beginning of 1903 there were seven companies in Iowa and 15 in Illinois,<sup>39</sup> some of which probably embodied the penalty clause in their by-laws.<sup>40</sup> Within one year, the companies of Illinois had increased to ninety and those of Iowa to thirty.<sup>41</sup>

A number of local companies once established, their union into state associations readily suggested itself. The farmers began to realize as never before that combination could be met successfully only by combination. They felt above all a more thorough coordination of their activities to be an increasing need, if their companies were to survive, not to speak of becoming powerful and successful. This coordination of activities was to be secured through state associations.

Early in the spring of 1901, a convention was called by the grain growers of Kansas for the purpose of formulating a plan of action against existing abuses in grain buying,<sup>42</sup> but the plan formulated did not embody the found-

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<sup>41</sup> See Table I in this Chapter, p. 34.

<sup>40</sup> The penalty clause seems not to have come into general use until about the middle of 1904. See Sen. Doc. *Loc. cit.* p. 647.

<sup>44</sup> See Table I in this Chapter, p. 34.

<sup>42</sup> C. Matson, *A Grain Buyers' Trust*, in "American Review of Reviews," p. 201, Vol. 25 (Feb., 1902).

ing of a state association. The first farmers' state grain dealers' association was organized in Illinois, on February 19, 1903.<sup>43</sup> In November of the following year, a similar organization was founded by the companies of Iowa with the assistance of representatives of the Association of Illinois.<sup>44</sup>

These two associations, together with representatives of a few commission firms that were kindly disposed toward the cooperative companies,<sup>45</sup> now entered upon an energetic campaign of establishing new companies. Within two years, notable advances had been made. In Illinois the number of cooperative companies had increased from 15 in 1903 to 125 at the beginning of 1905; in Iowa within the same period the number had increased from 7 to 78.

In the meantime the line companies and the independent dealers were becoming somewhat alarmed at the progress the cooperative elevator movement was making. The old practice of increasing prices temporarily at a country station where a new company was organized proved no longer effective because of the penalty clause, which apparently most of the companies embodied in their by-laws.<sup>46</sup>

To show how the penalty clause in some places was gradually curbing the practice of raising prices at a country station when a cooperative company was begun, reference is made to the incident cited by Mr. Matson in an article contributed to the *Review of Reviews*.<sup>47</sup> The grain growers of Solomon, Kansas, had organized an elevator company with the penalty clause as a feature of the plan. Soon

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<sup>43</sup> W. M. Stickney, *Grain Growers Reduce the Cost of Distribution*, in "Annals of the American Academy of Political and Social Science," p. 203, Vol. 50.

<sup>44</sup> Brochure, entitled, *Brief History of the Farmers' Cooperative Grain Dealers' Association of Iowa*, issued by the Association.

<sup>45</sup> As will presently appear, the commission firms in the terminal markets were being prevailed upon to refrain from doing business with the cooperatives. Those firms refusing to comply with this demand, thereupon found their interests tied up with those of the cooperative companies. Having once cast their lot with the latter, not only charitable, but also business motives counselled active participation in strengthening the existing companies and helping to form new ones.

<sup>46</sup> About 75 per cent of the companies of Iowa employed a penalty clause. Sen. Doc. *Loc. cit.* p. 646.

<sup>47</sup> Vol. 25, p. 203 (Feb., 1902).

after the cooperative elevator was opened, the price for grain was advanced by the line elevator company to a point which should make the members of the cooperative company dissatisfied with the price they were receiving at their own elevator. The line companies had been paying 48 cents per bushel for wheat, but the line elevator operating at Solomon ordered the price to be advanced to 55 cents per bushel. The cooperative company was paying only 52 cents per bushel. Instead of attempting to meet the advance in price, the manager weighed the grain that the members brought, and they in turn sold it to the line company. Afterwards they returned to their own elevator and deposited one cent for every bushel they had sold, one cent per bushel being the rate of assessment prevailing in this company. This one cent per bushel was sufficient to maintain the expenses of the elevator besides affording a little profit. Thus the line company, while seeking to undo the cooperative company, was in fact contributing toward the latter's success. Mr. Matson records the outcome of the contest thus: "The attempt was soon given up, and at the end of three weeks the syndicate had locked its elevator and gone out of business at Solomon."

As this incident might lead one to suspect and as the course of events showed, the penalty clause was becoming an effective measure against any arbitrary setting of prices to be paid for grain at country stations. But a different method of attack was now launched in the Middlewestern territory. Through their State Grain Dealers' Associations, the line companies and independent dealers informed commission firms in the terminal markets that the cooperative companies were "irregular dealers," and that firms handling the shipments of such dealers could expect no patronage from the regular dealers, namely, those that were members of the State Grain Dealers' Associations or that were in harmony with their objects.

Commission firms that persisted in handling the shipments of the cooperative companies soon found their volume of business decreasing at an alarming rate.<sup>48</sup> As a conse-

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<sup>48</sup> Sen. Doc. *Loc. cit.* pp. 646, 666, 672, 678.

quence, most of them acceded to the demands of the associations and refused to accept consignments from the cooperatives. In Chicago, the threat of the grain dealers' associations became so effective toward the beginning of 1903 that there were only two commission firms in the city that accepted grain from the cooperatives. These two firms were Lowell, Hoit & Co. and Eschenburg & Dalton.<sup>49</sup> They occupied a very pivotal position in the fate and fortune of the cooperative elevator movement. Could they have been induced to withdraw their patronage, the movement in the Middlewest would necessarily have broken down temporarily. But having once refused to accede to the demands of the State Grain Dealers' Associations, they assisted the cooperative movement in every way possible, sending their own representatives to help organize new companies.<sup>50</sup>

Special effort was made by the State Grain Dealers' Associations to win over the firm of Lowell, Hoit & Co. This commission firm, like the others, had been requested to refrain from accepting grain from the cooperative companies, but as already indicated it refused to comply with the request. A more insidious form of attack was now resorted to in order to win over this firm also. During the investigation of the Interstate Commerce Commission, a circular letter was presented, dated August 31, 1904, signed by Mr. George A. Wells, then Secretary of the Iowa State Grain Dealers' Association, and addressed to "The Members," and this letter requested them to correspond with Lowell, Hoit & Co., with a view to giving them shipments. To quote directly from the letter:

"My purpose is to thus place them under sufficient obligation to the members of this Association, so that they will consider it for their best interest to confine their dealings in the future to the firms that are recognized.

"Do not raise the question about the Farmers' Elevator Companies in your first letter, but take that up with them later, after having given them some business. Please, keep this matter confidential and advise me of your action and results."<sup>51</sup>

<sup>49</sup> *Loc. cit.* p. 646.

<sup>50</sup> See Report of the Federal Trade Commission, *Loc. cit.* p. 90.

<sup>51</sup> Interstate Commerce Commission, *Docket* 875, Vol. II, 1906. Quoted also in Sen. Doc. *Loc. cit.* p. 667.

The method adopted by the grain dealers' associations of winning over commission firms consisted not so much in assuming an attitude of opposition to the cooperative elevator companies in general, but only to those which had the penalty clause in their by-laws. Thus, in a letter dated August 17, 1904, Mr. Wells enumerated several companies not recognized by the Iowa Grain Dealers' Association "for the reason that they are organized on the Rockwell plan of making assessments."<sup>52</sup> In this way a few companies were induced to eliminate the clause, and also to become members of the state association.<sup>53</sup>

While the threatened and actual boycott of commission firms no doubt was a serious temporary obstacle to the cooperative companies and materially hindered the general progress of the movement for some time, nevertheless, the boycott could not be universally enforced. A few commission firms continued to accept shipments from them, nor did they discriminate against those that were organized "on the Rockwell plan of making assessments."

The grain dealers' associations realized, however, that it was this plan of making assessments, or, in other words, the penalty clause, which in a large measure accounted for the success of the cooperative companies. It was felt that after all if this clause could be eliminated, the progress of the movement might yet be stayed. The possibility of having the clause eliminated through a decision of the courts still remained open.

It should be remembered that the reason advanced by the grain dealers' associations for their opposition to the clause was their conviction that the clause was illegal. Mr. Wells, in testifying before the Interstate Commerce Commission, submitted a list of dealers recognized by the Iowa Grain Dealers' Association, and from this list were excluded the companies "who conduct their business according to the penalty clause plan, which plan according to the best legal

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<sup>52</sup> Interstate Commerce Commission, *Docket* 875, Vol. II, 1906. Quoted also in Sen. Doc. *Loc. cit.* p. 668.

<sup>53</sup> Sen. Doc. *Loc. cit.* p. 647.

advice we can obtain is illegal.”<sup>54</sup> It was declared that a company operating under the penalty clause was collecting penalties or assessments from those who were not selling grain to it and that these penalties were providing part of the expenses of operating the elevator. In consequence such a company buying grain would not have to buy it at a margin sufficiently wide out of which to pay operating expenses, while its competitor would have to pay a price higher than the market would warrant. Such, however, was not the view presented by the proponents of the cooperative movement. Mr. Messerole, then Secretary of the Iowa Farmers’ Grain Dealers’ Association, and editor of the *American Cooperative Journal*, offered the following in defense of the clause:

“No sooner did this farmers’ elevator come into existence than efforts were made by this powerful combination to disrupt these companies and rid themselves of this competition by paying a higher price to the members than the market would afford. As a result of this we have the penalty clause. . . . It is not in restraint of trade, because it has not been *against public interest*. A competitor is a *middleman* and not the *public*. This is the openly expressed opinion of Judge Cochran of the circuit court of Monticello, Ill.”<sup>55</sup>

The clause was brought before the circuit court of Monticello, Ill., toward the end of 1911. Suit was brought against The Farmers’ Grain Company, alleging that the penalty clause embodied in its by-laws was against public policy and implied a restraint of trade. Judge Cochran, who heard the case, did not sustain the charge for the reason already advanced.<sup>56</sup>

The legal status of the penalty clause has not been definitely settled. Suit was brought in 1913 against a local livestock shipping association in Iowa, which tried to enforce such a clause. The Supreme Court permanently enjoined

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<sup>54</sup> Interstate Commerce Commission, *Docket 875*, Vol. II, 1906. Quoted also in Sen. Doc. *Loc. cit.* 658.

<sup>55</sup> Interstate Commerce Commission, *Docket 875*, Vol. II, 1906. Quoted also in Sen. Doc. *Loc. cit.* p. 651.

<sup>56</sup> *American Cooperative Journal*, Vol. VII, p. 342.

the association from enforcing it because the court considered it to be in restraint of trade.<sup>57</sup>

The cooperative elevator companies soon enlarged their activities so as to include the handling of coal, lumber, and other farm supplies. They encountered considerable difficulty at first in this regard, in as far as wholesalers in these commodities refused to sell to them,<sup>58</sup> fearing that they would be boycotted by the retail dealers. This seems to have been true especially in regard to coal, a commodity which most of the companies handled.<sup>59</sup> But this difficulty did not present a serious obstacle to the progress of the cooperative movement.

All the various forms of attack directed against these companies failed of their primary purpose. In fact, they had the very opposite effect. The policy of opposition, as the Federal Trade Commission says in its recent *Report on the Grain Trade*, was from every angle a short-sighted and mistaken one.<sup>60</sup> "There is every reason to believe that it greatly stimulated the development of the cooperatives, for in the action taken by the regular elevators to suppress the movement the farmers undoubtedly saw the confirmation of all, and in fact more than all, that they believed as to prices that were paid for grain by the existing elevator concerns, and as to their methods and practices in general."<sup>61</sup> No doubt much of the progress of the movement, especially within more recent years, has been due also to the assistance given the local companies by the grain dealers' associations and kindred organizations, which the farmers founded for the promotion of their common in-

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<sup>57</sup> *Reeves v. Decorah Farmers' Cooperative Society*, 140 N. W., 844. Among the cooperative elevator companies, the clause has gone out of use almost entirely. A considerable number of them perhaps have it still in their by-laws, but they rarely if ever attempt to enforce it, and the advisability of its use as a coercive measure compelling members to sell their grain to their own company is seriously questioned.

<sup>58</sup> *Brief History of the Farmers Cooperative Grain Dealers Association of Iowa*, issued by the Association; O. N. Refsell, *Opus cit.* p. 984-5.

<sup>59</sup> *Ibidem.*

<sup>60</sup> Vol. I, p. 91.

<sup>61</sup> *Ibidem.*



terests. But whatever the precise reasons influencing the grain growers of a locality in each particular instance to organize, the fact remains that the cooperative elevator movement has continued to spread at an increasing rate, and today is strongly represented in all of the North Central States, and even beyond.<sup>62</sup>

Knowledge of the increase in the number of companies from year to year and the gradual spread of the movement to all of the North Central States may be gleaned from the accompanying tables. Mr. Refsell has shown this increase in number and spread in area for the period from 1903-1913.<sup>63</sup> Table I reproduces the results of his investigation. The table has, however, been slightly altered in as far as supplementary data have been included which recent surveys have made available. The number 30 has been included for Minnesota for the years 1903-1905, since it is learned from a survey conducted in that State in 1916 that there were then 30 companies which had been organized prior to 1900.<sup>64</sup> Similarly, from a survey conducted in Ohio, information is at hand for years prior to 1913, which Mr. Refsell does not include.<sup>65</sup> A number which is very probably incorrect is the one which Mr. Refsell cites for Kansas for 1913. Thirty-two, which is the figure he cites, represents the companies that were affiliated with the Farmers' Grain Dealers' Association,<sup>66</sup> but the actual number of companies in the State at the time was no doubt considerably greater. This view is confirmed by the fact that in 1914 there were 149 companies in Kansas, which would represent an abnormal increase in number.

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<sup>62</sup> There are many cooperative elevator companies in other States, especially in Montana, Oklahoma, and Colorado. *American Cooperative Journal*, *passim*. Cf. Report of the Federal Trade Commission, *Loc. cit.* p. 92.

<sup>63</sup> *The Farmers' Elevator Movement*, in "Journal of Political Economy," Vol. 22, p. 987 (Dec., 1914).

<sup>64</sup> Durand and Jansen, *Opus cit.* p. 9.

<sup>65</sup> Erdman, *Opus cit.* p. 141.

<sup>66</sup> *American Cooperative Journal*, Vol. VIII, No. 8, p. 670 (April, 1913).

TABLE I—*Showing the number of cooperative elevator companies in different states, 1903-1913*<sup>67</sup>

STATE	1903	1904	1905	1906	1907	1908	1909	1910	1911	1912	1913
Illinois.....	15	90	125	125	150	170	170	225	300	300	300
Iowa.....	7	30	78	175	200	209	250	300	324	347	347
Ohio.....		1	1	1	2	2	3	4	7	19	19
Minnesota.....	30	30	30	150	168	178	205	224	240	277	307
North Dakota.....				85	85	85	85	85	300	350	350
South Dakota.....				100	100	100	150	200	200	220	220
Nebraska.....						140	160	200	200	200	200
Kansas.....											32
Total.....	52	151	234	636	705	884	1023	1238	1571	1713	1775

Since 1913 the movement has spread rapidly, not only within the States for which statistics have just been cited, but in all the North Central States. To show the comparative growth of the movement within this area, statistics have been gathered for the period from 1913-1921. Table II reproduces the results of this investigation. In reading the table it should be remembered that the figures adduced represent approximately the number of companies and not the number of elevators owned by them. The number of elevators exceeds somewhat the number of companies, since some of the companies operate more than one elevator.<sup>68</sup>

<sup>68</sup> The Federal Trade Commission in its *Report on the Grain Trade* distinguishes between two kinds of cooperative elevator companies, namely, the individual and the line. Under cooperative line companies it classes those which own and operate more than one elevator. That the number of cooperative line companies and the elevators owned by them, is comparatively small, may be gleaned from the fact that the *elevators* reporting under this class, constituted only 1.06 per cent of the total number of all types of elevators reporting to the Commission, while the individual cooperative companies, namely, those owning and operating but one elevator constituted 18.4 per cent. Vol. I, p. 328. The cooperative line companies are found chiefly in Illinois, South Dakota, and Kansas, judging from the comparative number reporting from the different States. *Ibidem*. Mr. Millard Myers, the editor of the *American Cooperative Journal*, gives it as a personal opinion that the number of elevators exceeds the number of companies probably by 10 per cent.

<sup>67</sup> Mr. Refsell adds the following as an explanatory footnote: "The figures in the table are not in all cases strictly correct but approximately so. Accurate statistics are not available. In cases where the figures for a given year are missing, the figures for the preceding year have been inserted. The table is compiled from reports of annual meetings of state associations, as published in the *American Cooperative Journal*."

TABLE II—Showing the growth of the cooperative elevator movement in the North Central States, 1913-1921<sup>69</sup>

STATE	1914	1915	1916	1917	1918	1919	1920	1921
Iowa.....	350	360	387	433	450	467	525	637
North Dakota.....	350	400	425	450	500	530	550	551
Illinois.....	300	300	300	327	351	409	495	607
Minnesota (70).....	270	278	299	331	360	385	420	428
South Dakota (71).....	220	220	240	250	306	306	326	329
Nebraska.....	200	230	247	326	353	391	462	494
Kansas (73).....	149	200	242	242	368	400	500	572
Ohio (73).....	35	48	73	90	93	140	300	324
Indiana (74).....	25	45	45	60	60	100	149	225
Wisconsin (75).....	19	19	19	19	98	98	98	88
Missouri (76).....	13	13	13	13	13	13	72	98
Michigan (77).....	11	11	11	11	11	11	75	89
Total.....	1942	2124	2301	2552	2963	3250	3972	4442

At the beginning of 1914 the Office of Markets and Rural Organization of the U. S. Department of Agriculture undertook a survey of all cooperative marketing and purchasing associations among the farmers of the United States.<sup>77</sup>

<sup>69</sup> The un-annotated figures in this table are derived from three sources: Reports presented at the annual conventions by the Secretaries of the Farmers' State Grain Dealers' Associations, as published in the *American Cooperative Journal*, the official organ of the movement; reports of the State Secretaries to the writer in which they supplement or revise the annual reports; miscellaneous reports now and then published in the *American Cooperative Journal*.

These figures represent approximately the number of companies at the beginning of the year in which they are listed. Sometimes the annual conventions are held late in autumn. In these instances the figures have been carried forward to the following year. In all cases where figures for the succeeding year could not be obtained, those of the preceding have been inserted.

<sup>70</sup> For the years 1914 and 1915, the figures are taken from L. D. Weld, *Opus cit.* p. 6; for the years, 1916-19, from Black and Robotka, *Opus cit.* 23.

<sup>71</sup> For the year 1914, the figures are taken from O. B. Jesness and W. H. Kerr, *Opus cit.* p. 16.

<sup>72</sup> For the years, 1914-18, the figures are taken from H. E. Erdman, *Opus cit.* p. 141.

<sup>73</sup> For the year 1914, the figures are taken from O. B. Jesness and W. H. Kerr, *Opus cit.* p. 16.

<sup>74</sup> For the year, 1914, *ibidem*; for the years, 1918-20, from Hibbard and Hobson, *Cooperation in Wisconsin*, p. 14, Bulletin 282, 1917, Agricultural Experiment Station.

<sup>75</sup> For the years, 1914-17, the figures are taken from O. B. Jesness and W. H. Kerr, *Opus cit.* p. 16.

<sup>76</sup> For the year, 1914, *ibidem*.

<sup>77</sup> The results of the survey were published in the Bulletin of Jesness and Kerr, *Opus cit.*

From this survey an estimate as to the number of participants in the movement may be arrived at. The average membership of a cooperative elevator company, according to this survey, was 111.<sup>78</sup> Assuming the average of 1914 to be the average membership of a company in 1921, the total membership would be 493,062.<sup>79</sup> From data received as to non-members doing business with the 1,637 elevator companies reporting to the Office of Markets, it was estimated that their number would approximate 125,000.<sup>80</sup> Preserving this basis of proportion, the number of non-members at least occasionally doing business with the 4,442 cooperative elevator companies of the North Central States would approximate 333,000.

The Office of Markets in its survey arrived at estimates also as to the volume of business transacted by the individual company. For the North Central States the average approximated \$129,000.<sup>81</sup> This estimate, however, does not adequately reflect the volume of business in terms of money transacted at the present time, because the price level both for grain and other commodities handled by the cooperative elevator companies was considerably higher at the beginning of 1921 than in 1914, despite the recent decline in the prices of agricultural products. Thus, in Minnesota the average volume of business transacted by 278 companies in 1914 was \$107,901,<sup>82</sup> while in 1918, when prices for grain and other commodities had increased very considerably, the average volume of business transacted by each company in that State was \$232,423.<sup>83</sup> This is even proba-

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<sup>78</sup> The average for each of the North Central States was as follows: Illinois, 104; Indiana, 104; Iowa, 119; Kansas, 93; Michigan, 176; Minnesota, 125; Missouri, 115; Nebraska, 99; North Dakota, 74; Ohio, 106; South Dakota, 98; Wisconsin, 122.

<sup>79</sup> Total membership obtained by multiplying average by total number of companies.

<sup>80</sup> *Loc. cit.* p. 29.

<sup>81</sup> Average volume of business arrived at by dividing total volume by 12, the number of States in the North Central Group.

<sup>82</sup> L. D. Weld, *Opus cit.* p. 6. According to the estimates of the Office of Markets, the average volume of business transacted by the companies in Minnesota, was \$111,303. *Opus cit.* p. 18.

<sup>83</sup> Black and Robotka, *Opus cit.* p. 23.

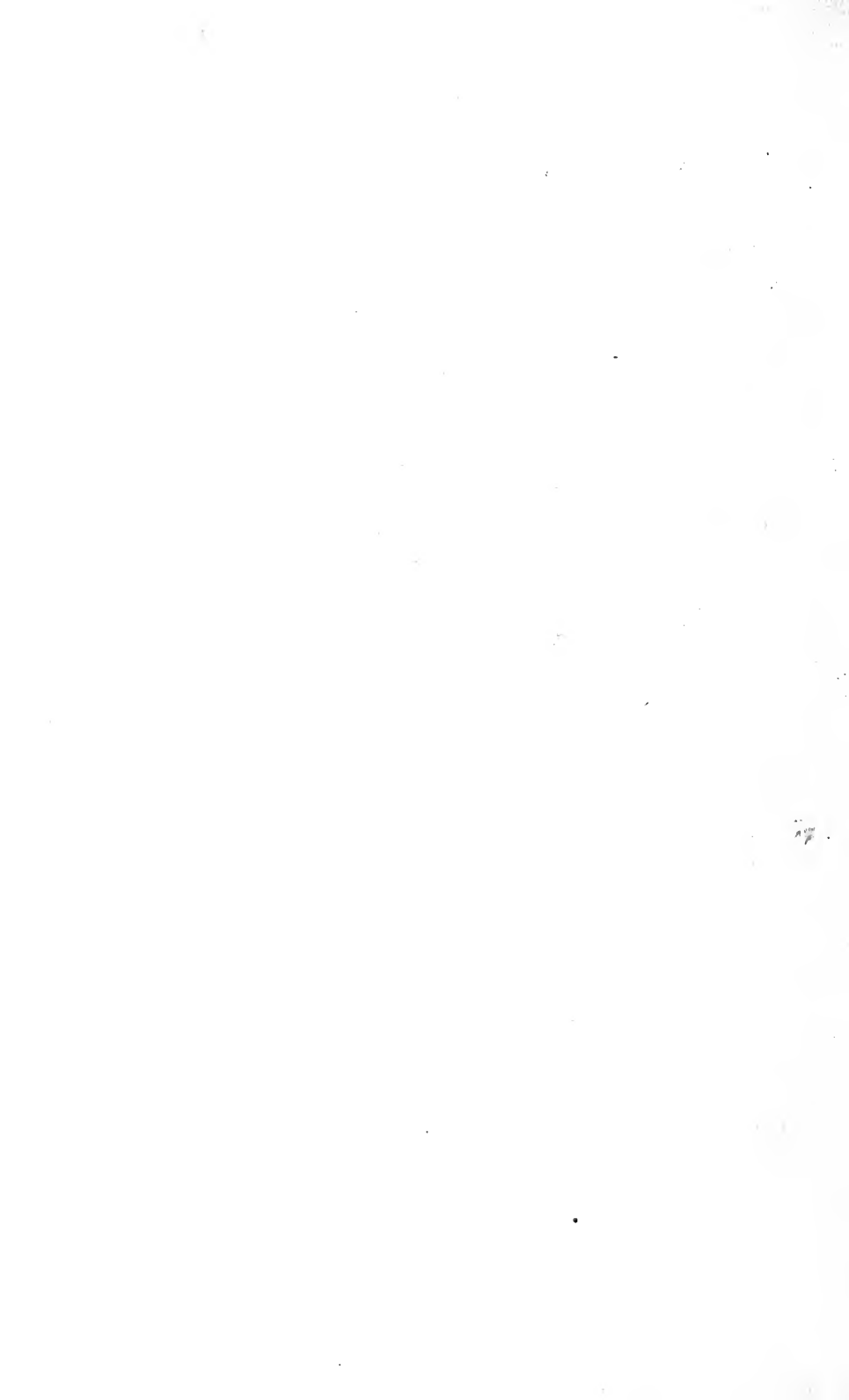
bly a conservative estimate in view of the fact that the cooperative elevator companies of Minnesota in that year handled on the average only 125,571 bushels of grain, while according to the Federal Trade Commission the average annual volume of grain handled by each individual elevator company during the period 1914-18 amounted to 153,000 bushels.<sup>84</sup>

To summarize briefly the present status of cooperative grain marketing at country points in the North Central States, as to the number of companies, membership, and volume of business, it may be said that approximately at the beginning of 1921 there were within that region 4,442 cooperative companies, representing a membership of 493,062 and a non-membership of 300,000 occasionally at least trading with these concerns, and transacting a total volume of business aggregating a billion dollars.<sup>85</sup> The structure and functions of these companies, as also the agencies assisting and promoting them, shall occupy the next two chapters.

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<sup>84</sup> The elevators owned and operated by the cooperative line companies during that same period handled 136,825 bushels, a considerably higher average than that reported by the Minnesota survey for the individual cooperatives of that State. See *Report on the Grain Trade*, Vol. I, p. 117.

<sup>85</sup> Computed by assuming \$232,423, the figure from the Minnesota survey quoted above, to be the average annual volume of business for an individual company.



## CHAPTER III

### THE STRUCTURE AND FUNCTIONS OF THE LOCAL MARKETING ASSOCIATIONS

The fundamental unit of the cooperative elevator movement is the local company or association. Hence it is essential to know the plan of organization of the local associations and the scope of their activities in order to understand the movement as a whole. To present this twofold phase of the study is the aim of the present chapter. It will include a consideration of the various types of organization that have been adopted by the cooperative elevator companies. Questions dealing with the internal management of the local companies, such as incorporation, the provisions of by-laws, the volume of business, and the distribution of profits also naturally find a place in this chapter. There has furthermore been included a description of the U. S. Grain Growers, Inc., an organization recently formed and designed to serve as a terminal marketing agency for the local companies.

In classifying the cooperative elevator companies of the North Central States into distinct types, it will perhaps be best to adopt their method of distributing profits as the basis of classification. Following this method, they may be divided into two general types, namely, those which distribute profits after the manner of ordinary stock corporations and those which distribute profits after the manner of true cooperative associations. But within each of these general types there are differences which demand that they be still further classified.

Some of the companies are organized as ordinary stock corporations in all particulars. In these there is no limit to the number of shares a stockholder may own; voting power is in proportion to the amount of stock in which each person has invested; and all net earnings are distributed in the form of dividends on the invested capital. There

are, however, also many companies which, while they distribute all net earnings in the form of dividends on the invested capital, have adopted certain cooperative characteristics in order to insure democratic management. Some of these companies adhere to the "one-man one-vote" principle, in virtue of which each member is allowed only one vote regardless of the amount of stock he may own in the enterprise, and still other companies follow also the other cooperative feature of setting a limitation upon the number of shares of stock in which a person may invest.

A few companies desirous of utilizing some of the advantages of the corporate form of organization and at the same time of avoiding some of its disagreeable features, such as the formal procedure and fee connected with incorporation, the payment of certain taxes levied upon them, and the filing of numerous reports, have organized themselves as joint stock companies. In these the net earnings are distributed to each member in proportion to the amount of capital he has invested, but the partnership relation among the members is maintained, and therefore each member is usually liable, jointly and severally, for all of the company's obligations.<sup>1</sup>

The companies that are organized as true cooperative associations may be divided into two classes, namely, those organized with and those without capital stock. In the cooperative capital stock corporations, each member is allowed only one vote on all questions regardless of the amount of stock he may own in the enterprise; a limitation is set upon the amount of stock he may own; and all net earnings, after the current or legal rate of interest has been allowed on the invested capital and other expenses have been provided for, are prorated to the members on the basis of the amount of business each one has transacted with the concern.

In those companies that are organized as cooperative associations without capital stock, certificates of membership are issued instead of certificates of stock. The capital necessary to conduct the enterprise is secured through a

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<sup>1</sup> Cf. J. M. Mehl and O. B. Jesness, *Opus cit.* p. 6.



membership fee, other assessments, and through loans. A reserve fund is set aside from which to repay these loans as they mature and to provide for interest, debts, losses, depreciation, and miscellaneous expenses. As in the cooperative companies with capital stock, the voting power of all the members is equal and all net earnings are prorated back to the members on the basis of the patronage that each has contributed to the enterprise.

While all of the elevator companies described may be classed as cooperative in the sense that the benefits derived from these enterprises accrue for the most part to the patrons through their cooperative effort, benefits which would not have been secured from a private concern owned and operated for the sole purpose of making profits, still according to the strict definition of the term only those companies which have been designated as *true* cooperative associations can be called cooperative. Only those embody the features which are generally set down as essential before an enterprise may call itself truly cooperative, and some of the state cooperative incorporation laws—as, for instance, those of Kansas, Nebraska, North and South Dakota, and Wisconsin—prohibit a corporation from using the word cooperative in its name or title unless it be conducted in accordance with these provisions.

What percentage of the elevator companies should be classed under each of the general types and under their subclasses it is difficult to state with accuracy because of the lack of available statistics. Certain it is that at the beginning of 1914, when the Office of Markets and Rural Organization of the U. S. Department of Agriculture made its survey of cooperative marketing associations, the vast majority of the companies distributed their earnings as ordinary stock corporations. Out of a total of 1,440 companies reporting from the North Central States, 73.6 per cent distributed their profits in this manner.<sup>2</sup> But many of the companies had certain cooperative characteristics. To quote directly from the report: "In all of them the stock is distributed among a number of farmers; in some there

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<sup>2</sup> Jesness and Kerr, *Opus cit.* pp. 14-24, 27.

is a limit to the number of shares of stock one person may own; often there are regulations in regard to the transfer of stock; and many of these organizations adhere to the 'one-man one-vote' principle. There are many instances where the stock is distributed among farmers, few holding more than one share."<sup>3</sup>

According to the same survey, 26.4 per cent of all companies reporting from the North Central States were truly cooperative in the sense that they distributed their profits on the basis of patronage.<sup>4</sup> But almost all of these companies were cooperative capital stock associations as opposed to cooperatives without capital stock.<sup>5</sup>

The survey makes no mention of companies organized on the joint stock principle. Perhaps no companies of this type reported or the number of companies reporting was so small as not to make it worth while to place them in a separate class. This form of organization has at no time been adopted to any notable extent by the cooperative elevator companies of the North Central States, and the reason for this is succinctly stated by Mehl and Jesness in their Bulletin on *The Organization of Cooperative Grain Elevator Companies*: "The joint stock company is adapted principally to small and compact organizations which desire to utilize some of the features of corporations and still retain a partnership relation between the members. For organizations made up of a large number of members each having a comparatively small financial interest it is neither a convenient nor a desirable form, and for that reason it has not gained general favor in the farmers' elevator field."\*

Since 1914 the number of companies distributing their profits on the basis of patronage has increased relatively at a very rapid rate as compared with the companies that distribute them in the form of dividends on the invested capital stock. This appears from a comparison of the survey just referred to with that of the Federal Trade Commission, whose *Report* was made public on September 20, 1920.

<sup>3</sup> *Opus cit.* p. 28.

<sup>4</sup> *Loc. cit.* pp. 14-24, 27.

<sup>5</sup> *Loc. cit.* p. 27.

\* *Bulletin* No. 860, U. S. Dept. of Agric., pp. 2, 3.

From the accompanying table, which is based upon these surveys, it is seen that out of a total of 1,440 companies reporting from the North Central States in 1914, only 26.4 per cent of this number distributed their profits on the basis of patronage, while in 1919,<sup>7</sup> out of a total of 1,074 companies reporting,<sup>8</sup> 61.1 per cent distributed them on this basis. Iowa is the only State in which this type of company shows a relative decrease in number during the period between 1914 and the beginning of 1919, and Illinois is the only other State in which it does not represent 50

TABLE—Showing relative increase in percentage of cooperative elevator companies paying patronage dividends in the North Central States, during the period 1914-1918, inclusive.<sup>9</sup>

STATE	Total number reporting		Percentage of total number paying patronage dividends.	
	1914	1918	1914	1918
Illinois.....	191	93	10.9	29.0
Iowa.....	210	142	50.9	35.2
Wisconsin.....	18	10	33.3	50.0
Indiana.....	25	19	32.0	52.6
Missouri.....	13	9	00.0	55.5
Minnesota.....	219	164	42.9	56.1
Michigan.....	11	7	36.3	57.1
Ohio.....	29	27	00.0	70.3
Nebraska.....	181	132	24.3	76.5
South Dakota..	134	140	21.6	77.8
North Dakota..	260	178	35.3	81.4
Kansas.....	149	153	30.2	92.1
Total.....	1440	1074	26.4	61.1

<sup>7</sup> Although the *Report of the Federal Trade Commission* was not made public until Sept. 15, 1920, "the field work was practically closed at the end of 1918." Some field work, however, was done also during 1919 and 1920, "chiefly in the way of checking the results obtained and bringing material other than schedule matter up to date as nearly as possible." Hence the figures here adduced can be taken to reflect with fair accuracy the present status of the companies in this regard. *Opus cit.* Vol. I, p. 20.

<sup>8</sup> This number does not represent all of the companies then existing. See Table II, p. 35 of the preceding Chapter. Only this number answered the enquiry as to the payment of patronage dividends. The *Report* calls attention to the fact which may also be gleaned from the accompanying Table, that only a very small number of companies from some States answered the enquiry, and that therefore the results arrived at for these States may not be quite representative. *Opus cit.* pp. 92, 93.

<sup>9</sup> The figures for 1914 are taken from Jesness and Kerr, *Opus cit.* pp. 14-24. For the year 1918, from the *Report of the Federal Trade Commission*, Vol. I, p. 92.

per cent of all the companies in the State in question. But also in Iowa and Illinois, the cooperative method of distributing profits has been adopted almost without exception by the companies that have been formed within the last few years. Thus, the Secretary of the Illinois Farmers' Grain Dealers' Association reports that 58 new companies were organized during the year 1918, and that all of these had organized on this basis;<sup>10</sup> that during the year 1919 eighty-six companies had been organized and eighty-five of these had adopted the cooperative plan.<sup>11</sup> Similarly, the Secretary of the Iowa Association reports that almost all of the companies are organizing on the cooperative basis,<sup>12</sup> and that very probably 50 per cent of the companies were cooperative at the beginning of 1921,<sup>13</sup> although he had no exact figures for his statement. In all of the North Central States the trend is very strong for all companies to organize on the patronage dividend plan. Many of the existing companies that have not as yet adopted this plan are reorganizing<sup>14</sup> in order that they may do their business on this basis.

It is fairly certain that almost all of the companies which distribute their profits on the basis of patronage are organized as cooperative associations with capital stock. The cooperative non-stock association has not found favor with the grain growers, although this form of organization is well adapted to make of the company a service institution for the community at large and not one operated for the benefit of the few. There are two reasons which have prevented this type of company from being extensively adopted. When the various legislatures of the North Central States first enacted laws authorizing cooperative

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<sup>10</sup> *American Cooperative Journal*, Vol. 14, no. 7, p. 254.

<sup>11</sup> *Opus cit.* Vol. 15, p. 22.

<sup>12</sup> *Loc. cit.* Vol. 14, p. 222.

<sup>13</sup> In letter to writer.

<sup>14</sup> See "American Cooperative Journal," *passim*, especially the annual reports of the State secretaries; Cf. Jesness, *Cooperative Marketing*, p. 10, Bulletin 1144, U. S. Dept. of Agric. (1920).

associations, they did not make specific provision for those without capital stock. Consequently the companies thus organized would have to forego the advantages of incorporation, since they could not incorporate either as ordinary stock companies or as cooperative capital stock associations. Incorporation, however, was generally very highly desired by those organizing a company, since in this way their financial obligations were definitely limited. But there is another reason more important why this type of organization has not found favor among the grain growers. A cooperative elevator company requires a large amount of initial capital. The average company at the present time issues a capital stock approximating \$20,000. Through experience the grain growers have found that the sale of shares of stock offers the most convenient method of procuring the necessary capital.<sup>15</sup>

Cooperative non-stock associations enjoy, however, certain privileges in Federal law which might have led to their more general adoption if similar privileges had not later been extended to the cooperative capital stock association. The first privilege to be referred to was granted in 1914, and is contained in the Clayton Amendment to the Sherman Anti-trust Law. Under this amendment, cooperative non-stock associations are exempted from the operation of the United States anti-trust laws. Section VI of this amendment reads in part:

"Nothing contained in the anti-trust laws shall be construed to forbid the existence and operation of . . . agricultural . . . organizations, instituted for the purpose of mutual help, and not having capital stock or conducted for profit, or to restrain individual members of such organizations from lawfully carrying out the legitimate objects thereof; nor shall such organizations or the members thereof be held or construed to be illegal combinations or conspiracies in restraint of trade under the anti-trust laws."

An extension of this privilege to the cooperative capital stock association was intended by the Capper-Hersman Bill, introduced in 1920 during the Sixty-sixth Congress. The

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<sup>15</sup> J. M. Mehl and O. B. Jesness, *Opus cit.* p. 4; Cf. O. B. Jesness and W. H. Kerr, *Opus cit.* p. 78.

bill provided that such organizations and their members would be exempt from the operation of the United States anti-trust laws, provided that no member of such associations be allowed more than one vote regardless of the amount of stock he might own, and provided furthermore that the associations do not pay dividends on stock in excess of 8 per cent per annum. The bill was passed in the Lower House on May 31, 1920,<sup>16</sup> and in the Senate on December 15, 1920,<sup>17</sup> and the bill thereupon went back into conference, but because of differences among the conferees it failed to pass. It was reintroduced with slight modifications by Representative Volstead in the Lower House and by Senator Capper in the Senate, and was passed in both houses by a large majority. It received the President's signature during the early part of February, 1922.

Another privilege enjoyed by the cooperative non-stock associations in Federal law relates to the income tax. According to the Revenue Act of 1917, elevator companies organized as cooperative non-stock associations could claim exemption from payment of the Federal income tax under the following clause, which specifically exempts—

"Farmers' fruit growers' or like associations, organized and operated as sales agents for the purpose of marketing the products of members and turning back to them the proceeds, less necessary selling expenses, on the basis of the quantity of produce furnished by them."

Under a strict interpretation of this clause, the elevator companies organized as cooperative stock associations could not claim exemption under this clause because they have a capital stock, and furthermore do not turn back all the proceeds of sales to their members on the basis of the quantity of produce furnished by them. Part of the earnings are returned to the members on the basis of invested capital stock; that is, all the invested capital stock receives a fixed rate of dividend. However, under the Revenue Act of 1918, companies organized as cooperative stock associations received their desired status. The wording of the exemption was not changed, but according to *Regulations*

<sup>16</sup> *Cong. Rec.* Vol. 59, No. 149, Sixty-sixth Cong. 2d sess. p. 8606.

<sup>17</sup> *Cong. Rec.* Vol. 60, No. 9, Sixty-sixth Cong. 3d sess., p. 381.

45,<sup>18</sup> "A corporation organized to act as a sales agent for farmers and having a capital stock on which it pays a fixed dividend amounting to the legal rate of interest, all of the capital stock being owned by such owners, will not for that reason be denied exemption."<sup>19</sup>

Most of the cooperative elevator companies handle a variety of commodities besides grain, and thus they act also as purchasing agents for their members. The following regulation applies to them in this regard:

"Cooperative associations acting as purchasing agents are not expressly exempt from tax and must make returns of income, but rebates made to purchasers, whether or not members of the association, in proportion to their purchases may be excluded from gross income in computing the net income subject to tax."<sup>20</sup>

But "any profits made from non-members and distributed to members in the guise of rebates are, of course, subject to tax."<sup>21</sup>

The extension of this privilege to the cooperative stock association and on the other hand, the specific provision that "if the proceeds of the business are distributed in any other way than on such a proportionate basis, the company will be subject to tax,"<sup>22</sup> will have a strong tendency for companies to organize as cooperative associations. This privilege no doubt accounts to a large extent for the recent increase in this type of company.

The present trend of the movement is such as to indicate clearly that the relative increase in the number of companies organized as cooperative stock associations will continue to be far more rapid than the increase of those which embody only one or the other truly cooperative characteristic, such as the equality of voting power and the limitation of stock ownership. The increasing number of companies which have organized on the former plan within recent years points to the fact that the grain

<sup>18</sup> The full title is, *Regulations 45 Relating to the Income Tax and War Profits and Excess Profits Tax under the Revenue Act of 1918.*

<sup>19</sup> *Opus cit.* p. 159 (1920 edit.).

<sup>20</sup> *Ibidem.*

<sup>21</sup> *Loc. cit.* p. 160.

<sup>22</sup> *Loc. cit.* p. 159.

growers are looking upon that plan as the best designed to accomplish the purpose a cooperative elevator company should serve, namely, that of an advantageous marketing agency for the community. The ability to incorporate under the state laws specifically enacted for this type of organization, the privileges granted to it in Federal law, the disadvantages and inconveniences attaching to the other types of organization, are all factors which will tend to make the cooperative stock corporation the predominating type according to which the cooperative elevator companies will organize in the future. Those entrusted with the general direction of the cooperative elevator movement, also favor the cooperative stock corporation, and their influence will be an important factor in its universal adoption.<sup>23</sup> Thus, the secretaries of the Farmers' State Grain Dealers' Associations, especially of those which employ secretaries that are to devote their full time to the association, are in a position to help those wishing to organize a company. Similarly, the American Cooperative Journal, the official organ of the movement, and also the Journals of such rural organizations, as the Farmers' Union, the Society of Equity, and the Equity Union, will exert an important influence in the same direction.

While there are undoubtedly few companies that will organize on any other basis except on that just described, there are, however, several obstacles which are preventing some of the present non-cooperative companies from re-organizing on a strictly cooperative basis. These obstacles arise chiefly from the circumstances under which these companies were formed. Some of them date back to a time when those who invested their money in an elevator company, did so with a large amount of risk. They are naturally inclined to the view that they ought to receive profits in accordance with the amount of their investment. Some of the companies were organized with the financial

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<sup>23</sup> As a summary proof that the leaders in the movement favor the cooperative stock corporation, we refer to the set of by-laws which the U. S. Department of Agriculture drafted in conjunction with the Secretaries of the Farmers' State Grain Dealers' Associations, and which demands the cooperative capital stock plan.



aid of local business men, such as bankers and merchants. They naturally oppose the plan of profits being distributed according to the amount of business transacted with the company since they have no business to transact with it in the nature of marketing grain. Some of the farmers are opposed to the plan likewise because they have large amounts of capital invested in the enterprise, and will, therefore, receive larger profits if these be distributed in the form of dividends on stock. Especially are they inclined to think in this way if they invested their money in the enterprise at a time when they did so with a large amount of risk and when others refused to invest precisely because of the attending financial hazards. Thus, it is sometimes impossible or at least difficult to reorganize a company on the cooperative plan because of a few dissenting stockholders. But as Mehl and Jesness in their Bulletin remark: "No serious difficulties are usually encountered, since most of the stockholders who are inclined to dissent realize that they cannot control against a majority of the members and that they will fare better to accept the terms offered than to have a new company organized, the old organization abandoned, and its property brought to a forced sale in dissolution proceedings."<sup>24</sup>

A factor recently entering the cooperative elevator movement, which will tend to exercise a strong influence for companies to reorganize on a truly cooperative basis and for new companies to adopt this method, is the U. S. Grain Growers, Inc. The local elevator companies are intended to become fundamental and affiliated units, and one of the requirements that they must meet in affiliation, is that they be organized on the truly cooperative basis.

It may be seen, therefore, from the foregoing discussion, that there are very few companies organized as non-stock cooperative associations or as joint stock companies; that almost all of them embody at least one or the other truly cooperative feature; and that the present tendency for all companies to organize as true cooperative associations is

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<sup>24</sup> *Opus cit.* p. 25. For methods of reorganization, see same Bulletin, pp. 24-26.

so pronounced as within a few years to make the number of companies organized on any other basis, relatively insignificant.

One of the first steps in organizing a cooperative company<sup>25</sup> is its incorporation under the laws of the State in which it is formed. Incorporation secures for the company a distinct legal status in all its transactions and relations.<sup>26</sup>

A set of by-laws is always drawn up, which outline the working plan of the company. They generally deal with the following items: name; object; membership; directors and officers; their rights and duties; rights and duties of the manager; amount of stock that can be held by each member and rules governing its transfer; indebtedness and liabilities; distribution of earnings; quorum and amendments. Care must always be taken that the by-laws be not in conflict with the provisions of the incorporation law of the state in which the company is formed.<sup>27</sup>

In former days the "penalty clause" was an important feature of the by-laws. While perhaps many companies still have it in their by-laws, they rarely if ever attempt to enforce it. As early as 1913, the clause had become of relatively little importance in many places. Professor Weld found that in that year in Minnesota, out of 166 companies only thirty-two, or 19.3 per cent, had a penalty clause in their by-laws and only two had used it.<sup>28</sup> At the present time the clause is no longer enforced. Not only is the clause doubtful legally,<sup>29</sup> but its usefulness as a means of insuring the support of the members to the organization is seriously questioned. As a coercive measure it has

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<sup>25</sup> For a fairly detailed description of the method to be followed and the precautions to be taken in organizing a company, the reader is referred to J. M. Mehl and O. B. Jesness, *Opus cit.* pp. 1-22.

<sup>26</sup> See Form of Incorporation at the end of the treatise, Appendix A.

<sup>27</sup> See form of by-laws at end of treatise, Appendix B. The reader is also referred to the work of Mehl and Jesness quoted above, which contains a set of by-laws prepared by the Bureau of Markets of the U. S. Department of Agriculture in conjunction with the Secretaries of the Farmers' State Grain Dealers' Associations.

<sup>28</sup> *Opus cit.* p. 8.

<sup>29</sup> See preceding Chapter, p. 32.

frequently only tended to antagonize the members.<sup>30</sup> Those entrusted with the organizing of new companies urge the adoption of the cooperative plan as the most effective substitute to guarantee the loyalty of the members.<sup>31</sup>

There is a great variation in the number of members comprising a company. While the average number is about 110,<sup>32</sup> there are many companies in which the membership is considerably higher and others in which it is very much lower. Some companies have a membership as high as 400 and others not as high as 15.<sup>33</sup> While the membership is as a rule for the greater part composed of farmers, not infrequently local merchants or business men own a few shares of stock. Provision is generally made in the by-laws whereby undesirable persons may be excluded. This provision is so framed as to allow only those to become members who have been recommended by the board of directors or who have received the approval of the majority of the stockholders.<sup>34</sup>

The general conduct of the business is vested in a board of directors, usually seven in number. The officers of the board are a president, vice-president, secretary, and treasurer.<sup>35</sup> The members of the first board of directors hold office for one year, that is, until the first annual meeting. The members to succeed them are generally elected for a term of office as follows:<sup>36</sup> three are elected for a term of one year; two for a term of two years; and two for a

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<sup>30</sup> Mehl and Jesness, *Opus cit.* p. 29.

<sup>31</sup> Cf. *American Cooperative Journal*, Vol. 12, p. 450 (Feb., 1917).

<sup>32</sup> See preceding Chapter, p. 36.

<sup>33</sup> Professor Weld in his survey referred to above, found that one company had 600 members, one 500, and two 400. The number of persons comprising a company may be still higher since both the State laws authorizing corporations or also cooperative associations, set no maximum as to the number of persons that may form an association. The number may also be smaller than fifteen, since in most states, the laws authorizing cooperative associations, fix the minimum at five. The cooperative incorporation laws of Nebraska and Indiana place the minimum at 25, while the one of Kansas places it at 20. These States are the only ones that require more than 10.

<sup>34</sup> See Appendix B at end of treatise, Art. IV, Sec. 3.

<sup>35</sup> Sometimes the office of secretary and treasurer is held by the same person.

<sup>36</sup> That is, when the number of directors is to be seven.

term of three years. Upon the expiration of the terms of the directors so elected, their successors are elected for a term generally of three years, but sometimes also for only one year. The most important single duty of the board of directors is to choose the manager of the company, for upon this choice in a large measure will depend the success of the company.

The amount of grain handled annually by an individual company varies greatly, depending upon a number of factors, such as the amount of grain grown in the particular locality, the amount of grain used for feeding, the facilities of transportation, the number of competitors, and the number of members comprising the company. According to the average arrived at by the Federal Trade Commission, an average based upon the annual purchases during the crop years, 1912-13 to 1916-17, the individual cooperative companies each handled 152,792 bushels annually. Of this amount, 49,543 bushels represented wheat; 39,754 corn; 48,279 oats; 2,311 rye; and 12,905 barley.<sup>37</sup> This average represented almost twice the volume of grain handled by the average elevator of a commercial line elevator company, and about one-third more than that handled by a local or independent dealer. During that same period, the individual elevators of the "cooperative line elevator companies," handled on the average a volume of 136,000 bushels annually.<sup>38</sup>

Besides the purchase, storage, sale and shipping of grain, a considerable number of the companies engage in what may be classed as secondary or incidental functions. The first of these to be mentioned, is the elevating and loading of grain for those who do not market their grain with the company, but ship it directly to the terminal market. Many grain growers, especially of the Northwest, prefer to ship their grain directly, either on account of dissatisfaction with the price, weight, or dockage, offered at the country elevator, or because they have such a large amount of one kind of grain as to make direct shipping profitable. Some

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<sup>37</sup> *Opus. cit.* Vol. I, p. 117.

<sup>38</sup> *Loc. cit.* p. 117.

of those shipping their grain directly to the terminal markets, load it themselves into the car, but the majority have it loaded from the country elevator. When this is done, the grain is unloaded from the wagon, is weighed, and elevated into a bin, and there stored until the farmer has hauled all his grain or until the grain has accumulated to an amount equal to the capacity of a car; then it is loaded into the car. About one-third of the companies engage in elevating and loading grain for direct shippers. The company of course makes a charge for performing this service, and this charge varies from one to two cents per bushel;<sup>39</sup> but in places where competition is keen, the service is sometimes performed free of charge.

The vast majority of the companies handle a variety of side-lines such as, coal, feeds, flour, building material, seeds, salt, cement, and various other farm supplies.<sup>40</sup> The shipping of live-stock has also been engaged in by many companies, especially by those of Nebraska and Iowa,<sup>41</sup> although the present tendency is to form distinct associations for this purpose.

Because of the large amounts of grain and side-lines handled, the financing of a cooperative elevator company constitutes one of its most important business features. Since the prevailing practice is to pay cash for all grain delivered, and since most of the local marketing of grain is done during a comparatively brief period of the year,<sup>42</sup> there is an inevitable lack of funds to carry on the business without the aid of outside loans. In 1914 the cooperative companies of the North Central States, according to estimates of the Office of Markets and Rural Organizations,<sup>43</sup> borrowed approximately \$27,000,000, an average of more than \$18,000 per company. Taking these figures as a basis,

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<sup>39</sup> *Loc. cit.* pp. 151-57.

<sup>40</sup> Out of the total number of cooperative companies reporting to the Federal Trade Commission, 82 per cent handled coal; 55 per cent, feeds; 41 per cent, flour; 17 per cent, building material; and 14 per cent, seeds. *Opus cit.* p. 173.

<sup>41</sup> Jesness and Kerr, *Opus cit.* p. 28.

<sup>42</sup> See for instance Yearbook of U. S. Dept. Agric., 1919, pp. 516, 525, 537.

<sup>43</sup> Jesness and Kerr, *Opus cit.* p. 51.

the 4,442 companies of the North Central States in marketing the 1919-20 crop, borrowed a sum of approximately \$80,000,000.<sup>44</sup> This represents a conservative estimate in view of the fact that the prices prevailing for grain and farm supplies during 1920 were considerably higher than during 1914.

The three main sources from which loans may be secured are, commission firms, local banks, and individual members of the company. Security for these loans is based upon agreements to ship certain amounts of grain to the loaning commission firm, upon mortgages on the elevator and equipment, endorsed company notes, warehouse receipts of grain in storage, and upon personal security notes of individual members of the company.<sup>45</sup>

The manner of distributing profits or earnings in a cooperative elevator company depends upon its plan of organization. Attention should be called to a difference of opinion that exists among some grain growers as to what should constitute the proper basis for the distribution of the patronage dividend. It has been held by some that the proper basis is the value of the grain purchased and not the number of bushels contributed.<sup>46</sup> As a consequence many companies have adopted this method of distributing profits.<sup>47</sup>

Many companies have adopted also the practice of distributing profits to non-members doing business with these companies. Usually this provision grants to non-members only one-half the amount received by members per unit of business, and no payment is made until the amount has

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<sup>44</sup> This sum for the greater part represents loans extending over only a few months.

<sup>45</sup> *Loc. cit.* pp. 27-28; Bassett, Moomaw, and Kerr, *Cooperative Marketing and Financing of Marketing Associations*, pp. 201-211; Report of the Federal Trade Commission, *Opus cit.* pp. 232-242. Some companies in order to increase their credit use a form of bond which states the undersigned will become responsible for any loans made by the corporation to the amount set opposite to their names or to an amount equal to their present share capital. In this way the credit of a company can be doubled without increasing the capital.

<sup>46</sup> J. R. Humphrey and W. H. Kerr, *Patronage Dividends in Cooperative Grain Companies*, p. 6, Bulletin 371, 1916, U. S. Dept. of Agric.

<sup>47</sup> Report of the Federal Trade Commission, *Loc. cit.* 31; See also Chapter VI, p. 124 of this treatise.

accumulated to the full value of a share of stock, which is then issued to the non-member, and confers upon him all the rights of a stockholder. While this practice is becoming more common and no doubt offers an effective method of securing new members, still there are many who advocate the retention of profits accruing from the business of non-members. Thus, Mr. E. G. McCullom, the secretary of the Indiana Farmers Grain Dealers Association, in explaining what he considers the best plan for the distribution of profits for the elevator companies of that State, says:<sup>48</sup>

"1. Pay capital the legal rate of interest.

"2. Pro-rate the profits on grain to grain. Pro-rate the profits on supplies to supplies.

"3. Keep the profits on non-members' business in the treasury for a rainy day, for one or two of those lean years which usually come."

Many companies make provision for the creation of a surplus fund. Ten per cent of the annual net earnings are sometimes set aside until a sum is reached equalling at least 30 per cent of the paid-in capital. This is required by the cooperative incorporation laws of some states, for instance, by those of Wisconsin, Minnesota and Iowa. Similarly, a fund representing 5 per cent of the annual net earnings is set aside by some companies for educational purposes and for promoting cooperation. The setting aside of a fixed percentage of the net earnings until a specified sum is reached, is a great aid in properly financing the company. It not infrequently happens that a company cannot offer acceptable security for loans except through the personal notes of some of the individual members, usually of the directors. This is placing a burden upon a few members which should be borne by all.

The foregoing explains in brief outline the structure and functions of the local grain elevator companies, when organized as complete, independent business units. It remains to study the variations of the existing companies not thus organized.

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<sup>48</sup> *Directory of the Farmers Grain Dealers Association of Indiana*, 1920, p. 44.

Several companies, though their number is comparatively small, operate on what is known as the County Unit Plan. According to the County Unit Plan, all the cooperative enterprises of the county in question, or as many as are willing to take this step, affiliate themselves with a centralized association and conduct their business as a unit. Cooperative stores, creameries, and other cooperative associations—all may become members of the centralized county organization. This plan, which has been specially fostered by the Farmers Union,<sup>49</sup> is most extensively developed in Kansas, where also a considerable number of cooperative elevator companies have thus affiliated themselves.

When the County Unit Plan is adopted by cooperative elevator companies, the functions of selling the grain and buying the supplies for them, is performed by the general manager of the county organization. Each day he receives information as to the amount of business each member has transacted with the local company. This information is so filed as to enable the central office to compute at any time the financial status of each affiliated association and of each member.<sup>50</sup>

It is customary for the central office to keep separate the accounts for each company. This is done because a considerable difference of opinion exists in regard to what should constitute the proper basis for the division of profits. In as far as some companies operate at relatively lower costs than others, it is seen that the former can pay higher dividend rates than the latter. In virtue of this fact, the companies with relatively lower costs, have favored the view that profits should be distributed in proportion to the profit that has been realized by each affiliated association

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<sup>49</sup> See Chapter IV, pp. 78-80.

<sup>50</sup> J. R. Humphrey and W. H. Kerr, *Opus cit.* p. 3. The principle of the County Unit Plan is exemplified whenever two or more companies conduct their business as a unit through a centralized organization, distinct from themselves. When one manager handles the business of two or more elevators, owned and operated by the same local company, as is sometimes the case, or even when a manager is appointed for each elevator owned and operated at neighboring places by one company, there is no principle of organization involved different from that described in the pages immediately preceding.



and should not be equalized according to the transactions of the association as a county unit.<sup>51</sup>

A form of organization, more elaborate and complex than the County Unit Plan, is represented by those local companies that are members of a centralized association which engages in terminal grain marketing functions, such as the buying and selling of grain on the exchanges or boards of trade and the operating of terminal elevators. Under this system, the unit of membership in the centralized association is the local company, which is a stockholder therein, which is expected to consign its grain to it, and which receives profits from the centralized association in proportion to the amount of business it has contributed to it. Until the present, however, the terminal cooperative marketing associations, operating on the boards of trade have not been able to pro-rate profits to their members in the form of a patronage dividend because this practice is considered by the grain exchanges the granting of a rebate, which is forbidden according to their rules. In this connection it may, however, be of interest to remark that the Federal Future Trading Act, recently passed, forbids a grain exchange or a board of trade to be classified as a "contract market" unless its governing board admits to membership and all privileges, "any duly authorized representative of any lawfully formed and conducted cooperative association of producers having adequate financial responsibility." The Act furthermore specifically states "that no rule of a contract market against rebating commissions, shall apply to the distribution of earnings among the *bona fide* members of any such cooperative association."<sup>52</sup>

In the North Central States, the number of companies that are at the present time thus affiliated to a terminal marketing association, is comparatively very small. The companies that are stockholders in the Equity Cooperative

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<sup>51</sup> *Opus cit.* p. 7. A discussion of the advantages and disadvantages of the County Unit Plan is deferred to the Chapter on the Factors of Success in Cooperative Grain Marketing.

<sup>52</sup> H. R. 5676, Sec. 5, c, 67th Cong. 3d sess.

Exchange<sup>53</sup> of St. Paul, Minn., are probably the most conspicuous example of this development in the cooperative elevator movement. There are, however, several organizations in the process of formation at the present time which contemplate engaging in terminal marketing operations, and of which local companies will be stockholders and directors.<sup>54</sup>

These organizations are the result of a growing conviction among the grain growers that they should not confine their efforts locally to the problem of grain marketing, but should extend them to the functions surrounding the marketing of grain in the terminal markets. The newest development in this direction is the U. S. Grain Growers, Inc. This organization represents substantially the ideas of the "Committee of Seventeen," which upon a call issued by the American Farm Bureau Federation,<sup>55</sup> convened at Chicago on July 23 and 24, 1920, for the purpose of discussing plans through the adoption of which the marketing and distribution of grain might be improved. After an interval of six months devoted to a study of the question, the committee met in conference at Kansas City on February 17, 1921, where they adopted what has popularly come to be called, "The Plan of the Committee of Seventeen."<sup>56</sup> This plan was submitted to the grain growers of the various states. Meetings were held in various sections for the purpose of discussing the plan and select-

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<sup>53</sup> The Equity Exchange was organized in 1908 under the auspices of the American Society of Equity, and was incorporated in 1911 under the laws of North Dakota. The Exchange controls about 100 country elevators, but they are for the greater part owned and operated by the Exchange as a corporation, and not by growers organized into local companies. Only a few local companies own stock in the Exchange. Being denied representation on the Minneapolis Grain Exchange as long as it would insist on prorating profits to its members on the basis of patronage, the Exchange established a market place in St. Paul. See J. M. Mehl, *Cooperative Grain Marketing*, pp. 17-18, Bulletin 947, U. S. Dept. of Agric.; J. E. Anderson, *The Equity Cooperative Exchange*, a paper contributed to the Third National Conference of Markets and Farm Credits, 1915.

<sup>54</sup> Mehl, *Opus cit.* p. 18.

<sup>56</sup> The Plan was published by the Committee in a brochure called, *An Outlined Explanation of the Proposed Grain Marketing Plan of the Farmers Grain Marketing Committee of Seventeen.*

<sup>55</sup> A brief description of this Federation will be given in the next Chapter.

ing delegates for the conference to be held in Chicago on April 6, 1921. The conference was convened on the appointed date. On the following day, the plan as originally drafted by the committee was ratified in its entirety except for a few minor changes. The immediate result of this conference was the organizing of the association, known as the U. S. Grain Growers, Inc. The certificate of incorporation was soon issued and the by-laws adopted, as were also the contracts whereby the mutual business relations of the U. S. Grain Growers, Inc., the local cooperative elevator companies and the individual grain growers affiliated with it, are to be governed.<sup>57</sup>

The U. S. Grain Growers, Inc., if it grows to the dimensions as intended by the plan of which it is the concrete embodiment, will easily be the largest cooperative association in the world, and in the volume of its transactions will rival the largest corporations in this country at the present time. The plan carries with it an invitation to every grain grower in the United States to become a member of the U. S. G. G., which will act as a national sales association for its members. Were this plan universally adopted, it would mean that the selling of all the surplus grain of this country, gigantic in volume, would be concentrated in a single organization. The plan is vast in its concept, and, if found successful, may greatly modify the present method of marketing and distributing grain in this country. The U. S. G. G. is designed primarily as a service institution for the local cooperative elevator companies, since it is to handle their grain in the terminal markets. The local companies are intended to become affiliated associations, and thereby will become basic and integral parts of the U. S. G. G. In places where there are

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<sup>57</sup> The certificate of incorporation as also the chief provisions of the by-laws may be found in the issue of the *American Cooperative Manager*, p. 5-6, April 10, 1921 (Vol. VI, no. 7). The contract between the local cooperative elevator company and the U. S. Grain Growers, Inc., may also be found in this issue, but this contract as also that governing the relations of individual growers and the National Association have been revised. The description to follow is based on the contracts as revised on June 20, 1921, and contained in a brochure issued by the Department of Information of the U. S. Grain Growers, Inc.

local affiliated companies, individual grain growers can take out membership in the U. S. G. G. only on condition that they enter a contract in virtue of which they agree to let the local company handle all their surplus grain. In places where no local cooperative elevator companies have been established, individual growers may contract directly with the U. S. G. G. for the handling of their grain, but it is the intention that the growers of such communities organize themselves into local affiliated companies at the earliest opportunity. On the other hand, the local companies must meet a series of requirements in affiliation, and this will necessarily require several changes in the structure and functions of a considerable number of them, provided they wish to affiliate themselves.

The U. S. G. G. in its structure is a non-stock, non-profit organization.<sup>58</sup> Control of its operations and policies rests in a board of directors consisting of 21 members, chosen in the following manner. Each local community, organized into an affiliated cooperative elevator company or into a local grain growers' association, elects a delegate to an annual convention which will be composed of all the affiliated local companies and associations of the respective Congressional District. This will be called the Congressional District Convention. Each District will be entitled to one delegate at the annual convention of the national association. The election of all delegates as also the members of the board of directors will be determined by a majority vote. In order that one may be a member of the board of directors, it is necessary that he be also a member of the U. S. G. G. Anyone who holds an elective or appointive political office, is barred from membership on the board, and if at any time during his term he accepts a political office, his membership automatically ceases.<sup>59</sup>

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<sup>58</sup> The difference between a non-stock, non-profit association and one organized with capital stock and conducted for profit is illustrated by those local elevator companies organized as cooperative non-stock associations, and those organized as ordinary stock corporations.

<sup>59</sup> By-laws, Art. II and III.

The aim of the U. S. G. G., as expressed in its certificate of incorporation, is :

"To improve the methods of preparing, storing, and handling agricultural products including grain and products thereof; to reduce the cost of producing and marketing such products; to reduce speculation, manipulation, and waste, and all unnecessary transactions in such marketing; to encourage scientific and advanced farming practice; to stimulate and advocate the planting of the most desirable varieties; to increase the consumption, build up new markets, and develop new uses for such products; to facilitate the transportation and the collection of claims regarding the transportation of such products; to market same directly and with regularity so as to furnish the same economically to the manufacturers and users thereof; to preserve for the growers and the public their proper profits and economies to establish uniform business administration and accounting methods among farmers, warehouses, elevators, and members of this corporation; to do everything necessary, suitable and proper to advance the interest and benefit of the growers of grain and those engaged in allied businesses."

To accomplish its central aim, namely, the improvement of grain marketing methods, the U. S. G. G. will act as a national sales association for the grain contributed by its members. In pursuance of this aim, the association is authorized to establish as it deems advisable:

"(a) Branch sales offices at important grain markets to handle the grain for each natural grain district.

"(b) Terminal elevator service in connection with sales offices, either by contractual arrangements for same, or through the organization of a company or companies, which may lease, buy, or build terminal elevators.

"(c) Facilities for financing the marketing of grain through the organization of a finance corporation whose capital stock shall be subscribed to by members, so far as possible.

"(d) Facilities for marketing the exportable surplus of grain and related products.

"(e) Service departments furnishing information covering local, national, and worldwide conditions affecting the grain trade; also information and service in connection with transportation, legal, statistical, and other problems."<sup>60</sup>

In accordance with these provisions, a number of subsidiary corporations have already been formed; others are in the process of formation, to which still others may be added as the need arises.

<sup>60</sup> By-laws, Art. X, Sec. 2.

Sales offices will be established for zones forming natural units on the basis of commercial connections and transportation facilities.<sup>61</sup> General offices are contemplated for St. Paul, Minneapolis, Chicago, Cleveland, Omaha, Kansas City, Spokane, Ft. Worth, and New York City.<sup>62</sup> A temporary selling agency has been established at St. Paul, under the direction of J. M. Anderson, president of the Equity Cooperative Exchange.<sup>63</sup> According to official information of the publicity department of the U. S. G. G., two million bushels of grain had been handled on the St. Paul market before September 25, 1921.<sup>64</sup> No permanent selling agencies have thus far been established, but according to recent announcement such agencies will be established immediately at Chicago, Omaha and Minneapolis.<sup>65</sup>

A corporation subsidiary to the U. S. G. G., the fiscal agency known as the Farmers Finance Corporation, was launched during the latter part of June, 1921. Its capital stock is \$100,000,000, divided into 1,000,021 shares, 21 of which are common and 1,000,000 preferred. The 21 shares of common stock will be without nominal value. Control of the corporation will, however, rest in the holders of these shares, and they will be held by the board of directors of the U. S. G. G. The shares of preferred stock will be issued in denominations of \$100, to be sold to the members of the U. S. G. G. as far as possible. In the event of dissolution, the assets of the corporation will revert to the holders of the preferred stock.<sup>66</sup> The quick assets of the corporation will probably consist in notes secured by warehouse receipts, bonds, and commercial paper.<sup>67</sup> The finance corporation will assist the other subsidiary agencies of the U. S. G. G. by furnishing them with money and credit in their business transactions. Local affiliated companies may

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<sup>61</sup> *American Cooperative Manager*, April 25, 1921, p. 5.

<sup>62</sup> *Ibidem*.

<sup>63</sup> See this Chapter, p. 58.

<sup>64</sup> *American Cooperative Manager*, Sept. 25, 1921, p. 19.

<sup>65</sup> *American Cooperative Journal*, p. 31, April, 1922.

<sup>66</sup> *American Cooperative Manager*, June 25, 1921, p. 40. The shares of stock are transferable but they must in the first instance be offered to the corporation. *Loc. cit.* July 25, 1921, p. 11.

<sup>67</sup> *Loc. cit.* p. 11.

borrow money from the finance corporation, provided they furnish suitable collateral, and provided no better market is open for the investment of its securities.<sup>68</sup>

Very little progress has thus far been made in placing the finance corporation on a solid basis. Farmers have not been willing to subscribe to its stock, a fact due very probably to the money stringency on account of the depressed prices of agricultural products and to the fact that the stock of the finance corporation is not entitled to a fixed rate of return. Probably a new method of financing will have to be devised. The building up of proper selling agencies and the securing of adequate finances are the immediate problems that are facing the officers of the organization. Reliance will, however, not be placed alone upon the finance corporation to furnish the finances of the movement. Each member of the U. S. G. G. must pay an initiatory fee of ten dollars, and everyone contributing grain to the U. S. G. G. permits a reduction from his proceeds to cover the cost of handling.

Besides the sales and financing agencies, there are six other service departments or subsidiary corporations of the U. S. G. G. They are the legal, statistical, and pooling departments, and those of transportation, organization, and information or publicity.<sup>69</sup> In order to avoid duplication, the service departments will be correlated as far as possible with the already existing agencies with similar purposes. Several cooperative commission firms have been established in the terminal markets to serve some of the cooperative companies at country points, and it is the intention of the U. S. G. G. to cooperate with these agencies to the fullest extent. Similar correlation will be sought with the farmers' grain dealers' associations and kindred organizations, which are now serving the local companies in various ways, such as providing advantageous insurance and bonding rates, supplying auditors, etc.

Membership in the U. S. G. G. is limited to the "producers of grain and related products," who comply with

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<sup>68</sup> *Loc. cit.*, June 25, 1921, p. 49.

<sup>69</sup> *Loc. cit.*, April 25, 1921, p. 5.

its by-laws and regulations, and enter contracts whereby they agree that the U. S. G. G. will handle exclusively their surplus<sup>70</sup> grain. Everyone upon becoming a member of the U. S. G. G. must pay a fee of ten dollars, to which he relinquishes all future claim, as it is merely an evidence of good standing and creates no property right, and will be used to provide a part of the working capital.<sup>71</sup>

The individual members of the U. S. G. G. in order to make use of its facilities, must also be members of the local affiliated elevator company, provided they reside in a community where such a company has been established.<sup>72</sup> Local elevator companies must meet certain requirements before they can be affiliated with the national association. They must be organized under the cooperative incorporation law of the state in which they operate; they must distribute their net earnings on the basis of patronage; and they must enter a contract with the national association.<sup>73</sup> Local companies organized in states which have no cooperative incorporation law, must be cooperative in the sense that the national association will attach to the term.<sup>74</sup>

The considerable number of companies that distribute their profits after the manner of ordinary capital stock corporations do not meet the requirements necessary for affiliation. Such companies may reorganize on a truly co-

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<sup>70</sup> By this term is meant all grain that is not used for feeding, for seed, or for milling into flour for one's own use. Only upon permission of the local company or grain growers' association, or upon permission of the national association in cases where no such local companies or associations exist, is the producer allowed to dispose of his surplus grain in any other way than that described.

<sup>71</sup> By-laws, Art. I.

<sup>72</sup> In places where there is no affiliated company or grain growers' association, individual members may contract with the U. S. G. G. for the direct shipment of their grain.

<sup>73</sup> *U. S. Grain Growers, Inc.*, a brochure issued by the *Department of Information*, p. 11.

<sup>74</sup> The following requirements have been set down for such companies: "1. Each stockholder can have only one vote; 2. Each stockholder can own only a limited amount of stock; 3. Dividends on stock must be limited to a reasonable rate; 4. The earnings, above cost and surplus funds, must be distributed as patronage dividends; 5. No proxy voting may be allowed unless required by statute; 6. Ownership of stock must be limited to grain growers; 7. Stock must be available for sale to any grain grower in the community who wishes to become a member." *Loc. cit.* p. 11.



operative basis, or when this is difficult or impossible, the stockholders or directors who are members of the U. S. G. G. may organize themselves into a local grain growers' association, which will thereupon assume the same functions as those companies meeting all requirements. In the event of stockholders or directors not taking such action, the national association will make no attempt to organize a cooperative elevator in that community before January 1, 1924.<sup>75</sup>

The business relations of the individual members and the local affiliated companies or growers' associations with the U. S. G. G., are specified in two complementary agreements. The first of these is known as the Grain Growers' Contract, whereby the individual member agrees that the local affiliated company shall handle all his surplus grain; the other is called the Elevator Contract, whereby the local company or association agrees that the U. S. G. G. shall handle all the grain contributed to the local company by the individual members. By violating these provisions of the contracts, both the individual growers and the local companies agree to pay certain sums as liquidated damages.<sup>76</sup> The first term of these contracts is to be for a period of five years, and hence will extend to June 30, 1927.<sup>77</sup> Thereafter the contracts are to continue in effect from year to year until either party terminate the same.<sup>78</sup>

The method according to which grain shall be handled and sold is determined by the individual member. Three distinct methods of sale are open to him. He may sell it at the current market price to the local affiliated company, and receive also a patronage dividend if sufficient profits have been realized from the transaction to warrant its payment.<sup>79</sup> He may also consign his grain to the national

<sup>75</sup> By-laws, Art. X, Sec. 4.

<sup>76</sup> See *Grain Growers' Contract*, Sec. 13; *Elevator Contract*, Sec. 14.

<sup>77</sup> *Grain Growers' Contract*, Sec. 4; *Elevator Contract*, Sec. 13.

<sup>78</sup> For conditions governing the termination of the contracts, see *Grain Growers' Contract*, Sec. 14, B-3; *Elevator Contract*, Sec. 13.

<sup>79</sup> *Grain Growers' Contract*, Sec. 13, A-1. The contract does not specifically state that a patronage dividend will be allowed on such transactions, but it is stated in the official brochure, *The U. S. Grain Growers, Inc.*, p. 24.

association, the local company acting as a forwarding agent. The net proceeds, less the cost of handling, will be returned to the grower.<sup>80</sup> The elevator company, however, is exempt from any losses or damages that may occur in the handling of the grain except for those of which it is the proximate cause. The third method according to which grain may be handled, is that of pooling. This method of sale and handling involves the collection of grain for storage, the centralization of the selling responsibility, and the reception of average prices for grain of like kind and quality.

The pooling feature as elaborated by the U. S. G. G. is characterized by elasticity, there being three distinct methods of which the members may avail themselves. Grain may be pooled locally. All the members of a local affiliated elevator company, or as many as care to take this step, may agree that all the grain contributed by each shall be commingled with grain of like kind and quality, to be sold during a period agreed upon, and the payment received to be "the average price secured for all grain of like kind and grade so commingled and sold, less deductions for costs of handling \* \* \* and subject to such equitable differentiations as said company may find necessary to establish."<sup>81</sup> The administration of local pools will be under the jurisdiction of a local pooling committee, consisting of three members, chosen by those who wish to avail themselves of this method of sale. This committee exercises "complete control over the handling, shipping, and selling of all pooled grain, determining the time, quantity and destination of sales, and effecting all necessary contracts and other arrangements for storage, etc., which may be deemed necessary for the efficient marketing of said grain."<sup>82</sup>

The members of the U. S. G. G. may also elect to have their grain handled on the basis of joint pooling. When

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<sup>80</sup> *Grain Growers' Contract*, Sec. 13, A-2.

<sup>81</sup> *Loc. cit.*, Sec. 14, B-1.

<sup>82</sup> *Loc. cit.*, Sec. 14, B-1, c. The control of the local committee extends only to the grain contributed to the local pool. For a more explicit statement of the committee's rights and duties, see Sec. 14, B-1, d-p.

this method of sale and handling is adopted, the grain pooled locally is commingled with other grain of like kind and quality, belonging to one or more of other affiliated companies. It is within the jurisdiction of the local pooling committee to decide whether the grain contributed to the local pool, shall be handled on a joint basis. The individual grower has the same right in regard to his own grain. The national association exercises complete control over the joint pool, returning of course the net proceeds to the members contributing to such pools.<sup>83</sup>

A third method of pooling is that known as the Partial Grain Pool. Under this arrangement the grower elects to pool one-third of his grain, the balance of which may be handled on the basis of cash sale or consignment. The administration of the partial pool will be under the control of the national association.<sup>84</sup>

In as far as grain pooling involves the reception of average prices for grain of like kind and grade it takes on the aspect of an insurance measure. It guarantees the producer against receiving the lowest market price that will prevail at any time within the period covered by the pooling contract, and, it likewise will prevent him from receiving the highest market price prevailing at any time within that same period. The differential between the average price for the entire term of the pooling contract and the highest price prevailing at any specific time during that same period, may be looked upon as the highest possible cost of carrying such insurance.<sup>85</sup>

The local affiliated companies or grain growers' associations assume several other obligations besides those connected with the handling of the grain of the individual members. They must obey the rules and regulations which the national association may issue for standardizing the manner of keeping warehouse records and accounts, as also

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<sup>83</sup> *Loc. cit.* Sec. 14, B-2.

<sup>84</sup> *Loc. cit.*, Sec. 14, B-3.

<sup>85</sup> This presupposes of course that grain can be handled as economically on a pooling basis as on that of cash sale or consignment. The pooling feature of the plan has thus far met with little favor.

those issued for providing inspectors and weighers to standardize the methods of weighing, handling, storing and shipping of grain. They likewise agree to furnish the national association with statistical crop data of the community, and permit it to examine and audit their accounts, records, and reports.<sup>86</sup> In cases when a lien exists upon the grain covered by the contract, the company must report this fact to the national association. The association may then pay off the lien in part or wholly, from the proceeds of such grain, and deduct all expenses connected with it.<sup>87</sup> Losses sustained by the local companies or associations on account of their own negligence shall be charged to them, but they have no financial liabilities for debts incurred by the national association in its own name. On the other hand, the national association is exempt from liability to the companies or associations when it sustains losses not due to its own negligence.<sup>88</sup>

The U. S. G. G. is a non-profit association, and hence must perform its services at cost. In other words, all the proceeds realized on its transactions, must be returned to the members after the cost of handling the business has been deducted. The same statement applies to the local affiliated companies or grain growers' associations.<sup>89</sup> All the proceeds accruing to the U. S. G. G. will be blended into a general fund. The board of directors may deduct from time to time such uniform amounts or percentages as shall be regarded necessary to meet the expenses of handling grain committed to it by its members, and to provide other funds necessary in carrying out the purposes of the association, such as the leasing or buying of elevator facilities, the creation of reserves, the control and operation of subsidiary corporations, etc.<sup>90</sup> As far as

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<sup>86</sup> *Elevator Contract*, Sec. 4-5.

<sup>87</sup> *Loc. cit.*, Sec. 7. This obligation of the local company or association is based upon the previous obligation of the individual member to give a signed statement to the company, showing what liens, if any, there are upon the grain he delivers. The company has the right to pay off these liens if it cares to meet the situation in this manner. *Grain Growers' Contract*, Sec. 9.

<sup>88</sup> *Loc. cit.* Sec. 8, 9.

<sup>89</sup> *Grain Growers' Contract*, Sec. 17; *Elevator Contract*, Sec. 12.

<sup>90</sup> *Elevator Contract*, Sec. 12.

possible, all operating and capital expenditures will be levied against the grain necessitating them. When grain contributed to the U. S. G. G. is sold by it on a grain exchange and no other service of a substantial character is performed, it may levy against such grain not more than one per cent of its value, "unless the standard charge for similar service shall be more than one per cent."<sup>91</sup> "On other grain where facilities requiring capital investment are used, the maximum deductions for any one year from the proceeds of all sales of grain to be made for capital expenditures, interest charges, etc., (aside from ordinary operating, including overhead expenses) in order to acquire ownership or control over marketing facilities shall in no case exceed one per cent of the value of the grain so handled by the U. S. Association."<sup>92</sup> The amount of expenditures deducted for the cost of handling and for such other charges as shall be deemed necessary by the board of directors, will always be estimated for the ensuing year. In case the sum exceeds the requirements, the board of directors at its own discretion may invest the balance of the sum to meet future obligations or it may distribute this balance to the individual members.<sup>93</sup>

The U. S. G. G. at stated intervals will issue certificates to the local affiliated companies or associations, indicating the proportionate amounts deducted from the proceeds for the cost of handling and for the acquisition of facilities deemed necessary in carrying out its purposes. The affiliated companies will issue certificates to the individual members, based on those received from the national association. "The said certificates shall be assignable freely by endorsement; but shall not be deemed as obligations of the U. S. Association with definite or other maturity, and shall not bear interest; and they shall not represent any obligations or rights, other than a proportionate ownership in certain assets held by the U. S. Association, which shall not be separable or subject to distribution during the life of

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<sup>91</sup> *Loc. cit.*, Sec. 12.

<sup>92</sup> *Ibidem.*

<sup>93</sup> *Ibidem.*

the U. S. Association except at the option of the duly constituted Board of Directors. \* \* \*"<sup>94</sup>

This then in brief outline presents the "Plan of the Committee of Seventeen" as finding application in the U. S. Grain Growers, Inc. While the organization is as yet distinctly in the formative stage, the soliciting of members and the affiliating of local companies is well under way in several of the important grain producing States.<sup>95</sup> That the plan as thus far elaborated may have to be modified in order to accommodate itself to conditions that may not have been foreseen, is readily appreciated. It will likewise not be surprising that the plan should not meet with universal approval even among those who are firm believers in the value of cooperative marketing, if we consider the vastness or magnitude of the plan itself, and especially if we consider the manifold minute provisions of the two contracts summarily outlined in the preceding pages.<sup>96</sup> A study shall now be made of those agencies or associations which have assisted the local companies in performing their functions, and thereby have contributed materially in advancing the cooperative elevator movement to a stage where an organization like the N. S. Grain Growers, Inc., became a possibility.

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<sup>94</sup> *Ibidem.*

<sup>95</sup> See *American Cooperative Manager*, April 25, 1922, p. 288.

<sup>96</sup> Mr. Charles Kenning, the president of the Minnesota Farmers' Grain Dealers' Association, has offered various objections to the plan, and has published them in a brochure, entitled, *Question Book regarding the Proposed Grain Marketing Plan of the Committee of Seventeen*. It is to be noted, however, that Mr. Kenning is not here writing in the name of the association.

## CHAPTER IV.

### AGENCIES PROMOTING COOPERATIVE GRAIN MARKETING.

Cooperative grain marketing as representative of a movement, shows a uniformity of development, which has manifested itself in the tendency toward centralization. After a number of local companies had been formed within a state, they soon realized that they could advance their common interests more effectively by concerted action. This conviction led them to organize farmers' state grain dealers' associations. In all of the North Central States except Wisconsin, such associations have been organized. In 1913 the then existing state associations federated into the National Council of Farmers Cooperative Associations, an organization which represents the interests of the cooperative elevator movement in matters of interstate and national import. The necessity of an official organ devoting itself to the educational and publicity aspects of the movement, was also soon recognized, and this led to the formation of the American Cooperative Publishing Company in 1911. All these organizations have as their sole purpose the promoting of cooperative grain marketing. But besides these, there are several other rural business associations in which the promoting of cooperative grain marketing forms an important phase of their activities. The principal ones are: the Farmers' Educational and Cooperative Union, more commonly known as the Farmers' Union; the American Society of Equity; the Farmers' Equity Union; the Non-partisan League; and the American Farm Bureau Federation. An indication of the structure and functions of these agencies in relation to the local cooperative elevator companies will be of value.

As early as 1903, farmers' state grain dealers' associations were organized in Illinois and Nebraska, and in the following year the companies of Iowa also united into

a state association. In 1907, associations were organized in Minnesota and South Dakota. Four years later the state association of North Dakota was formed, and in 1913 that of Kansas. The state associations of Ohio and Indiana were organized in 1916. The most recent associations are those of Michigan<sup>1</sup> and Missouri, the former organized in 1918, and the latter in the following year. The only state, therefore, of the North Central Group, in which no state association has as yet been formed is Wisconsin.<sup>2</sup>

The scope and purpose of the state associations are everywhere similar. The following declaration from the preamble of the constitution of the Iowa Association may be taken as typical. This association proposes "to advance the commercial interests of the cooperative organizations of the State, engaged in the handling of grain, to inculcate just and equitable principles of trade; to acquire, preserve, and disseminate valuable business information; and to encourage frequent intercourse and consultation among its members for the promotion of their common interests." The state associations do not in any way interfere with the autonomy of the local companies. The latter are at perfect liberty to affiliate themselves with the respective state association, and upon affiliation retain their freedom to market their grain and to purchase their supplies according to their own wishes. The state associations aim to facilitate the performance of these functions by assisting the local companies in matters of transportation, terminal market facilities and legislation; and by assisting them in other ways, such as providing valuable business information, legal advice, advantageous bonding and insurance rates, supplying auditors, collecting damage claims, locating managers for companies seeking them, aiding local companies to reorganize on a new basis of conducting their business, and

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<sup>1</sup> The state association of Michigan can really not be called a distinct organization since shortly after its formation, it amalgamated at least partially with the State Farm Bureau of Michigan.

<sup>2</sup> The reasons for this are very probably the fact that Wisconsin is not a relatively important grain producing State, and secondly, the presence of the American Society of Equity, the aims of which are very similar to those of the state associations, and which is very prominent in Wisconsin.



assisting the farmers of a community who contemplate the formation of a company.

Any cooperative organization in the state, engaged in the handling of grain and willing to comply with the regulations of the association, may be admitted to membership upon the approval of the board of directors. The unit of membership, therefore, is the local company just as the individual growers are the units of membership in it. A board of directors, consisting of a president, vice-president, secretary, treasurer, and several other persons, constitute the governing body of the associations.

Each state association holds an annual convention. This is generally held during the winter months. At this meeting the board of directors offers its report through the secretary; particular problems of the cooperative elevator movement are discussed; papers are contributed on subjects relative to agriculture and marketing by men expert in these subjects; and resolutions are drafted stating the specific aims toward the attainment of which the members are to devote their efforts during the following year.

Upon the secretary devolves the greater part of the work of the association. In a manner his activities may be said to be co-extensive with those of the association itself. Thus, the constitution of the Iowa Association, which may be taken as typical, specifically provides:

"It shall be the duty of the secretary to encourage the forming of cooperative companies for the handling of grain and to assist in their organization if requested to do so.

"He shall respond to any call to help perfect such organizations by going to the place of meeting, giving all information possible and assisting such organizations to be completed for effective work in the cooperative field when he deems this advisable."

The nature and variety of his work may be best seen by quoting directly from one of the reports. The following is an extract from the Report of the State Secretary of the Illinois Association for the year 1919.<sup>3</sup>

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<sup>3</sup> *American Cooperative Journal*, Vol. 14, No. 7, pp. 250-1. This Report has been chosen because it presents very briefly the most important aspects of the secretary's work. The Report is not quite typical in as far as it presents the activities of sixteen months and of one of the most prominent State Associations.

"Since the Galesburg convention your secretary has attended 34 annual stockholders' meetings, 39 organization meetings, 15 directors' meetings, visited 23 companies on income tax and other matters, attended 2 managers' meetings, made 2 trips to confer with President Sailor and one to confer with the treasurer. He also made 8 trips to Chicago in connection with car distribution, scale and claim matters \* \* \* some of which were anything but pleasant undertakings. He also made 8 trips to Springfield on legal and legislative matters, 3 to Peoria on program and convention work, 1 to Washington on transportation matters and others, and one to Omaha to sit in at the annual convention.

"The work of the association has steadily increased and seems to have doubled in the last year. Both mail and callers had a good increase. Scarcely a day now passes without calls from our own people and also from other interests, all of which can be so handled as to help our movement. With our present office organization it is impossible to respond to all calls for data and information."

Because of the constantly increasing activities falling within the scope of the associations, the majority of them now employ secretaries who devote all of their time to secretarial work. In the following States, the secretaries are employed on full time: Illinois, Iowa, Indiana, Ohio, South Dakota, Nebraska, Kansas, and North Dakota.

The board of directors determines the membership fee and dues to be in force during its term of office. The annual dues are generally thirty dollars. Besides this, there is a car fee imposed, which is generally five cents for every car shipped by the local affiliated companies.

Although the state associations have been of great benefit to the local companies, their lack of funds has in a measure limited their effectiveness. As just stated, they are financed by the local affiliated companies. But because many of the benefits which the state associations secure, accrue to all the companies alike whether affiliated or not, it has been difficult and in many cases impossible to induce them to affiliate. During the last few years, however, the associations have increased their membership at a rather rapid rate. Thus, the Association of Illinois at the beginning of 1917, had a membership of 204 companies,<sup>4</sup> while at the beginning of 1920 it had a membership of 312.<sup>5</sup> The

<sup>4</sup> *American Cooperative Journal*, Vol. 12, No. 2, p. 237.

<sup>5</sup> Sec. Farlow in letter to writer.

Association of Iowa experienced a similar increase within the same period. From 238,<sup>6</sup> the membership had increased to 325.<sup>7</sup> In Kansas the rate of increase has been even greater. At the beginning of 1917, there were only 100 companies affiliated with the state association,<sup>8</sup> while at the beginning of 1920 the number had increased to 261.<sup>9</sup>

After several state associations had been formed, it was but natural that these should federate into a national organization, which could represent the interests of the cooperative elevator movement in matters of interstate and national import. At Minneapolis in 1912, such an organization was founded, which took as its name, The National Council of Farmers' Cooperative Associations. This Council functioned until March, 1920, when at the annual convention at Chicago, its name was changed to The Farmers' National Grain Dealers' Association.<sup>10</sup> This name, it was thought, would express adequately the scope of its activities by indicating more obviously its relation to the various state associations, and at the same time would distinguish it more readily from other rural organizations with similar objects and with names likewise very similar to the one the association bore before the change.

The constitution of the national association was revised at the convention in Chicago. As now drafted the constitution declares that the object of the association shall be:

"To encourage and promote the formation of cooperative associations; to develop uniformity in the work of organization of such associations and of state associations; to correlate and strengthen such state associations by federation into a national body; to aid and assist farmers' elevator associations and farmers' state associations in matters of transportation, markets, and cooperative education; to secure wise and uniform state and national legislation in the interests of the farmers' elevator companies; to furnish legal and expert advice and assistance in furtherance of the individual interests of these associations and to perform such other work as may be of benefit to its members in the furtherance of the cause."<sup>11</sup>

<sup>6</sup> *Loc. cit.* Vol. 12, No. 6, p. 447.

<sup>7</sup> Sec. Myers in letter to writer.

<sup>8</sup> *Loc. cit.* Vol. 12, No. 5, p. 444.

<sup>9</sup> Sec. Lawrence in letter to writer.

<sup>10</sup> *American Cooperative Journal*, April, 1920, p. 8.

<sup>11</sup> *Ibidem*.

The unit of membership is the state association. Any state association upon application to the secretary and with the approval of the board of directors, may be admitted to membership. The officers of the association consist of a president, vice-president, secretary-treasurer, and two members of each affiliated state association. Together they constitute the executive committee. The secretary is invested with a large degree of authority and responsibility, and must give his entire time to the business of the organization except as otherwise arranged with the executive committee. Besides a secretary the association employs a legal adviser, who represents the legal interests of the movement, especially in its relation to the railroads. This position has been held for several years by the Hon. Clifford Thorne. He has appeared on numerous occasions before the Interstate Commerce Commission and before the Railroad or Public Utilities Commissions of the various states in matters of railroad legislation and litigation.<sup>12</sup>

The funds with which to promote and carry on the work of the national association are provided by the affiliated state associations. They are required to pay a sum equal to 25 per cent of all the dues collected during each fiscal year, such payments to be made in quarterly installments.<sup>13</sup> This method of providing funds is a departure from the former one, by which the regular assessment was one dollar per year for each member (the local affiliated elevator company) of the state associations affiliated with the National Council. Special assessments could be levied whenever necessary but the total might never exceed the sum of five dollars per member of every affiliated state association, during one fiscal year.<sup>14</sup> Through the recently adopted method the national association hopes to have adequate finances, the lack of which has hampered its efficiency.

The necessity of an official organ was soon recognized by the leaders of the cooperative elevator movement. To

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<sup>12</sup> See esp. *American Cooperative Journal*, Vol. 12, p. 715; Vol. 14, p. 25 (Aug., 1919).

<sup>13</sup> *Loc. cit.* Vol. 5, p. 8, (April, 1920).

<sup>14</sup> *Constitution of the National Council.*

fill this need the American Cooperative Journal, a monthly publication, was launched in 1905, with Mr. C. G. Messerole as its first editor.<sup>15</sup>

Until 1911, the Journal, which was the official organ of the movement only by endorsement, was under private ownership and management. In that year an offer was extended to the then existing state associations to purchase the Journal, and this offer was accepted.<sup>16</sup>

To facilitate the transaction of business, the associations organized themselves into a corporation, known as the American Cooperative Journal Company. On Dec. 5, 1917, this name was changed to that of the American Cooperative Publishing Company, a name adopted to express more adequately the activities in which the Company was now engaged. Besides the American Cooperative Journal, it was now publishing also the American Cooperative Manager, a fortnightly magazine edited specially for the benefit of the managers and boards of directors of the local companies.<sup>17</sup>

The American Cooperative Journal as also the Manager have articles on special topics relative to the grain trade; publishes summary reports of the annual conventions held by the state associations; discuss particular problems of the movement and record its activities in the different states; and carry advertisements of firms soliciting the trade of the local companies. In short, they represent the various branches of the movement in its educational and publicity aspects. The American Cooperative Publishing Company is under the management of Mr. Millard R. Myers, assisted by a staff of associate and contributing editors. Mr. Myers'

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<sup>15</sup> Mr. Messerole was also the Secretary of the Iowa State Association, and manager of the cooperative elevator company at Gowrie.

<sup>16</sup> For conditions leading to the transfer of ownership, see brochure, *The American Cooperative Publishing Company*, pp. 2, 3, issued by the Company.

<sup>17</sup> This publication was first issued in 1916, under the name of the Successful Manager. The Company has likewise organized an auditing department for the purpose of auditing the accounts of those companies that wish to avail themselves of its service. This department is under the charge of Mr. Frank S. Betz, who has likewise perfected a simplified accounting system which has been installed in very many of the local companies.

wide study of cooperative methods, both in Europe and in this country, has well prepared him for his task. Under his management the Company has enjoyed a steady growth, as is shown by the fact that at the beginning of 1920, the subscription list of the Journal numbered 68,000.<sup>18</sup>

The agencies thus far described in this chapter, devote their entire efforts toward advancing the interests of the cooperative elevator movement. Besides these, there are several other rural organizations operative in the North Central States, in which the promoting of cooperative grain marketing forms a phase of their activities. The organizations that have been most prominent in this regard, are The Farmers' National and Cooperative Union of America, The American Society of Equity, The Farmers' Equity Union, The Non-Partisan League, and The American Farm Bureau Federation. A brief description of them, especially in their relation to the cooperative elevator movement, may, therefore, not be out of place.

The Farmers' Educational and Cooperative Union of America, more commonly known as, the Farmers' Union, is of Southern origin, the first local union having been established at Smyrna, Texas, Sept. 2, 1902.<sup>19</sup> Its purpose as stated in the constitution, is a very broad one. It proposes:

To secure equity, establish justice and apply the Golden Rule.

To discourage the credit and mortgage system.

To assist the members in buying and selling.

To educate the agricultural classes in scientific farming and the process of marketing.

To systematize methods of production and distribution.

To eliminate gambling in farm products by Boards of Trade, Cotton Exchanges, and other speculators.

To bring farming up to the standard of other industries and business enterprises.

To secure and maintain profitable and uniform prices for cotton, grain, live-stock, and other products of the farm.

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<sup>18</sup> *American Cooperative Journal*, Jan., 1920, p. 1.

<sup>19</sup> Charles Barrett, *The Mission, History and Times of the Farmers' Union*, p. 103. Mr. Barrett is the national president of the Union. His history relates the activities of the Union till 1908.

To strive for harmony and good will among all mankind and brotherly love among ourselves.

To garner the tears of the distressed, the blood of martyrs, the laugh of innocent childhood, the sweat of honest labor, and the virtue of a happy home as the brightest jewels known.

The organization comprises a national union, state, county, and local unions. No local union may be formed without at least five male members;<sup>20</sup> five or more local unions may form a county union, and a state having a membership of 5,000 male members may be granted a state charter.<sup>21</sup>

At the beginning of 1921, the Farmers' Union was represented in 26 states according to the National Secretary, Mr. E. A. Davis, whose headquarters are at Gravette, Arkansas. Among the North Central States, it is represented in Kansas, Nebraska, South Dakota, North Dakota, Minnesota, Iowa, Illinois, Indiana, and Missouri,<sup>22</sup> but the membership is comparatively small in all of these states except in Kansas, Nebraska, and Iowa. Within the past year there has been a considerable increase in membership in South Dakota, Illinois, and Indiana, and at the present time the Union is carrying on an active campaign for new members in Wisconsin, which promises a large increase in membership in that State.<sup>23</sup>

From the enumeration of its aims, it is seen that the Farmers' Union purposes to improve the fraternal, educational, social and economic life of the farmer. Its economic activities have been chiefly directed toward organizing his collective bargaining power in buying and selling. Its aims, therefore, in this phase of its activities are considerably wider than that of promoting cooperative grain marketing. But through its influence and activities, many cooperative grain elevator companies have been organized. In the North Central States, it has been instrumental in organizing companies in Kansas, Iowa, South Dakota, and

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<sup>20</sup> Membership is open also to women.

<sup>21</sup> *Constitution*.

<sup>22</sup> L. S. Herron, editor of the *Nebraska Union Farmer*, in letter to writer.

<sup>23</sup> *Ibidem*.

Nebraska. In the last-named State, according to Mr. L. S. Herron, editor of the *Nebraska Union Farmer*,<sup>24</sup> there were at the beginning of April, 1920, 150 genuinely cooperative elevators, organized through the Farmers Union activity.<sup>25</sup>

The organization, known as the American Society of Equity, was founded by Mr. J. A. Everett, at Indianapolis, Ind., Dec. 24, 1902. Its present national headquarters are at Madison, Wisconsin. The structure and activities of this Society, are very similar to those of the Farmers' Union. It comprises a national organization, state, county, and local unions. Seven persons qualified for membership, may organize a local union; five chartered local unions may organize a county union; and five county unions may unite into a state union.<sup>26</sup> The total membership of the Society was about 40,000 at the beginning of 1921.<sup>27</sup> It has a scattered membership in Minnesota, North Dakota, Michigan, Iowa, and Illinois, but its stronghold is in Wisconsin, where the state union has a membership of about 30,000.<sup>28</sup>

The objects of the State Union as expressed in the constitution are:

To obtain profitable prices for all products of the farm, garden, orchard, and dairy.

To have built and maintained granaries, elevators, warehouses, and cold storage houses on the farms, in the principal market cities, and in all places where necessary so that farm produce may be stored and preserved to obtain equitable prices.

To secure legislation in the interest of agriculture.

To secure and disseminate information regarding market prices, transportation, routing, and service.

To encourage cooperative business activities and collective bargaining by central advisory agency to be located at State headquarters.

To secure better educational advantages in our rural districts.

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<sup>24</sup> This is the official organ of the *Nebraska State Union*.

<sup>25</sup> Maurice H. Wesen, *The Cooperative Movement in Nebraska*, p. 479. in "Journal of Political Economy" (April, 1920).

<sup>26</sup> *Constitution and By-laws*.

<sup>27</sup> J. F. Shaw, editor of the *Equity News*, in letter to writer.

<sup>28</sup> *Ibidem*.



- To improve our highways.
- To prevent adulteration of food and marketing of same.
- To promote sociability.
- To encourage arbitration of differences, disputes, etc.

Hence, its purpose is very much wider than that of promoting cooperative grain marketing, but through its direct activity and encouragement, many cooperative elevator companies have been organized in the Northwest.<sup>29</sup>

Another organization that has taken an active part in furthering cooperative grain marketing in the North Central States is the Farmers' Equity Union. It was founded by Mr. C. O. Drayton, at Greenville, Illinois, and was chartered under the laws of that State, on Dec. 16, 1910. As stated in a brochure by the National Secretary, Mr. Leroy Melton, "the purpose of this organization is to unite the buying and selling power of a large number of farmers and consumers in one body and eliminate a large share of the middleman's profit."<sup>30</sup> The Equity Union is represented in 13 states, and had a membership of 33,000 at the beginning of 1921.<sup>31</sup>

The Farmers' Equity Union is composed of three distinct parts, the national union, centralized companies, and local exchanges. The national union is governed by a board of directors, who are elected annually by the delegates at the national convention. Each local exchange that has paid its dues to the national union, has a right to be represented by a delegate. The primary object of the national union is to organize local exchanges; to educate its members to the advantages of cooperative buying and selling; and to be the guiding force of the organization. The centralized companies are corporations established in the central markets. The type of business engaged in by these, depends upon the particular local exchanges they are to serve. In Kansas City, for instance, the centralized company is a grain commission firm.

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<sup>29</sup> *Ibidem*; Cf. John F. Sinclair, *Opus cit.* p. 31.

<sup>30</sup> *The Equity Union, Its Plan and Purpose*, p. 1.

<sup>31</sup> Leroy Melton in letter to writer.

The local exchanges are corporations founded at local market points. Just as the business of the centralized companies is determined by the particular local exchanges they are to serve, so the type of business engaged in by the local exchanges is determined by the needs of the community. If an exchange is to be established in a dairying section, the corporation will take the form of a cooperative creamery company; if the section is one where grain is extensively grown the organization will be a cooperative grain elevator company.

In the North Central States, the local exchanges were distributed as follows, at the beginning of 1921: South Dakota, 44; North Dakota, 24; Nebraska, 38; Indiana, 26; Ohio, 78; Kansas, 62; Illinois, 30; Missouri, 2.<sup>32</sup> Many of these local exchanges are cooperative elevator companies.

The influence that these rural organizations, just briefly described, exert in promoting cooperative grain marketing, is not easy to trace in terms of definite results. Without doubt it is much wider than that of merely being instrumental in bringing about the establishing of local companies. All of them publish journals in which cooperative marketing is stressed; and all of them in various ways attempt to arouse the farmer to the need of organized effort in his business affairs. They also promote legislation facilitating the organization and operation of cooperative business enterprises, and in this way contribute toward placing the cooperative elevator movement on a firmer basis.

A very recent organization, founded to advance the interests of the agricultural population, especially the grain-growing section of it, is the Non-partisan League. Unlike the previous associations described in this chapter, it is political in character. The immediate cause for its founding centers around a controversy which had raged in North Dakota for some years, concerning the question whether the State should engage in the business of owning and

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<sup>32</sup> *Ibidem.*

operating terminal grain elevators. It was the opinion of the farmers, who constitute almost 70 per cent of the population, that the State should do so. But the taking of such a step would have been contrary to the State Constitution. To meet this difficulty the Constitution was amended, and in accordance with the prevailing view that the State-owned elevator should be located at Minneapolis or Duluth, the principal grain markets for North Dakota grain, the amendment gave permission to the government to own and operate a terminal elevator *outside* of the State. In the meantime sentiment changed in favor of the elevator's being located *within* the State boundaries, but since the previous amendment did not confer this right, the passing of another amendment was necessary. Several years elapsed before the two amendments were passed, and thus the launching of the project which the farmers considered necessary for their well-being, was deferred. Upon the passage of the second amendment, the State Legislature selected a committee to investigate the advisability of the State's engaging in such an enterprise. The report of the committee was unfavorable as to erecting a State-owned terminal elevator either within or outside of North Dakota. It was at this juncture, in 1915, that the farmers, under the leadership of Mr. Arthur C. Townley, formed the Non-partisan League.<sup>33</sup>

While the immediate cause of the origin of the League centers around the controversy just mentioned, the fundamental cause is found in the dissatisfaction of the farmers of the State with the spread between the price of grain that they received and that paid for grain products by the ultimate consumer. This spread they considered entirely too large,<sup>34</sup> chiefly in their opinion, because of the "magic of the mixing houses,"<sup>35</sup> the terminal elevators of Minneapolis

<sup>33</sup> Frank O'Hara, *The Non-Partisan League of North Dakota*, a Study and Outlook, pp. 8, 9; Charles Edward Russell, *The Story of the Non-partisan League, A Chapter in American Evolution*, pp. 102-108, 261; Senator Ladd, *Congressional Record*, 67th Cong., 1st sess., Vol. 61, No. 18, p. 882 (May 2, 1921).

<sup>34</sup> O'Hara, *Opus cit.* p. 8; Russell, *Opus cit.* Chapters III, IV, and IX; Senator Ladd, *ibidem*.

<sup>35</sup> Russell, *Loc. cit.* p. 34.

and Duluth. Similarly, they considered the spread too large between the prices paid for the higher and lower grades of grain.<sup>36</sup> To correct the first of these evils, they thought it necessary that the State own and operate the "mixing houses" for the grain grown in North Dakota, and to correct the second, they demanded a new grain grading law. Since these measures could not be secured from the men in political power at the time, the alternative that remained in their opinion, consisted in forming themselves into an organization which would bring into political power men who would carry out their demands. This twofold purpose to be achieved through political action, constituted the immediate program of the Non-partisan League at its founding.

Although political in character, the Non-partisan League is not a distinct political party in the ordinary acceptation of that term. Rather should it be called "a political machine in which the paying members theoretically have a voice in selecting the leaders, \* \* \* decide upon the policies of the organization and appoint men who are to be supported in the election. It is then the duty of the members and of their friends to see that the persons chosen by the machine shall be supported in the election."<sup>37</sup> The League is non-partisan in so far as it will support the candidates of any political party provided they seek to further its aims.

The Non-partisan League met with ready favor immediately upon its founding,<sup>38</sup> and its growth since then has been very rapid. According to Mr. Russell it had 245,000 dues-paying members on October 1, 1919, was organized in 13 States, and had three Representatives in Congress.<sup>39</sup>

The first political victory of the League in North Dakota occurred in the election held in the fall of 1916, when it

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<sup>36</sup> O'Hara, *Loc. cit.* p. 8; Russell, *Loc. cit.*, Chapter V; Senator Ladd, *Ibidem.*

<sup>37</sup> O'Hara, *Opus cit.* p. 9.

<sup>38</sup> *Ibidem.*

<sup>39</sup> *Opus cit.* p. 323.

gained control of the executive and of part of the legislative branch of the government through the election of Governor Frazier and of a large number of State Representatives. This victory was made complete in the election of 1918, when all the departments of the government came under the control of men endorsed by the League. It was now in a position to enact its political program. A State-owned mill and terminal elevator were authorized as also the State-owned bank, which has received more publicity than any other feature of the program and which is a unique institution in this country. An Industrial Commission was created, consisting of the Governor, the Attorney-General, and the Commissioner of Agriculture and Labor, to supervise all the public utilities. Another bill enacted into law, created the office of State Inspector of Grades, Weights, and Measures.<sup>40</sup> A system of State hail insurance and a home building association were likewise authorized and established.

The foregoing measures were intended primarily for the benefit of the farmers of the State. Among laws dealing with other phases of industry, we may mention the workmen's compensation act; a minimum wage for women; a restriction of the hours of employment for women to eight; the prohibition of child labor; the prohibition of the use of the injunction in labor disputes; and the right of picketing in case of a strike.

Some of the measures, especially those mentioned in the last paragraph, represent no departure from legislation in other States. This of itself does not, indeed, give them the stamp of approval, but it at least frees them from the accusation of being novel and radical. The measures intended primarily for the benefit of the farmers, are experimental in the sense that they have not been previously tried in this country. Their soundness is being tested by experience. As Professor O'Hara remarks in his study of

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<sup>40</sup> Dr. Ladd, the present Senator from North Dakota, held this office for a time.

the League: "There is no compelling reason against the State of North Dakota undertaking to run a State bank or to own and operate a system of State flour mills and grain elevators and packing plants. These industries are industries in which the people are vitally interested and they will watch them closely. This particular experiment has as good a chance for success in North Dakota as in any State. From the point of view of a laboratory for social experiment, therefore, no better place could be found."<sup>41</sup>

It is doubtful whether the Non-partisan League will continue to grow at the rate that it has grown in the past. Considerable friction has existed among its leaders for some time. There has been a strong revolt from the leadership of Townley and others of the socialistically inclined.<sup>42</sup> The most recent development in North Dakota, the stronghold of the League, is the ousting of Lynn Frazier, the Governor, William Lemke, the Attorney-General, and J. N. Hagan, the Commissioner of Agriculture and Labor, in the recall election held October 28, 1921. This defeat is the more serious because these three officers constitute the *personnel* of the Industrial Commission, through the control of which the League was largely exercising its sway over the politics of the State. On the other hand, the several measures submitted to the voters at the same election, were sustained as advocated by the League. The result of the election would then seem to indicate that the farmers still subscribe to the fundamental issues of their program, but that they have become dissatisfied with their leaders and their methods.

In describing the attitude of the Non-partisan League toward cooperative grain marketing, a distinction must be drawn. The League favors the founding of local cooperative elevator companies. The main abuses of the grain trade, however, according to their view, center in the

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<sup>41</sup> *Opus. cit.* p. 18.

<sup>42</sup> The most prominent of those breaking away from this leadership, is William Langer, the former Attorney-General. See his work, *The Non-partisan League; Its Birth, Activities and Leaders.*

terminal markets, and these abuses can best be eliminated through State-ownership and operation of the marketing facilities located there. In this the ideal of the Non-partisan League is a departure from that of the cooperative elevator movement. The latter would have the ownership of these facilities vested, not in the State, but in the local companies, either through centralized associations or through a national association, such as the U. S. Grain Growers, Inc.

The most recent national organization, designed to advance the interests of the agricultural population of this country, is the American Farm Bureau Federation, founded at Chicago, March 4, 1920.<sup>43</sup> This federation represents the natural outgrowth of State farm bureau federations, which in turn are a development of county farm bureaus, the first of which was organized in 1911. The objects of the federation as stated in one of its brochures, are:

"To develop, strengthen, and correlate the work of the State Farm Bureau Federations of the nation; to encourage and promote cooperation of all representative agricultural organizations in every effort to improve facilities and conditions for the economic and efficient production, conservation, marketing, transportation, and distribution of farm products; to further the study and enactment of constructive agricultural legislation; to advise with representatives of the public agricultural institutions cooperating with Farm Bureaus in the determination of nation-wide policies, and to inform Farm Bureau members regarding all movements that affect agriculture."<sup>44</sup>

From this comprehensive statement of its aims, it is readily seen that the scope of the federation is very wide. It does not purpose to displace existing rural organizations, but to assist them in carrying out their local interests and to unite them as far as possible on national issues for the advancement of agriculture and rural life.

The fundamental units of the federation are the county bureaus, of which there were more than 1,600 on December

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<sup>43</sup> See pamphlet issued by the federation, *American Farm Bureau Federation; What is it?*

<sup>44</sup> *Opus. cit.* p. 16.

1, 1920.<sup>45</sup> The county bureaus may unite into State federations, and they in turn may become members of the national body, which is represented in 37 States and claims a membership of more than 1,000,000.<sup>46</sup>

Control of the federation rests in a board of directors, elected by the State federations and other organizations eligible to membership. Each affiliated State association is entitled to one director, a number which may be increased provided the State federations in question meet the specified requirements. Each director must be a *bona fide* farmer, and he has equal voting power on all questions with other directors.<sup>47</sup>

The board of directors elects all of the officers of the federation, except the secretary and treasurer.<sup>48</sup> These are elected by the executive committee, which in turn is elected by the board of directors from its own members.<sup>49</sup> The executive committee consists of twelve members, who hold office for one year, and have charge of the administrative affairs of the federation. Three members of the executive committee must be chosen from the Northeastern States, three from the Middlewestern, three from the Southern, and three from the far Western States.<sup>50</sup>

The funds necessary to carry on the projects of the federation are supplied by annual dues. "The annual dues of each member State in the American Farm Bureau Federation shall be fifty cents per capita of the individual County Farm Bureau membership affiliated with the State organization, provided that in States not having memberships the dues shall be fixed by the Executive Committee in reasonable proportion to the other States."<sup>51</sup>

There are seven departments through which the federation carries on its activities. The Organization Depart-

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<sup>45</sup> *Loc. cit.* p. 3.

<sup>46</sup> *Ibidem.*

<sup>47</sup> *Constitution*, Art. IV, Sec. 1 and 2.

<sup>48</sup> *Loc. cit.*, Art. VII, Sec. 2 and 3.

<sup>49</sup> *Ibidem*, Sec. 5 and 6.

<sup>50</sup> *Ibidem*, Art. VIII, Sec. 1. The states comprised under each division are indicated in Sec. 2.

<sup>51</sup> *Ibidem*, Art. V, Sec. 1.



ment is intended to serve as a means of increasing the membership, and strengthening the stability of the federation. The Legislative Department, located at Washington, D. C., is designed "to safeguard the rights and interests of the farmers and to assert his needs whenever occasion requires in matters pertaining to legislation."<sup>52</sup> It is the object of the Department of Transportation to represent the agricultural interests in the transportation of farm products. The Department of Economics and Statistics deals with "improved cost accounting methods for farmers, crop statistics and forecasts, price and credit analyses, crop conditions, weather conditions, tendencies in tariff, merchant marine, internal revenue, ocean freight, cost of production, etc."<sup>53</sup> The financing of the federation is under the control of the Finance Department. The Department of Education and Publicity seeks "to keep the general public sympathetically informed as to the ideas and accomplishments of organized agriculture."<sup>54</sup> The issuing of weekly news letters and of feature stories to the agricultural press, the distribution of pamphlets and speeches dealing with agricultural subjects, are also among the activities of this department. To these departments, one more must be added, namely, that of Cooperative Marketing. This department aims to give assistance to communities desirous of organizing cooperative business enterprises, and to unite these enterprises on a national basis. It was under the auspices of the American Farm Bureau Federation that the conference was called that elected the Committee of Seventeen, which has elaborated the plan for placing cooperative grain marketing on a national basis.<sup>55</sup>

The work done in the interest of cooperative grain marketing by the various State Agricultural Colleges, the State Departments and especially by the U. S. Department of

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<sup>52</sup> *American Farm Bureau Federation; What is it?* p. 6.

<sup>53</sup> *Opus cit.* p. 7.

<sup>54</sup> *Loc. cit.* p. 8.

<sup>55</sup> *Loc. cit.* p. 6. For an extensive treatment of the *American Farm Bureau Federation* the reader is referred to the very recent work, *The Farm Bureau Movement*, by Orville Kile.

Agriculture, cannot be easily overestimated. As stated in one of its Bulletins, the U. S. Department of Agriculture "considers cooperative organization a primary and fundamental project \* \* \* a corrective measure that will place the industry upon a solid basis."<sup>56</sup> The Office of Markets and Rural Organization has devoted considerable attention to the subject of cooperative grain marketing. Through visits and correspondence of its personal representatives it has given advice and guidance to those communities contemplating the formation of a company. In conjunction with representatives of the farmers' state grain dealers' associations it has elaborated a set of by-laws, the adoption of which these associations urge upon farmers wishing to organize a company.<sup>57</sup> It has likewise perfected a simplified accounting system,<sup>58</sup> which many companies have adopted. In a similar manner the State departments of agriculture through their various branches have given assistance to the movement.<sup>59</sup>

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<sup>56</sup> Bassett, Moomaw, and Kerr, *Opus cit.* p. 210.

<sup>57</sup> This set of by-laws may be found in Mehl and Jesness, *Opus cit.*

<sup>58</sup> L. D. Weld, *Opus cit.* p. 11; Erdmann, *Opus cit.* 152.

<sup>59</sup> See Jesness and Kerr, *Opus cit.* pp. 59-60. See also list of publications issued by the U. S. and State Departments, as quoted at end of treatise.

## CHAPTER V

### RESULTS ACHIEVED THROUGH COOPERATIVE GRAIN MARKETING

The grain growers of the North Central States evidently would not have entered upon marketing their grain cooperatively if the hope of economic gain had not prompted them to do so. The question, therefore, at once presents itself: How far has their hope been realized? What have been the benefits, if any, accruing to them as a result of engaging in this form of enterprise? While upon the answer to this inquiry does not necessarily depend the verdict as to the expediency of cooperative grain marketing, nevertheless, if the growers through marketing their grain cooperatively have not secured for themselves economic gains commensurate with the efforts and sacrifices involved, then cooperative grain marketing is either unfeasible or some essential factor of success has been overlooked in its application.

The results achieved, however, are such as to warrant the conclusion that cooperative grain marketing has been successfully conducted. In most of the country places where cooperative elevator companies have been established, they have been most important factors in maintaining competitive conditions in the buying of grain and even in places where no such companies exist, they have had an appreciable influence on the price paid for grain through what is known as potential competition. While being strong competitive factors, they have also been able to return dividends to their members or patrons, which compare favorably with those realized by other types of elevator concerns. But apart from the benefits of an economic kind, the cooperative companies have been the means of raising the social and cultural status of the communities in which they have been established. To review in detail these results, namely, the economic, the educational and the social, is the scope of the present chapter.

The fundamental reason inducing the grain growers to organize cooperative marketing associations during the period between 1895 and 1905, was the conviction that the price paid for grain at country stations was not determined by the free play of demand and supply, and that consequently they were not getting the price their grain was worth. But was this evil situation remedied through cooperative marketing? Did the elevator companies of that period succeed in restoring competitive conditions in those places where they were established, and if so, in how far was the price of grain increased as a consequence?

There is no doubt that the cooperatives, especially those operating under the "penalty clause," set a level of prices which the line companies and independent dealers found it difficult to meet. This was admitted by representatives of the line companies in the investigation conducted by the Interstate Commerce Commission in 1906. Mr. Marcy,<sup>1</sup> referring to the competitive character of those companies operating under the penalty clause, said: "It is mighty hard competition to go up against. Whenever I hear of a farmers' elevator starting in, I always try to sell them our elevator."<sup>2</sup> This is a plain recognition on the part of a representative of a large line elevator company that the competition offered by the cooperatives was of a keen character. Mr. Wells, then secretary of the Iowa Grain Dealers Association, in referring to those companies with a penalty clause, offered similar testimony. "The consequence" of the operation of the penalty clause "is that there is no margin of profit maintained by which to pay expenses, and the price is established with which the grain dealer must compete, and, in fact, he must pay more, because he is placed at a disadvantage, and the consequence is he cannot secure profits to pay his expenses."<sup>3</sup>

This testimony would, therefore, appear to indicate that the companies operating under the penalty clause, set a

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<sup>1</sup> He was the business manager of the Neola Elevator Company, which owned a large number of elevators in Iowa, Nebraska, and South Dakota.

<sup>2</sup> *Sen. Doc.* No. 278, 59th Cong. 2d sess., p. 175.

<sup>3</sup> *Opus cit.* p. 678.

level of prices for their competitors which the latter found it difficult to maintain. And apparently most of the companies operated under this clause toward the beginning of 1904. But why should it be precisely the penalty clause that was producing this effect? As long as the line companies and independent dealers did not attempt to withdraw patronage from the companies collecting penalties, so long they evidently were not compelled to pay higher prices. If the line companies and independent dealers were forced to pay higher prices than the cooperatives, the explanation is very probably to be sought in this, that the cooperatives individually handled a considerably larger volume of grain annually than did the former. Upon this supposition it is explainable that the companies enforcing the penalty clause, compelled the other dealers to pay higher prices for grain than they did themselves. If the cooperatives handled considerably more grain, their costs of operation per bushel were correspondingly decreased. On the other hand, the line companies and independent dealers, with greater costs of operation per bushel because of the lesser volume of grain that they handled individually, were compelled to raise the price above that paid by the cooperatives, if they wished to withdraw patronage from the latter. This excess of price had to be equal at least to the rate of assessment, or the penalty, prevailing among the cooperatives. Otherwise their members would have no incentive to haul their grain to a competing concern.<sup>4</sup> Under these conditions, the line companies and independent dealers were at a disadvantage in bargaining for grain. Fundamentally, however, it was not the penalty clause, it would seem, but the fact that the cooperatives handled a larger volume of grain than their competitors that compelled the latter to pay higher prices than the for-

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<sup>4</sup> If the cooperative company paid \$1.00 per bushel for grain and if the rate of assessment was two cents per bushel for every bushel marketed with a competing concern, the competitor of the cooperative company would have to pay above \$1.02 per bushel before he could hope to withdraw patronage from the cooperative company. Even then the members might not be inclined to sell to a competitor if they had prospects of realizing dividends through their trade with their own company.

mer. This view finds direct confirmation from the testimony of Mr. McDougal,<sup>5</sup> who speaks of the cooperatives in general, whether operating under the penalty clause or not: "The farmers' elevator is very hard competition for the reason that its membership includes virtually all of the farmers that ship regularly through that station, and they naturally monopolize their own firm."<sup>6</sup> Here the cause for the severity of the competition of the cooperatives is not ascribed to the penalty clause, but to the fact that most of the farmers of those communities having a cooperative elevator company, contributed their grain to it instead of to rival concerns.

Assuming then that competition was as a rule considerably increased at a country station as a result of establishing a cooperative company, what increase in price did this heightened competition effect? Mr. Stickney,<sup>7</sup> when questioned during the investigation of the Interstate Commerce Commission in 1906, as to what influence the 140 then existing companies in Iowa had exercised upon the market at points where they were situated, replied: "The only thing I know is what they have told me—the stockholders and directors of these different organizations. I think I have been at every station in Iowa where they have a cooperative grain company and they have agreed that their organization has raised the price of grain at each station all the way from three to six cents a bushel. \* \* \* I have never been at one of these places where they have placed the advance at less than three cents—very often it is six cents a bushel."<sup>8</sup> When further questioned as to whether he meant that there was more paid at those towns than at other points where there was no cooperative ele-

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<sup>5</sup> Superintendent of the elevators owned by the Neola Grain Company in Iowa.

<sup>6</sup> Sen. Doc. *Loc. cit.* p. 710.

<sup>7</sup> Mr. Stickney was solicitor at the time for the grain commission firm, Lowell, Hoit & Co., one of the two firms in Chicago that did not refuse to accept consignments of grain from the cooperatives at the time when a boycott was attempted upon those firms accepting such grain. Mr. Stickney's attitude toward the cooperatives is a very friendly one. He personally assisted in organizing a number of these companies in Iowa at the time.

<sup>8</sup> Sen. Doc. *Loc. cit.* p. 17.

vator, he replied that this was the way in which the stockholders and directors arrived at their conclusion; they would compare the price paid at their town with that paid at a town 10, 20, or 30 miles distant.<sup>9</sup> Similar testimony was offered by several managers of cooperative companies, in testifying before the same commission. Some stated that immediately after their company was organized the competitors at that particular country station raised the price from two to four cents a bushel.<sup>10</sup> Others testified that the price paid by competitors in comparison with the Chicago market price was three to five cents higher than had prevailed before the cooperative companies had been organized at these country stations.<sup>11</sup>

These are of course only estimates and at that the estimates of those who would naturally be inclined to think that the cooperative companies were of great benefit to the producers. Nor would these estimates assure us that the same results were everywhere obtained. Even were it granted that immediately upon establishing a cooperative company, the price was increased from one to three or even to six cents per bushel, it does not necessarily follow that the farmers received a net increase equalling that amount. It is possible that the line companies and independent dealers upon raising the price, compensated themselves at least to some extent by underweighing, undergrading, and over-docking the grain. The cooperative companies may have followed the same policy. There is no evidence that this practice was resorted to, but the possibility of it shows that the net increase in price may have been considerably less than the actual price quotations of the testimony offered above, would indicate. In short, from available data, it is impossible to determine with exactness what net increase in price the farmer may have received for his grain as a result of establishing his own marketing facilities. The fact, however, remains that pooling and price

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<sup>9</sup> *Ibidem.*

<sup>10</sup> *Opus cit.* pp. 47, 495, 571, 706.

<sup>11</sup> *Loc. cit.* pp. 7, 732.

agreements were widespread among the line companies and the independent dealers during the period under consideration, and "some grain men, at least, have admitted that in the early days many of the older types of elevators exacted altogether too large a margin."<sup>12</sup> These considerations together with the estimates offered above, in turn lend probability to the view that the result of establishing a cooperative elevator company was frequently to raise the price to the extent of yielding a net increase of profit from one to three cents per bushel for all the grain growers of the community.<sup>13</sup>

The cooperative elevator companies have not ceased to be important factors in maintaining competitive conditions in country grain marketing. Of this there can be scarcely any doubt in view of the recent extensive survey of the grain trade by the Federal Trade Commission. This survey "revealed numerous indications that the mill, and especially the farmers' or cooperative elevators are the most serious factors in country competition. Both of these types frequently embark upon policies in prices, grades, dockage, etc., that have little or no reference to the policies of their independent or commercial line competitors."<sup>14</sup>

These words just quoted apply to the cooperative grain companies of North Dakota, South Dakota, and Minnesota.<sup>15</sup> The information secured from the other North Central States was "much less complete and significant," nor could information to this effect have been obtained

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<sup>12</sup> Report of the Federal Trade Commission on the Grain Trade, Vol. I, *Country Grain Marketing*, p. 86.

<sup>13</sup> It is quite probable that the farmers who were not members of the cooperative companies, were frequently greater beneficiaries than the members themselves. Apparently competition became so keen between the cooperatives and their competitors that profits were cut down to a minimum. Under these conditions "making profits was subordinated to the more vital problem of maintaining solvency." To this hazard the non-members were not subject, and besides they were free in shifting their patronage from one to the other as either the cooperative company or its competitors paid higher prices.

<sup>14</sup> *Opus cit.* p. 260. The *Report* devotes about seventy-five pages to a description of competitive conditions in country grain buying.

<sup>15</sup> *Loc. cit.* p. 243.



“without a large expenditure of time and money and with no certainty that the results would justify such expenditure.”<sup>16</sup> There may be a possibility, therefore, of course that the cooperative elevator companies of the other North Central States are not such important factors as those in the States already mentioned. There is, however, no positive evidence to support this view. The reasons advanced by the commission for the severity of cooperative competition were: the more or less unfriendly attitude of the farmers and their organizations toward the commercial line companies, their friendly attitude toward their own companies, and the inducement of stock and patronage dividends.<sup>17</sup> These same reasons are operative in all of the North Central States. Furthermore, it must be remembered in as far as the commission did receive information for the States not specifically mentioned above, it was to the effect that a considerable degree of competition prevailed at most country stations and that the cooperatives were the most serious factors in its maintenance.<sup>18</sup>

The influence of the cooperative elevator companies as competitive factors is not restricted to the communities in which they are located. Even in places where no company has been organized they are exerting an appreciable influence in maintaining at a competitive level the price paid for grain. This is corollary which may be deduced directly from the status and the trend of the cooperative movement. The growth in the number of elevator companies owned and operated by the producers themselves is an outstanding development in the marketing of grain within recent years. This growth is evident indication that the farmers are more and more looking toward the formation of cooperative marketing associations as means of insuring greater net returns for their grain. This attitude reacts upon the established grain dealers in the

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<sup>16</sup> *Loc. cit.* p. 244.

<sup>17</sup> *Loc. cit.* pp. 264-266.

<sup>18</sup> *Loc. cit.* pp. 18, 244.

form of potential competition. They realize that if they offer prices which appear unfair, dissatisfaction will result among the grain growers of that locality. The matter will very likely come under investigation, and if the suspicion of unfair prices is found to rest on fact, the probable outcome will be that a cooperative elevator company will be organized as a means of redress. Hence, the fear of competition through the establishing of new companies, will frequently deter grain dealers from exacting too wide a margin of profit on grain.<sup>19</sup>

With the growth of the cooperative elevator movement, competition has likewise been restored among the commission firms in the terminal markets. During the early days of the movement, commission firms, intimidated by the State Grain Dealers Associations, hesitated to accept consignments of grain from the cooperatives for fear that they should be boycotted by other dealers. Today these firms are vying with one another in soliciting their trade. The American Cooperative Journal as also the Manager from time to time publish lists of commission firms soliciting grain from the cooperative companies.. In these lists may be found commission firms from Buffalo, Chicago, Duluth, Kansas City, Milwaukee, Minneapolis, Omaha, Peoria, St. Louis, Toledo, Wichita, etc. From this enumeration of cities, it is readily seen that these companies have plentiful facility for consigning their grain to advantageous market centers. To the fact that commission firms are willing and anxious to accept consignments from all responsible grain dealers, present competitive conditions in country grain buying must in no small measure be attributed. No local buyer need enter agreements of any kind for fear of being unable to find a market for his grain in the terminal cities, as was the case when the State Grain Dealers Associations through their affiliated commission

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<sup>19</sup> Cf. *Opus cit.* p. 248. Speaking of existing elevators refraining from exacting too wide a margin because of the fear of potential competition becoming actual, the *Report* says: "Especially is this true in the event that a farmers' house is organized, for such a house by virtue of a large number of farmer stockholders or patronage dividends, or both, will almost inevitably cut heavily into the receipts of the other houses."

firms boycotted the country grain dealers who refused to comply with their demands.

While it is true that the cooperative elevator companies are in general important factors in maintaining competition in country grain buying, even in places where no such companies exist, this statement needs important qualification. The investigation of the Federal Trade Commission revealed that there are "frequently stations at which competition is either insignificant or non-existent on account of local or other agreements among purchasing elevators or other factors."<sup>20</sup> To these agreements the cooperative companies are frequently partners, "though they appear less inclined than the others to enter such agreements."<sup>21</sup>

Since this chapter deals with the cooperative elevator movement in its results and benefits, the question naturally suggests itself as to how far this practice of entering price agreements with other dealers is beneficial or detrimental, both to the company resorting to this practice and to the other grain growers of the community. To gauge accurately these results is no easy task. It may, however, be presupposed that such practice redounds to the economic advantage of the company as a collective body. It is, indeed, easy to conceive of a situation in which it would be unwise for a company to pursue such a policy. The feasibility of it, in short, depends upon circumstances,<sup>22</sup> and it is not to be expected that a company resorts to such practice out of philanthropic motives. Let it be presupposed then, that the practice under the given conditions is economically advantageous to the company and furthermore that the profits accruing as a result are not taken fraudulently by a particular group, but are distributed to all the members or patrons upon the basis provided for in the by-laws. Do

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<sup>20</sup> *Opus cit.* p. 244.

<sup>21</sup> *Opus cit.* p. 245.

<sup>22</sup> The mere fact of a company's paying less than competitive prices, other things being equal, need not be detrimental to the company as a collective body. The less it pays for grain the more profits will it be able to distribute at the end of the year in the form of dividends on stock or patronage, or both.

all the members in this instance share equally in such profits?

An important distinction must here be drawn between those companies that distribute their profits on the basis of dividends on stock and those that distribute them on the basis of patronage. It may be said in general that in the latter type all the members will share equally in the profits arising out of price agreements because the profits stand in direct proportion to the amount of grain that each member contributes to the company. The individual member will generally recoup in the form of profits, the losses he may have sustained in the form of lower than competitive prices.<sup>23</sup> The condition of the members is different in those companies which distribute their profits on the basis of capital stock. Also in these companies if each member held stock in direct proportion to the amount of grain he markets with the company, all would share equally in the profits arising out of price agreements because in that instance the condition of each member would be identical with that of the members of a company in which profits are pro-rated on the basis of patronage. But the exact proportion between the amount of stock held and the amount of grain contributed, is without doubt scarcely ever realized. And in these companies, the member whose amount of stock invested is less proportionally than the amount of grain he contributes, not only does not share equally in the profits arising out of price agreements but suffers a financial loss, the extent of which is measured by the excess of his patronage over his invested stock. He, indeed, receives the same rate of dividend as all the other members, but his total profits will be less than if he had received the competitive price for his grain.

That the other grain growers of the community who are not members of the company, suffer financial loss on account of price agreements, is evident, provided there are no dealers at that particular country station who offer competitive prices. These farmers are no beneficiaries of

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<sup>23</sup> This statement rests on the assumption that the terms of the price agreement bear equally on the different kinds and quality of grain.

dividends on stock or patronage. The price they receive for their grain, whether this be the competitive price or a lower one, determines the total of their profits.

The general conclusion then that may be drawn is this: Price agreements on the part of cooperative companies with other dealers need not result in financial loss to the individual members although it is likely that this will occur in those companies in which profits are distributed on stock because of the almost inevitable disparity between the amount of stock owned and the amount of grain contributed by each member; but in every case the farmers of the community who are not members or patrons of the company, suffer financial loss on account of price agreements because the price they receive for grain determines the total of their profits.

Having considered the cooperative elevator companies in their competitive aspect, it is now in order to inquire whether they have been successful as business enterprises. To be worth while from an economic point of view they must be able not only to pay a price for grain prevailing under conditions of fair competition, but besides providing a fund for depreciation and expenses, they must be able to return the current rate of interest on the investment and provide such other gains as will compensate the members for the efforts and sacrifices entailed. If the company cannot do this, then why assume the financial hazards of operating an elevator.

The rapid increase in the number of cooperative elevator companies within recent years, and on the other hand, the relative decline in the number of elevators owned by the line companies and the independent dealers, would lead one to think that the former have certain advantages over their competitors. By analyzing the costs of operating a country grain elevator these advantages, if any exist, should appear.

There are many expense items in operating a grain elevator which remain fairly constant regardless of the amount of grain handled. Such items are the salary of

the manager, interest on the investment, insurance, depreciation and taxes. The greater, therefore, in general the amount of grain handled, the lower the costs of operation per unit. Estimates obtained by the Office of Markets and Rural Organization in 1914, showed that the cost of operating varied from one to five cents per bushel, the average cost being 1.98 cents for houses handling less than 200,000 bushels; 1.28 cents for houses handling more than 200,000, the general average being 1.85 cents.<sup>24</sup> Professor Weld, in his survey of cooperative elevators in Minnesota, computed the average cost of operating per bushel for different groups of elevators according to the amount of grain handled during the years 1912-13, with the following results:<sup>25</sup>

<i>Number of bushels handled</i>	<i>Cost of handling per bushel (cents)</i>
50,000—100,000.....	2.5
100,000—150,000.....	1.9
150,000—200,000.....	1.5
200,000—300,000.....	1.3

These figures show that the general economic advantage which one elevator may have over another, arises from the fact that it handles a larger amount of grain than do its competitors. It, therefore, remains to compare the amount of grain handled by the cooperative elevator companies with that handled by their competitors.

The recent investigation of the Federal Trade Commission establishes beyond all doubt that the cooperative companies on the average handle individually a far greater amount of grain annually than the individual elevators of the commercial line companies or those of the independent dealers. According to the results of this survey, the individual elevators of the commercial line companies handle on the average 77,250 bushels of grain annually;

<sup>24</sup> Livingston and Seeds, *Marketing Grain at Country Points*, in Bulletin 558, p. 34, U. S. Dept. of Agric., 1917.

<sup>25</sup> *Opus cit.* p. 10. These figures were compiled from elevators handling grain exclusively.

those of the independent dealers, 102,934; the individual cooperative companies, 152,792; and the individual elevators of the cooperative line companies, 136,825.<sup>26</sup> Hence, the individual cooperative companies handle on the average almost twice the volume of grain handled by the individual elevators of the commercial line companies, and almost one-third more than those of the independent dealers. The volume of grain handled by the individual elevators of the cooperative line elevator companies is, indeed, considerably less, but also they constitute a very small percentage of the total number of cooperative companies.

From the figures in the preceding paragraph it must, however, not be inferred that all of the cooperative companies, or even the majority of them operate on a closer margin of expense and therefore secure greater net profits than their competitors. It is quite possible, at least theoretically, that a minority of the cooperative companies may be transacting such a tremendously large volume of business as to raise the general average above that transacted by their competitors. In like manner it is quite possible that the majority of them may be transacting a volume of business considerably below the general average established for the cooperatives or also for the other types of elevator concerns.

The reasons adduced by the commission in explanation of the variations in the volume of business among the different types of elevators, leads, however, to the view that the general averages cited are representative of the comparative volume of grain handled by the cooperatives and their competitors at most of the country stations where the former are established. The cause of "the *generally* smaller volume of business"<sup>27</sup> handled by the commercial line companies, the commission ascribes largely to "the more or less hostile attitude of the producer toward the line house," and the possible conviction on the part of the producer that he will receive a "fairer deal" from a local

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<sup>26</sup> *Opus cit.* p. 117.

<sup>27</sup> *Loc. cit.* p. 118. Italics are the writer's.

concern, whose manager he knows more intimately than from the line agent, "of whom he frequently knows little and the policy of whose employer he is inclined to distrust."<sup>28</sup> On the other hand, the reasons advanced why the cooperatives handle a considerably larger volume of grain, are the unfriendly attitude of the producer toward the commercial line company, his friendly attitude toward the cooperative elevators and the cooperative movement in general, and the expectation of dividends on stock and patronage.<sup>29</sup> These reasons are more or less operative at almost every place where a cooperative elevator has been organized. The very fact that the cooperative company is composed of producers, places it in an advantageous position for securing a comparatively large volume of business. As long as it pays prices equal to those of its competitors, the members will find it preferable to trade with their own concerns because of the expectation of dividends. Many of the non-members can be attracted by the provision which many companies have inserted in their by-laws whereby they grant dividends to non-members at one-half the rate granted to the members themselves. Where this inducement is absent the non-member may be said to stand at the margin of indifference. The cooperative company has as much chance to secure his trade as any of the competitors. In view of these considerations the conclusion does not appear unwarranted that at most of the country stations where such companies have been established they handle a comparatively much larger volume of grain than do their competitors. It is very probably this fact which permits the cooperative companies to be such important competitive factors in country grain buying as they really are. In how far their competitive character may have set a level of prices higher than would have prevailed otherwise it is impossible to determine.

From the comparative study of the Federal Trade Commission in regard to prices actually paid for grain by the

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<sup>28</sup> *Ibidem.*

<sup>29</sup> *Ibidem.*



different types of elevators, the commission arrived at the following conclusions:

"That the differences in the buying margins between types are probably not great.

"Some doubt may be expressed that on the whole the cooperatives pay the farmer appreciably more for his grain than do the other types.

"That in so far as the farmers do better by selling to the cooperative or farmers' elevator, it is due probably to the returns derived by the customers in the form of dividends on patronage or stock owned rather than to better prices paid the farmer at the time the grain is sold."<sup>30</sup>

The study in regard to grade, dockage and weight, was restricted to the commercial line companies, but the commission was reasonably assured that a similar study for other types of elevators, would show greater profits or less losses for their customers if it had been possible to obtain the necessary data from representative groups of such houses.<sup>31</sup> From this extensive survey, therefore, it is ascertained that the cooperatives pay at least equally as high prices as their competitors and give their patrons equally as great advantage in regard to grade, dockage and weight.

As to actual profits realized by the cooperative elevator companies, recent figures are available from two surveys, the one conducted by the University of Minnesota, the other by the Federal Trade Commission. According to the computations of Black and Robotka, who conducted a survey of cooperative grain marketing in Minnesota in 1918, 227 companies or 94 per cent of a total of 241 reporting, made profits during the fiscal year, 1917-18, averaging \$4,254.<sup>32</sup> Thirteen companies or 5 per cent of the total number, had losses averaging \$1,236, and one company reported that it had neither profit nor loss. The average profits of all the companies would, therefore, be \$3,941.<sup>33</sup>

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<sup>30</sup> *Opus cit.* p. 194.

<sup>31</sup> *Loc. cit.* pp. 197-206.

<sup>32</sup> Black and Robotka, *Opus cit.* p. 26.

<sup>33</sup> *Ibidem.*

If this general average of profit be applied to the 4,442 cooperative elevator companies existing in the North Central States at the beginning of 1921, their total profits during the fiscal year 1919-20 equalled \$17,505,922. Were this total equally divided among the 409,062 members, the average profit for each member would have been \$35.50.

The representative character of the Minnesota survey as a general criterion of the profits of cooperative elevator companies may, however, be questioned. In the first place, the number of companies reporting is small in comparison with the total number of companies in the North Central States at the beginning of 1921. Again, the companies of Minnesota handled on the average only 125,571 bushels of grain annually, which is 25,000 bushels less than the five year average arrived at by the Federal Trade Commission in regard to the volume of grain handled in general by the cooperative companies. Furthermore, the market was so irregular during the year 1917-18, that it was difficult to determine the price which would yield a safe margin of profit. To this condition Black and Robotka ascribe the fact that 61 companies did not have sufficient profits to warrant paying dividends.<sup>34</sup> The figures, therefore, are probably conservative when adduced as reflecting the profits of cooperative elevator companies in general.

Because of the variations in accounting in vogue among the cooperative elevator companies, a statement of their profits and losses does not always afford an accurate index of their financial status. While most of the companies of Minnesota included both dividends on stock and patronage as profits, the number of companies which were figuring dividends on stock as expenses was increasing.<sup>35</sup> Hence, the total net profits are more accurately reflected in the dividends distributed and in the sums accumulated as reserves and undivided surplus.

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<sup>34</sup> *Opus cit.* p. 26.

<sup>35</sup> *Loc. cit.* p. 26.

The 360 companies <sup>36</sup> of Minnesota during the fiscal year, 1917-18, distributed about \$630,000 in dividends, and in addition accumulated \$700,000 as reserve funds and undivided surplus. Upon this basis, the 4,442 companies of the North Central States during the fiscal year 1919-20, distributed \$7,773,777 in dividends and accumulated \$8,359,444 as reserve funds and undivided surplus.

The dividends distributed, are returned to the stockholders as dividends on capital stock, on patronage, or on both. Forty-five per cent of the 241 companies in Minnesota, reporting in regard to these items, paid dividends on stock only, and twenty-three per cent of them paid dividends on both stock and patronage. Three companies paid patronage dividends only. The accompanying table shows the dividend rates on capital stock as reported by 233 companies.

<i>Rate of dividend (per cent)</i>	<i>Number of elevators reporting <sup>37</sup></i>
0.....	75
2.....	1
4.....	2
6.....	12
7.....	10
8.....	36
9.....	1
10.....	42
12.....	2
15.....	8
<i>(per cent)</i>	<i>reporting</i>
20.....	15
21.....	2
22.....	7
25.....	1
30.....	5
40.....	10
50.....	1
54.....	4
100.....	1

<sup>36</sup> This was the total number of companies in the State at the time. Not all of the companies responded to the various questions sent to them.

<sup>37</sup> Of the 75 companies reporting no dividends, 13 made no profits.

From this table it is seen that 132 companies out of 233 reporting in regard to dividends on stock, paid 8 per cent, and more. But it is important to bear in mind that companies paying less than 8 per cent may be equally as prosperous as those that pay this rate or a higher one. When companies pay exceptionally high dividend rates on stock, in all probability they are not paying dividends on patronage, and so are not living up to truly cooperative principles. Again, companies with small dividend rates may be paying higher prices for grain or they may grade it higher, charge less dockage, and give better weight. A company, in short, may run on a no-profit basis, and still be of as much economic benefit to the producers as are the companies in which the rates of dividends are high.

Another survey dealing with the profits realized by the cooperative elevator companies, is that of the Federal Trade Commission, whose *Report on the Profits of Country and Terminal Grain Elevators* was made public on June 13, 1921.<sup>38</sup> This *Report* presents a comparative statement of the profits made by the principal types of country elevators during the crop years 1915-16, 1916-17, 1919-20. In the accompanying Tables I and II are charted the results of this investigation in regard to the rate of return on the investment for the principal types of country elevators during the three years indicated. As very much of the business of country elevators is handled on borrowed capital, the rate of return on the investment will be considerably higher or lower accordingly as borrowed funds are either included or excluded from the computations. For this reason it was thought best to construct two tables, the one indicating the percentage of income to invested capital, borrowed funds included, the other presenting the percentage with borrowed funds excluded.

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<sup>38</sup> The Report is printed as *Sen. Doc. No. 40*, 67th Cong. 1st sess. This is a preliminary report, issued because of the measures dealing with the grain trade that were before Congress at the time.

## RESULTS ACHIEVED THROUGH COOPERATIVE MARKETING 105

TABLE I—Showing percentage of income to invested capital for country grain elevators, borrowed funds included.<sup>39</sup>

TYPE OF ELEVATOR	1915-16	1916-17	1919-20
Independent.....	17.85	24.20	18.93
Cooperatives (pat. div.).....	31.78	38.97	26.32
Cooperatives (no pat. div.).....	14.59	27.50	21.22
Line companies.....	11.65	15.82	12.86

TABLE II—Showing percentage of income to invested capital for country grain elevators, borrowed funds excluded.

TYPE OF ELEVATOR	1915-16	1916-17	1919-20
Independent.....	21.69	29.27	22.73
Cooperatives (pat. div.).....	49.21	58.13	39.03
Cooperatives (no pat. div.).....	17.10	26.29	26.26
Line companies.....	15.57	20.80	18.15

From these tables it is seen that the cooperatives paying patronage dividends have each year easily the highest rate of return on the investment, whether borrowed funds are either included or excluded. The cooperatives not paying patronage dividends occupy a much less favorable position. Their rate may be said to be approximately intermediate between that of the independent dealers and that of the commercial line companies. It would be hazardous to offer an explanation of the variations of return on the basis of the data given in the *Report*. The explanation will no doubt be given in the more detailed report to follow. However, there are several advantages connected with the cooperative form of organization, which are fundamental and which probably account in a large measure for the

<sup>39</sup> The cooperatives were divided into two classes, those paying patronage dividends and those paying dividends only on capital stock.

high rates of return reported by the cooperative companies that distribute their earnings on the basis of patronage.<sup>39a</sup>

The *Report* of the Federal Trade Commission also gives figures indicating the total number of companies reporting for each type of elevator as also the total amount of operating profits realized by the companies of each type. From these figures it is possible to arrive at estimates which should be fairly accurate averages of the amount of profit realized by the individual companies and by the individual members. To indicate these averages and the method of arriving at them is the purpose of Table III.

TABLE III—Showing the average operating profit of individual cooperative elevator companies and the members thereof.<sup>40</sup>

Year	Type of Company	Total operating profit <sup>40</sup>	Number of companies	Average profit per com. <sup>41</sup>	Average profit per mem. <sup>2</sup>
1915-16.	Coop. pay. pat. div. . . . .	\$ 537,511	136	\$3,952	\$35.93
	Coop. not pay. pat. div. . . . .	281,993	132	2,136	19.41
1916-17.	Coop. pay. pat. div. . . . .	1,372,702	226	6,073	55.20
	Coop. not pay. pat. div. . . . .	1,150,048	236	4,876	44.32
1919-20.	Coop. pay. pat. div. . . . .	1,300,711	197	6,602	60.11
	Coop. not pay. pat. div. . . . .	794,010	153	5,189	47.17
AVERAGE . . . . .				\$4,804	\$43.50

On the basis of the figures presented in this table, it may be concluded that the average annual income of a co-

<sup>39a</sup> These advantages will be developed in the succeeding chapter.

<sup>40</sup> This represents the amount of operating profit after interest has been deducted on borrowed funds.

<sup>41</sup> Average operating profit per company is obtained by dividing total operating profit by the number of companies reporting.

<sup>42</sup> Average profit per member is obtained by dividing the total operating profit of the individual companies by 110, which we estimated as the average number of members composing an individual company. See Chapter II, p. 36.

operative elevator company is not far removed from \$5000, which in turn should net the individual member, taking 110 as the average number of members composing a company, a sum close to \$45. Were averages computed exclusively for the cooperative companies paying patronage dividends, they would be considerably higher than those arrived at. Similarly exclusive averages for the companies not paying patronage dividends, would be considerably lower.

If, therefore, the cooperative elevator companies are considered in their competitive aspect, and the additional gains taken into account that they can secure for their patrons by returning to them dividends on stock and patronage, the conclusion seems warranted that cooperative marketing is an enterprise in which grain growers may engage with economic advantage to themselves. The gains thus made possible have, however, special significance for the farmer of small means. From a certain viewpoint he is proportionally the greatest beneficiary because through membership in a cooperative elevator company he can bargain collectively both in the matter of selling his grain and of buying his supplies, and the financial benefits he thus secures, are used to supply more fundamental needs than those obtained by his more prosperous neighbors. But here again it is important to distinguish between those companies organized as ordinary stock corporations and those organized as true cooperative associations. The companies in which the profits are distributed on the basis of stock-ownership are likely to be of no considerable benefit to the farmer of small means because his capital available for investment in the enterprise may not be sufficient to make his profits commensurate with the patronage that he contributes to the company. The same distinction is of importance when cooperative grain marketing is considered in relation to the tenant class. Tenants as a rule have no capital at their disposal to invest in an elevator company merely for the dividends that such investment may bring, and hence they will lack adequate incentive to take out membership in a company that distributes its profits on

the basis of an ordinary corporation. No doubt, frequently tenants do not become members of a cooperative elevator company because they contemplate moving out of the community within a short time,<sup>43</sup> but this fact does not vitiate the claim just made.

The economic gains secured as a result of cooperative grain marketing have had also the direct effect of increasing the value of the land in those sections where the cooperative elevator companies are located. The value of agricultural land, disregarding its location, is determined by the price of the products which are grown on it. A higher price paid for agricultural products enables the owner to collect a higher rental from his land.<sup>44</sup> The ability to collect a higher rental in turn increases the value of the land, and this increase is determined by capitalizing the annual rental at the current rate of interest.<sup>45</sup> Thus, if an acre of wheat yields twelve bushels, and the price in that locality is increased three cents per bushel as a result of establishing a cooperative elevator company, the capital value of that acre of land would be increased by

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<sup>43</sup> B. H. Hibbard, *The Tenant of the North and the Marketing of His Crop*, p. 462, in Report of the Third National Conference on Marketing and Farm Credits. The following quotation is taken from the paper read by Professor Hibbard at the Conference: "Among the cooperative elevators in Iowa, located in districts where the farmers are half tenants, and where tenants sell decidedly more than half of the grain shipped, but one-fourth of the members of the companies are tenants. Thus three-fourths of the shares of the elevator are in the hands of men who own land, while the tenants selling more grain than all of these, hold but one-fourth of the shares. Not only are the tenants in the hands of their landowning neighbors so far as the management of their land is concerned, but where the farming population is half tenants, with less than a quarter of them in a marketing association it means strength to the line-elevators and all other private undertakings of the kind, and weakness to the tenants and hence to the whole farming population." This statement is confirmatory of the view expressed in the preceding paragraph in as far as the cooperative elevator companies of Iowa at the time when the survey was made, were for the greater part organized as ordinary stock corporations.

<sup>44</sup> This presupposes that he is the owner of land from which he could exact rent before the increase of price occurred. Rent is always the differential between land which commands a price for its use and that land the use of which brings a return just sufficient to cover the expenses of production.

<sup>45</sup> Frank O'Hara, *Introduction to Economics*, pp. 180-182.



six dollars if the current rate of interest were six per cent.

Cooperative grain marketing, apart from economic considerations, has a social and an educational value. Every cooperative elevator company is an important rural socializing agency. Through the medium of the company, the farmers of the community learn to know each other, and this fact helps appreciably in breaking down that individualism and distrust of one another's motives so characteristic of the agricultural classes. The economic gains made possible through association, teach the members of the company that in their other social relations also they can accomplish more through collective effort than through individual action. Questions of general policy frequently find discussion in the meetings of the members, who are thus led to take an interest not only in the affairs of their community but also in those of the State and Nation. The annual picnic, which is held by many companies, offers an opportunity of acquaintance, mutual good fellowship, and enjoyment. Through the speakers that are generally provided for such an occasion, the picnic serves also to impress upon the attendants useful lessons regarding agriculture and rural problems in general. The fund set aside by some companies for educational purposes, can be used to accomplish the same end. The business features of the organization also have their distinctly educational value. By virtue of his relations with the company, the farmer becomes familiar with new business forms and methods; the small savings made possible through collective buying and selling, stimulate the practice of thrift. On the other hand, membership in a cooperative elevator company makes demands upon the farmer's capacity for altruism. The motto "each for all and all for each" finds practical application in every cooperative enterprise that succeeds. This, of course, does not mean that cooperative grain marketing carries no appeal to individual self-interest, but it is a recognition of the fact that associated endeavor promotes the individual's welfare more effectively than isolated action in meeting their common problems.

These then are the economic and social advantages which members of a cooperative elevator company may reasonably expect from their enterprise. But these results can be obtained only when the company continues in successful operation, and success depends upon the prudent adaptation of means to the desired end. This leads to a consideration of the factors that condition success. Experience indicates that these companies in order to serve their purpose and continue in successful operation, must pay due regard to certain fundamental principles or factors. These form the subject matter of the next chapter.

## CHAPTER VI

### FACTORS OF SUCCESS IN COOPERATIVE GRAIN MARKETING.

In closing the preceding chapter the general conclusion was drawn that cooperative grain marketing in the North Central States has been successful as a general movement. This statement, however, does not imply that the farmers of any particular locality may form a grain marketing association, and be assured that their undertaking will be successful. It is important to distinguish between the success of a movement and that of its component parts. Cooperative grain marketing has had its success and its failures. While the majority of the companies have been able to provide a satisfactory market for the community in which they were established and to yield financial returns to their patrons, some companies have not succeeded in doing this but have ended in financial failure. The burden then is to detect those factors which make for success and those which make for failure rather than to establish the inherent feasibility of cooperative grain marketing as an economic principle.

As the success or failure of any enterprise depends upon a variety of factors so experience has established that a number of fairly well recognized principles must be observed in the organization and management of cooperative elevator companies before their success can be reasonably assured. A conviction on the part of the members that their company will be able to perform a real service in the community; assurance of a fairly large volume of business; the adoption of the truly cooperative plan of organization; efficient management, with its correlatives, proper book-keeping, accounting, and auditing; a loyal membership; centralization of effort—these are the factors, stated in a summary way, that assure success.

The lack of appreciation of the value of organization on the part of American farmers, has become almost proverbial. A fundamental difficulty seems then to be encountered at once, for it will be readily conceded that successful cooperative grain marketing is impossible without a well correlated and coordinated business organization. A cursory review of the early history of the cooperative elevator movement would almost lead to the conclusion that only after the economic independence of the grain growers is threatened, can a successful marketing association be established among them. When a cooperative elevator company was organized, the competing dealers soon created dissatisfaction in its ranks by bidding higher prices for grain. Only by "penalizing" its members for withdrawing their patronage, could their loyalty be retained. Within recent years, however, a broader vision regarding the value of organization has begun to prevail. The cooperative elevator companies of the North Central States are today not the object of special discrimination as they were during the period when railroad companies refused them sites for building and when commission firms refused to accept their grain, and yet they are increasing in number at an accelerating rate and individually are handling vastly greater amounts of grain than do their competitors. Such a situation seems to indicate that the grain growers of this region are beginning to consider the marketing of grain as much a part of their occupation as they do the growing of it.

It is, therefore, scarcely any longer necessary that their economic independence be threatened before they will sufficiently surrender their individualism to associate themselves successfully with their neighbors in a cooperative marketing organization. At the same time it is equally certain that they must realize that their proposed company can perform a real service by providing a more advantageous market for their grain than existed before. There are so many counter-currents interfering with the efficiency of a grain elevator company that an important cause affecting the farmers' interests must be the dominant

motive for its establishment. In some companies the members are scattered over a wide area. Where this condition prevails, there is likely to be the lack of that community spirit, the presence of which is the necessary foundation of all successful associated endeavor. Again, there will be others who feel that after all they can handle their problems almost as well individually as through collective effort. Some consider marketing scarcely within the province of their occupation. Others are sufficiently prosperous as not to care seriously for the additional gains they may be able to make through membership in an association which necessarily interferes with their perfect freedom of action. Some are distrustful of entering a business organization because of the losses they have suffered in the past through so-called "professional promoters," who for their own private interests have lured the farmers into business ventures. Local jealousies, dissatisfaction with the officers, and especially with the manager on account of the grades he assigns to their grain, the dockage he takes, and the price he pays for it, are not infrequently the causes undermining the stability of a company. These are conditions, one or the other of which almost every company must at some time face. Hence it is a necessary prerequisite that every company organized, arise spontaneously out of the desires of its future members if its success is to be reasonably assured.<sup>1</sup>

The organizing of a cooperative elevator company is a business undertaking, and unless this undertaking is financially sound it will sooner or later succumb to the opposition which it will almost invariably be compelled to withstand. In the preceding chapter it was shown that the costs of operating an elevator vary little regardless of the amount of grain handled, and that the principal economic advantage of the cooperatives is due to the larger amounts of grain handled by them than by their com-

<sup>1</sup> Livingston and Seeds, *Marketing Grain at Country Points*, p. 41; Black and Robotka, *Opus cit.* pp. 7, 8; Filley, *Cooperation*, Extension Bulletin No. 31, pp. 28, 29, Agric. Exp. Station of Nebraska; O. B. Jesness, *Opus cit.* p. 6; Bassett, Moomaw, and Kerr, *Opus cit.* p. 190.

petitors. Where this advantage disappears it would be inadvisable from a financial point of view to organize an elevator company at such a country point, provided competitive prices are being paid for grain.

In judging, therefore, the advisability of organizing a company in a particular locality, it is highly important to estimate the approximate volume of grain generally marketed at that country station,<sup>2</sup> and to ascertain what proportion of this amount will probably be handled by the cooperative company.<sup>3</sup> It must be remembered that most country stations are already well supplied with grain elevators.<sup>4</sup> In many places there are more than are needed.<sup>5</sup> If a company is organized at such a place, and it does not succeed in getting a larger share of grain than do its competitors, the cost of operating will be increased for each elevator at that particular country station, a cost that must ultimately be borne by all the farmers of the community. Because of the small amounts of grain handled by each elevator in this instance, competition is likely to become very keen, verging on the cut-throat type. This condition will demand the highest business efficiency at the very outset, and if this efficiency is lacking the probable result will be the failure of the company.

Since the farmers must in most instances enter a field already occupied, the wisdom of buying an elevator of a

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<sup>2</sup> Livingston and Seeds in their *Bulletin* advise that definite information should be secured for a five-year period to arrive at a conservative estimate, p. 41.

<sup>3</sup> Black and Robotaka advise in their work on cooperative marketing that a company should ordinarily be assured of 100,000 bushels annually unless its competitors would handle still less or give unsatisfactory service. *Opus cit.* p. 29.

<sup>4</sup> Livingston and Seeds, *Opus cit.* p. 33; *Bulletin of U. S. Bureau of Labor Statistics*, *Opus cit.* p. 14; *Report of the Federal Trade Commission on the Grain Trade*, Vol. I, p. 38. The average number of elevators per station is 2.38 according to this *Report*.

<sup>5</sup> Livingston and Seeds, *Opus cit.* p. 14. The following quotation is taken from this *Bulletin*: "In some sections there are more elevators than the volume of business will justify, some communities being supplied with 8 or 10 houses, when 2 or 3 would be adequate." Cf. *Bulletin of U. S. Bureau of Labor Statistics*, *Opus cit.* p. 14. See also *American Cooperative Journal*, Vol. 12 (1917), pp. 437-38, 499-522, 564-65.

competitor rather than of building one,<sup>5a</sup> is apparent, other things being equal.<sup>6</sup> In all probability competition will be less severe, the company will be reasonably certain of a larger volume of business, and hence also of larger profits. Finally such action may solve the problem of procuring an efficient and experienced manager for the company.

Assuming then that local conditions warrant the formation of a cooperative elevator company, according to what plan should it be organized? Which of the four types of organization promises the best results? Is it the ordinary stock corporation, the stock corporation with its limitation of shares and voting power, the corporation which besides these two characteristics embodies a third, namely, the distribution of net earnings according to the amount of business transacted with the concern, or is it the cooperative non-stock association? The answer to this question will depend largely upon considerations of the results a cooperative elevator company should achieve for the community in which it is established.

If the purpose in organizing is the seeking of an investment, then the ordinary corporation form is adequate. While the corporation form is especially designed for enterprises requiring large amounts of capital, for example, the building of a railroad, this does not prevent it from being equally applicable to smaller enterprises, such as an elevator company. Experience proves that from a financial point of view the ordinary corporate form is adequate to function as a basis for successfully conducting a grain elevator. Thus, when some companies pay dividends of 30 per cent on the invested stock,<sup>7</sup> they are evidently successful

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<sup>5a</sup> When the farmers buy an elevator instead of building one, it is well to call in an experienced accountant to appraise the value of the elevator and its equipment.

<sup>6</sup> An important consideration is the elevator's equipment of machinery for conditioning grain, or the adaptability for its installation. The saving made possible in freight by cleaning grain at the country elevator is an important item. It costs as much to ship a bushel of screenings to the terminal market as it does to ship a bushel of the finest quality grain. Screenings can be profitably sold by the elevator or returned to the farmer and used for feed.

<sup>7</sup> L. D. Weld, *Opus cit.* pp. 7, 8; Black and Robotka, *Opus cit.* p. 28.

financially. But do such high dividends necessarily imply large financial returns for all the members? Does not the fact that stock yields a dividend of 30 per cent create a strong presumption that the capital stock in such a company has become concentrated in the hands of a few, and that the company exists primarily for the benefit of these few rather than for the benefit of all the members? The concentration of ownership and the consequent centralization of control are indeed the dangers to which the cooperative elevator company organized on the ordinary corporate plan is constantly subject.<sup>8</sup> When this concentration of ownership and control has taken place, the members owning little of the capital stock, have no longer a special interest in the company, and if a competitor pays higher prices for grain, the patronage of these will in all probability be lost to the company.

The primary reason, however, why farmers organize a grain elevator company is, or should be, to secure for themselves more advantageous marketing facilities than existed before. They are not primarily seeking an investment. Any type of organization that does not secure this purpose is ill-adapted to a cooperative elevator company. Any type which tends to create a membership interested in the enterprise as an investment rather than as a method of providing advantageous marketing facilities, fosters a condition undermining the stability of the company.

As long as the members own capital stock in direct proportion to the amount of grain they market, the purpose of the company can still be secured. But the difficulty of apportioning stock among all the members in such a manner that each one will own this proportionate share and the equally great difficulty of maintaining this proportion, render the ordinary corporation type of organization a poor plan for a cooperative elevator company to adopt.

To meet these difficulties many of the companies have

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<sup>8</sup>Mehl and Jesness, *Opus cit.* p. 3; Black and Robotka, *Opus cit.* p. 30; Cf. Jesness, *Opus cit.* 10; Bassett, Moomaw, Kerr, *Opus cit.* 191; Cumberland, *Cooperative Marketing*, p. 11.



inserted clauses in their by-laws, which allow to each member only one vote and limit the number of shares each member may own. These provisions make the company a compromise organization between the ordinary corporation and the cooperative stock company. It differs from the latter only in that dividends are distributed in proportion to the amount of stock owned and not on the basis of business transacted with the concern. Do these provisions achieve adequately the purpose for which they were designed? By allowing to each member equal voting power, the danger of centralization of control is averted, and each member is given the incentive to have a personal, vital interest in the enterprise.

The second provision, however, does not achieve its purpose so well as does the first. Even though there is a limitation set upon the amount of stock each member may own, it does not necessarily follow that each member will own stock in proportion to the amount of business he transacts with the concern, and this is an essential requisite for a company of this type to be assured of permanent success. Every farmer who contributes business to the enterprise in excess of the amount of stock owned by him, to that extent will feel at liberty to desert the company if outside firms offer better prices for grain. But there are other difficulties which in time may undermine the stability of such a company. Since dividends are paid on stock, there will be a tendency for persons to retain membership in the association if it is prosperous, even though they have retired from farming and have moved out of the neighborhood. Were all the companies based on this compromise form of organization there would no doubt be a considerable amount of "absentee ownership" in view of the general trend toward the cities and in view of the extent of farm tenantry, which always implies a shifting of the rural population. This shifting is in itself an obstacle which every farmers' association must meet, but it is better for the association to have a changing local membership with like interests than a stable membership scattered over a wide area, and with varying interests.

These difficulties might be eliminated through clauses in the by-laws regulating conditions of membership, although their enforcement might at times entail litigation. Certainly it would be desirable if a type of organization were at hand which would tend to eliminate these difficulties automatically. Does the cooperative stock corporation offer a solution? What are its advantages as a type of organization for a grain elevator company?

Like the type of organization just described, the cooperative stock corporation embodies the features of limitation of voting power and of stock ownership. It differs from the former in this that after the current rate of interest has been paid on the invested capital, all further profits or earnings are pro-rated to the members in proportion to the amount of business each one has transacted with the association. Through the limitation of voting power, democratic control of the association is assured. Since each one has the same degree of control, the members owning a small amount of stock will feel a personal, vital interest in the enterprise; and no one will be tempted to buy up a large amount of stock as a means of securing control of the policies of the company.<sup>9</sup> By limiting the number of shares each member may own, opportunity is offered to all the farmers of the community to own at least one share of stock in the enterprise. This limitation secures also a further safeguard in the interests of democratic control.<sup>10</sup> The provision whereby only the current or legal rate of interest is paid on the invested capital, prevents persons from buying or retaining stock in the company, primarily for the profit that such stock may yield.<sup>11</sup> The final provision, namely, the distribution of profits according to the amount of business transacted with the association, offers a powerful incentive to loyalty on the part of all the members. Each member of a company organized on this plan, will strive to market as much grain with the company as possible since his profits stand in direct pro-

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<sup>9</sup> Mehl and Jesness, *Opus cit.* p. 3; Black and Robotka, *Opus cit.* p. 30; Cf. Jesness, *Opus cit.* p. 10; Bassett, Moomaw, and Kerr, *Opus cit.* p. 191.

<sup>10</sup> *Ibidem.*

<sup>11</sup> *Ibidem.*

portion to the volume of business he transacts with it. The importance of this provision as a factor of success in conducting an elevator company cannot be easily overestimated. Any plan of organization which does not secure the results intended by this provision, is deficient. Hence the cooperative capital stock association seems best adapted to meet the needs of the situation.<sup>12</sup>

The cooperative non-stock association embodies the same incentive to loyalty on the part of the members, but it has not found favor because in the opinion of the grain growers it does not provide a satisfactory method of procuring the large amount of capital necessary to finance a company adequately. Furthermore, some of the state incorporation laws do not make specific provision for this type of association.

In order, however, that the cooperative stock association achieve its purpose, it is important that the rate of dividend on capital stock be not excessive. If the rate is higher than eight per cent, the company tends to become an enterprise conducted primarily for profit and in the interest of the large stockholder. Similarly, a limitation should be set upon the amount of capital stock each person may own in the concern, but the point of limitation must be governed largely by local conditions, such as the number of prospective members, their comparative financial status in relation to the capitalization of the company, and their willingness to finance the enterprise.

As has been seen, a difference of opinion exists among grain growers as to what should constitute the proper basis of distributing the patronage dividend, some maintaining that it should be based upon the value of the grain delivered by each patron and not upon the quantity. An examination of the method of conducting the business of an elevator will lead to the conclusion that the patronage dividend should be based upon the quantity of the grain delivered and not upon the price received for it. It is the practice of every elevator to allow a certain margin of profit on each bushel of grain handled. The total amount

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<sup>12</sup> Cf. *Ibidem*.

of profit will, therefore, be in direct proportion to the amount of grain handled, regardless of whether the grain has been sold at a high or a low price. As is well stated in one of the Bulletins of the U. S. Department of Agriculture: "If the value of the grain determined the profit, a value basis could be established for determining patronage dividends; but the fact that two persons hauling the same kind of grain at different times of the year under conditions of price fluctuation would receive varying amounts of money for the same number of bushels of the same commodity shows that it is not the proper basis for patronage dividend distribution."<sup>13</sup>

The adoption of a plan of organization, which determines the method of distributing profits, specifies only a few of the many social relations arising out of the formation of a company. To outline and define these various relations, every company should draft a set of by-laws.<sup>14</sup> Without by-laws determining succinctly and comprehensively the rights and duties of the members toward each other and toward the company as a collective body, misunderstanding and dissatisfaction are sure to follow. These by-laws, therefore, should state exactly what is proposed to be done and how it is to be done. They should present in detail the working plan of the organization. The by-laws of an association have been well compared to the specifications which guide the contractor in constructing a building. Just as from the specifications the contractor is enabled to build the structure as desired, so from a set of by-laws the members should be able to ascertain precisely how their company will be organized in conducting its business.<sup>15</sup>

Upon its formation the company should be incorporated under the incorporation law of the state in which the company operates. Incorporation gives the company a distinct legal status, enabling it to act as a corporate entity. It also

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<sup>13</sup> John R. Humphrey and W. H. Kerr, *Patronage Dividends in Co-operative Grain Companies*, p. 6, in Bulletin 371.

<sup>14</sup> See sample set of by-laws at end of treatise, Appendix B.

<sup>15</sup> Bassett and Jesness, *Cooperative Organization By-Laws*, p. 1, Bulletin 541, U. S. Dept. of Agric.

definitely limits the financial liability of its members.—In some states, the un-incorporated association has the legal status of a partnership,<sup>16</sup> and in a partnership the liability of each member is unrestricted. Again, in other states the un-incorporated association is considered as an agent for its members, and as such the legal status of its members is that of principals.<sup>17</sup>

Though its opportunities be very great and though the plan devised for conducting its business be very good, if the company is not efficiently managed, nothing will save it from financial failure. There is no other factor upon which its success so much depends as upon efficient management. And while the management rests fundamentally with the board of directors, the efficiency of this management will depend in a large measure upon the one whom the board of directors chooses as the manager of the elevator and upon the limitations it sets to his authority and responsibility.<sup>18</sup>

From the nature and extent of the manager's work issue the causes which make his position so difficult and so pivotal in the success of the enterprise. His work is more intricate and requires greater insight than that of the manager of a line elevator company. The latter generally does not sell the grain that he buys; he merely forwards the information of the amount bought, to the central office, which then attends to the matter of selling. The manager of the cooperative company must not only buy grain judiciously but he must also sell it advantageously. This requires that he possess a thorough knowledge of grain marketing conditions so as to determine when, where, and how to sell. Besides grain, he must buy and sell a variety of side-lines; and of each transaction he must keep an accurate account in his books.

Keeping proper accounts of all business transactions of

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<sup>16</sup> *Opus cit.* p. 4.

<sup>17</sup> *Ibidem.*

<sup>18</sup> The mutual limitation of authority between the board of directors and the manager of the elevator demands careful adjustment. See their limitations as drawn in the sample set of by-laws at end of treatise, Appendix B, Art. II and III.

the company constitutes a necessary and important feature of the manager's work. Accurate accounting promotes economy in conducting the enterprise, creates confidence in the membership, and places the company in a better position to secure financial aid.<sup>19</sup> That many of the managers of the cooperative companies do not keep proper accounts has long been recognized and was disclosed again in the recent investigation of country grain marketing by the Federal Trade Commission.<sup>20</sup> The need for uniform and efficient accounting in these companies has induced the Office of Markets and Rural Organization of the U. S. Department of Agriculture to perfect a system of accounts for them.<sup>21</sup> This system is being introduced in many of the companies.<sup>22</sup>

The manager more than anyone else, is the representative of the company, both to its individual members and to the other people of the community. Through his general tact and prudence when associating with the merchants of the town, he can correct false impressions that may exist regarding the company. For it must be remembered that town merchants are not infrequently opposed to a cooperative elevator company because through the large variety of side-lines it handles, it encroaches upon what they consider their trade; and no doubt they vaguely feel the possibility of farmers organizing a cooperative store if their elevator company proves a success. In dealing with non-members who come to the cooperative elevator to sell their grain or purchase supplies, the manager through that same tact and prudence may readily gain for the company permanent customers and probably future members. But primarily the manager is the representative of the company to its individual members. Naturally there will be divergent views at times among them as to the policies of buying grain and selling supplies that the manager is pursuing.

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<sup>19</sup> W. H. Kerr, *Cooperative Organization Business Methods*, p. 2, in Bulletin 178, U. S. Dept. of Agric.

<sup>20</sup> *Report on the Grain Trade*, Vol. I, p. 22.

<sup>21</sup> J. R. Humphrey and W. H. Kerr, *A System of Accounts for Cooperative Elevators*. Bulletin 236, 1915, U. S. Dept. of Agric.

<sup>22</sup> Black and Robotka, *Opus cit.* p. 13; Erdman, *Opus cit.* p. 152.

There will be suspicion among them now and then as to the grade assigned to their grain, the dockage taken, the weight given, and as to the price paid for it. Under these circumstances, it requires on the part of the manager not only intelligence of a high order but patience as well.

Honesty in the manager is even more requisite than business knowledge and patience. Failures have resulted because managers speculated in grain through buying "options" or dealing in "futures," or through outrightly defrauding the company. As a measure to protect the company against such practice, an article should be inserted in the by-laws, prohibiting the manager's speculation in grain. For the same reason, the books of the manager should be audited at stated intervals, and he himself should be required to give a bond as a guarantee of the faithful performance of his duties.

Closely allied to efficient management, in fact, an integral part of it, is the auditing of the manager's accounts. A careful audit will disclose fraud, detect errors and omissions as also the defects of the business methods of the company. It promotes a business reputation for the company, creates confidence in the membership and protects the manager himself from unwarranted criticism. These advantages make it eminently worth while for every company to have its accounts audited several times each year. Nor should these audits be merely internal, namely, those conducted by the board of directors or by a committee selected from among its members. It is advisable that they should conduct such an audit every three or four months; but at least once a year an expert public accountant should be called in to make a thorough examination of all the books of the company.<sup>23</sup>

Nothing is more emphasized in the literature on cooperative marketing than the necessity of an efficient manager. Thus C. F. Taeusch in his survey of cooperative marketing in Ohio, says: "The investigator has come across organizations violating every theoretical principle of successful cooperation, but preeminently successful be-

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<sup>23</sup> W. H. Kerr, *Cooperative Organization Business Methods*, p. 18.

cause of the efforts of an efficient manager. On the other hand, cooperative concerns that would register one hundred per cent in theory are barely existing, because of the fact that a poor manager is in charge.”<sup>24</sup> Similarly Professor Filley of the University of Nebraska, in his survey of cooperation in that State, says: “The most important task of the directors is the selection of a manager, for upon him devolves to a large extent the success of the company; if they select a competent man, the rest of their work is easy.”<sup>25</sup> He then quotes J. M. Shorthill, who is one of the foremost leaders in the cooperative elevator movement. After stating that the manager is the most important single factor of success in an elevator company, Mr. Shorthill enumerates the manager’s necessary qualifications: “In choosing a manager, the first qualification to consider is honesty, the second industry, the third natural business ability, and the fourth business education. All are important, but they are named in the proper order.”<sup>26</sup>

The opinions here given reflect a common consensus regarding the importance of efficient management. Since efficient management is such an important factor, it is evident that farmers must be willing to pay a salary sufficient to secure and retain an efficient manager. But farmers have frequently not realized this necessity. Professor Weld found that in Minnesota the salaries of managers in those companies that lost money, were on the average ten dollars less per month than the salaries of managers in companies that returned profits.<sup>27</sup> Farmers cannot expect to secure managers of high ability at less cost than can private concerns since both have to bid in the open market.

There is nothing automatic about a cooperative elevator company. It cannot possibly become a factor in reducing the costs of country grain marketing, and thereby increase the income of the grain growers, without their own co-

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<sup>24</sup> *Rural Cooperation and Cooperative Marketing in Ohio*, in Circular No. 141, p. 36, Ohio Agric. Exp. Station.

<sup>25</sup> *Cooperation*, in Extension Bulletin No. 31, p. 26, Neb. Agric. Exp. Station.

<sup>26</sup> *Ibidem*.

<sup>27</sup> *Opus cit.* p. 9.



operation. Hence, to say that loyalty of the members is a necessary factor of success is but citing a truism. The task, therefore, is rather to detect the causes from which a lack of loyalty proceeds and to suggest methods of action by which loyalty may be promoted, than to establish the necessity of loyalty itself.

The principal causes from which disloyalty proceed, have been mentioned at the beginning of this chapter. To counteract these, every company can take certain measures. The first one naturally to suggest itself is that of enforcing loyalty through a penalty clause, or some other coercive measure. There is no doubt that the penalty clause played an important role in the early days of the cooperative elevator movement and that it saved many companies from failure. At present it is very doubtful whether its use would be advisable. The questionable legality of the clause, in the first place, prevents it from being an effective measure. No company can institute proceedings against a member and be assured that its cause will be sustained in court, if the penalty clause is the basis of complaint. Nor can a company employing the penalty clause, hope to enjoy the sympathy of the public. Any clause which apparently interferes with the freedom of enterprise, will be in disfavor with competing dealers and with the community at large, and it is likely to be in disfavor with the members themselves. Used as a coercive measure the penalty clause may serve only to antagonize the members. Hence, part from its questionable legality, it may defeat its own purpose.

There are, however, other measures available which may contribute toward retaining and promoting the loyalty of the members toward their company. In the first place, it should be remembered that the loyalty of the members is in most instances assured if this is the only condition wanting to success. It has indeed been well said that a cooperative association to be successful, must have loyal members, but it is equally true that the members will be loyal if their company is successful. In other words, the success of the company depends upon the proper correlation

and coordination of all its parts. Hence all the factors which have thus far been considered are factors contributing toward loyalty. If the management is efficient and if the company is organized on the plan of distributing profits on patronage, the greatest incentives to loyalty are offered. But every company can protect itself still further. The by-laws should state clearly the obligations of the members so that they will know what the company has a right to expect from them. The conditions of membership can also be so fixed as practically to eliminate undesirable members. In a special crisis, a meeting might be called at which the president or his representative could explain in detail the affairs of the company and appeal to the members to support their own organization for the sake of insuring their own interests.<sup>28</sup> It should likewise be the policy of the board of directors to induce the stockholders to subscribe to a publication representative of the movement, from which they might learn the successes of other companies and how these successes were often won in the face of opposition.

These measures should in most instances be adequate to retain a membership sufficiently loyal to insure the success of the company. While loyalty is surely necessary, it should also be remembered that a certain amount of disloyalty does not at once destroy a cooperative elevator company. In fact, disloyalty or rather dissatisfaction on the part of one or the other member may at times be well founded, and thus may stimulate the board of directors and the manager to serve the company more efficiently. Hence, instead of relying on coercive measures which probably cannot be enforced without recourse to litigation and which at best cannot keep a company from failure if the confidence of the members has been lost, it seems best to rely on voluntary agreements, persuasion and education, to retain the loyalty of the members.

Attention should, however, here be called to a recently devised substitute for the penalty clause as a means of securing loyalty. This substitute takes the form of a spe-

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<sup>28</sup> See Mehl and Jesness, *Opus cit.* p. 29.

cial contract between the company and the individual members. The company agrees to provide certain advantages for its members, such as the maintaining of an elevator and furnishing market news, etc., and the member in turn agrees to pay to the company for these advantages a specified amount of money for each bushel of grain that he sells or markets either directly or indirectly to or through the company or any other dealer during the time of the contract. But it is further stipulated that for the grain the member sells or markets to or through his own company the amount of money he agrees to pay (one cent) per bushel, shall not be in addition to, but a part of, the whole charge or charges that may be established by the company for the services that it performs for its members.<sup>29</sup> This contract differs from the penalty clause in two aspects. It applies to all grain that the members market, and not only to that which they sell at other grain dealers. Furthermore, the company in enforcing the provisions of the contract, can rest its claim on service performed. As such, it is believed that this contract will withstand legal objections much more successfully than would the penalty clause, or the other coercive measure whereby the members agree to pay to the company certain sums as liquidated damages which the company may have sustained because of their selling or marketing grain at other dealers.<sup>30</sup>

The same reasons prompting individual farmers of a community to organize a local company to provide a more advantageous market for their grain, should prompt the individual companies to unite into state associations, and these to federate into a national association. Through such centralization of effort, new companies can be organized in the most efficient way by giving them the advantage of past experience; the less efficient companies can be helped to reorganize on a more efficient basis; all the companies can be assisted in various ways; the general stability of the cooperative elevator movement can thus be pro-

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<sup>29</sup> For form of such contract see Mehl and Jesness, *Opus cit.* p. 38.

<sup>30</sup> *Opus cit.* p. 30.

moted and its future development directed into the right channels. Problems dealing with the distribution of cars, properly equipped cars, collection of damage claims, equitable transportation rates, legislation governing transportation and terminal marketing facilities—these are problems requiring concentrated effort and talent that can be provided only through organization as exemplified in the Farmers State and National Grain Dealers Associations. The advantageous bonding, insurance, and auditing rates available to the cooperative elevator companies through the services of the state associations, should be sufficient financial inducement to take out membership in these bodies. The results achieved by the state associations merit for them the support of the local companies, and through them the support of the individual members. The future success of the movement is in a large measure bound up with the proper coordination of efforts of the individual companies with the efforts and policies of the Farmers State and National Grain Dealers Associations.

The question might also be asked whether the centralization of efforts as exemplified in the County Unit Plan<sup>31</sup> is a more advantageous method of conducting country cooperative grain marketing than the method of conducting it on the basis of the single unit type. The County Unit Plan makes possible economies, some of which cannot be attained when local companies operate as complete business units. Under the County Unit Plan, the task of the local managers is made considerably easier. Some of their functions are taken over by the manager of the central or county organization. This is an item of importance in view of the fact that the managers of the local companies operating as complete business units, must be men of high competence and character, and therefore, not so easily secured. The centralized accounting, which accompanies the County Unit Plan, is an advantage of the same order. It enables at times the local managers to perform the work at the elevator without the aid of an assistant bookkeeper. The manager of the county organization, being by supposi-

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<sup>31</sup> See Chapter III, p. 56.

tion a man of more highly specialized skill than the managers of the companies operating as individual units, can, therefore, also be expected to make better bargains in the selling of grain, the purchasing of supplies, and the procuring of cars for shipment. The very fact that he can buy and sell in larger quantities than the local managers, gives him superior bargaining power. It may happen that the local companies desire daily telegraphic reports of market conditions. Under the County Unit Plan it is necessary to obtain only one report for all the companies, the general manager forwarding the information to the locals. In this connection, another advantage is claimed. The managers all receiving the same information and considering their companies as part of the county organization, are all very likely to pay the same price for grain, thus avoiding competition among themselves, or buying on too close margins.<sup>32</sup> Lastly, it is claimed for the County Unit Plan that it permits a reduction in the number of boards of directors for the local companies, and the creation of an exceptionally efficient board for the central or county organization.

The advantages here adduced in favor of the County Unit Plan, do not seem to have the value which is sometimes given them. Thus Mr. W. M. Ramsey, writing in the *American Cooperative Journal*, stresses prominently the advantage to be derived from reducing the number of boards of directors. He is describing the situation in Mitchell County, Kansas, where there were twelve cooperative associations organized according to the County Unit Plan. Instead of twelve they have only one board of directors; instead of 108, they have only nine directors. On the supposition that each association would have its own board of directors, he says: "If they meet only five times a year at three dollars per day, the cost of directors would be \$1,620 annually against \$135, the cost of a single board an economy of \$1,485."<sup>33</sup>

Despite this alleged economy, it is highly doubtful

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<sup>32</sup> *American Cooperative Journal*, Vol. 12, p. 377 (Jan., 1917).

<sup>33</sup> *Ibidem*.

whether it would not be to the better interests of the individual companies if each of them had its own board of directors. Even though the board of directors of the central or county organization is more efficient than would be any of the local boards, it does not follow that they can handle all the business of all the companies thus associated, more efficiently than it would be handled were the business of each company under the jurisdiction of a separate board of directors. Nor may the conditions as then existing in Mitchell County be taken as representative. This would presuppose that a board of directors, specially chosen on account of their executive abilities, would be willing at the same price to perform a service, requiring much closer and more detailed attention than would be exacted in conducting the business of an individual local company. Furthermore, it would presuppose that each company needs nine directors. It is doubtful whether there are comparatively many cooperative elevator companies having that number. The most usual number of directors seems to be seven. And finally local companies generally experience no difficulty in securing directors who are willing to perform the service without pecuniary compensation. The very fact that the community places confidence in their character and ability is to them a sufficient inducement and reward.

In regard to daily telegraphic market reports, it is readily seen that the local companies of a county can adopt that self-same plan and still not operate on the county unit basis in their other business activities. Whether the elimination of competition, claimed as an advantage in this connection, is desirable, may be very much questioned. It need only be said that if the local companies of a county, through elimination of competition among themselves, would all be paying the same price for grain, but a lower one than that paid by the commercial line companies, the independent, and other dealers, they would soon find their patronage falling off at a rapid rate. If a competitor pays higher prices for grain than the cooperative company, even the members will be led to patronize

the former, for *present* higher prices carry a greater appeal than does the prospect of *future* dividends.

The County Unit Plan is at a distinct disadvantage in as far as it necessarily withdraws some authority from the affiliated locals. This phase has been well presented by Mr. Mehl, "Favoring the local single-unit form of cooperative elevators is a degree of community pride which usually centers around these organizations, quite independent of the services rendered. Local government carries a special appeal to the American citizen. This to some extent must be lessened, if not entirely lost, where control is vested in a body of directors and a management distantly situated. In many sections there is a prejudice against centralized authority which is not easily overcome."<sup>34</sup>

These then are the factors which condition success in local cooperative grain marketing. That any one of them is absolutely essential to success, it would be difficult to maintain, but the absence of anyone of them is an element of weakness and unless counteracted by the other factors mentioned will hasten the time of the company's failure.

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<sup>34</sup> *Cooperative Grain Marketing*, p. 34.





## CHAPTER VII

### SUMMARY AND CONCLUSION

The movement discussed in the preceding pages had its inception shortly after the Civil War, through the activities of the National Grange, a fraternal, social, and business organization, designed to further the rural reconstruction necessary upon the conclusion of that great conflict. When this organization suffered a temporary collapse and when other associations, founded to take its place, lost their immediate industrial character by seeking to obtain their ends through political action, only a few of the rural cooperative business enterprises survived. Lacking initiative and leadership, and chiefly concerned with securing lower transportation rates, the farmers of the North Central States during the decade of the eighties gave little consideration to the founding of such joint enterprises, as cooperative elevator companies. But gradually the suspicion gained ground that all was not well with the manner in which the price was set for grain at country stations. When the decade of the nineties came to a close, the conviction had become widespread that the price was being manipulated to suit the whims of the established grain dealers. As a form of protest and as a measure of relief, the farmers established their own marketing facilities by organizing marketing associations, owned and controlled by themselves.

They found the securing of relief through these organizations to be a much more difficult task, however, than entertaining the conviction of being unfairly treated. Better equipped by previous business experience, skilled in the art of drawing patronage to themselves, and acting in consort, the established grain dealers readily brought many of these early cooperative elevator companies to an untimely end and set a warning thereby to other communities contemplating the formation of similar enterprises.

In the face of these difficulties, the grain growers soon realized that only by supporting their own ventures, could they hope to achieve success. The "penalty clause," by reminding them of this necessity, served a useful purpose and played an important rôle in the further development of the movement. On the other hand, the continued opposition of the established grain dealers rendered more firm their conviction of unfair prices and the determination of overcoming this evil situation through their own associations.

From the "enemy" useful things could also be learned. Even as the grain dealers were exercising their sway over country grain marketing in a large measure through their state grain dealers' associations, so the grain growers concluded that through similar associations they could vastly strengthen the existing cooperative companies and provide the means whereby new ones could be formed. In response to this conviction they organized the farmers' state grain dealers' associations. The wisdom of such a step has been amply proved; the results expected have been largely realized. Better business methods have been introduced into the companies as a result, and communities desirous of organizing similar undertakings have been given the advantage of past experience. In federating these state associations into a national association, the grain growers were again but following the example of the established grain dealers in utilizing to the fullest advantage available collective effort.

The cooperative elevator movement has enjoyed a steady growth since 1905. Many of the companies formed since that time have ceased to be, but there has been a considerable net increase from year to year so that at present the cooperatives control almost 20 per cent of the elevator facilities and handle from 35 to 40 per cent of the total volume of grain shipped from country points within the region of the North Central States.

The causes of this growth are to be sought in the mental attitude of the grain growers. Suspicion and conviction persist among very many of them that the local middleman handling grain, exacts too large a margin of profit

for the services he performs. Others feel that there are too many local middlemen for the volume of grain to be handled, a condition that unnecessarily increases the cost of handling. They see a solution only in the concentration of patronage, and this concentration they judge to be most easily effected through their own organizations. Then too, an increasing number of grain growers have been led to the view that the marketing of their product is as much a part of their occupation as the growing of it, in the same way as the manufacturer considers the marketing of the things he produces a necessary phase and function of his business. These attitudes, fostered in a large measure by the agricultural press and by the encouragement of the rural business organizations, are the fundamental and constant factors inducing the formation of new cooperative elevator companies, and thereby contributing to the general growth of the movement.

Although the primary aim of these companies has everywhere been the same, namely, the securing for their members or patrons larger net returns for their grain, the structure of them has by no means been uniform. In general the form of organization adopted has varied in proportion to the ease of incorporating under the laws of the various states. When the cooperative elevator movement first took on prominence, the only laws under which the individual companies could advantageously incorporate, were those authorizing ordinary capital stock corporations. But gradually the legislatures of the North Central States enacted laws authorizing true cooperative associations. Since this form of organization harmonizes best with the aim of cooperative elevator companies, almost all of them within recent years have adopted this form. Many of the companies begun under the ordinary corporation laws, have reorganized in order to take advantage of the truly cooperative type. In this way the cooperative elevator movement has linked itself not only in aim but also in structure with the general cooperative movement initiated by the Rochdale Pioneers of England, in 1844. The form of organization adopted by a local company determines, how-

ever, only a few of the many business relations among its members. It is the function of the by-laws to determine these relations. Their nature and scope are always adjusted to meet local conditions and legislative requirements.

Viewing the results achieved by the cooperative elevator companies, we are led to the view that cooperative grain marketing is a form of enterprise from which grain growers may derive large economic and social gains. The cooperatives have been most important factors in maintaining competitive conditions in country grain buying. In price, margin, dockage, and weight, they have been quite as liberal as their competitors. They have secured larger net profits than their competitors if the comparative and extensive survey of the Federal Trade Commission may be taken as representative of conditions generally.

Apart from strictly financial considerations, the cooperative elevator companies have an educational and a social value which may not be overlooked. They encourage initiative, thrift, and the habit of saving; they acquaint the farmer with new business methods; develop his interest in the affairs of the community and the State; and teach him in a practical way the superior efficiency of social or collective as opposed to individual effort.

If, therefore, they have been the means of securing worth while economic and social gains for their patrons, why has not the growth of the movement been even greater? Why has not the rate of increase been even higher? The answer to these questions, like the explanation of the movement's growth itself, must be sought in the mental attitude of the grain growers. Just as there are many, convinced that unfair practices exist in country grain buying and that cooperative marketing offers the solution to the difficulty, so there are others, who, if they think that unfair practices do exist, do not look upon cooperative marketing as the method through which adequate relief can be found. Perhaps they consider the elimination of such evils to be a function of the State. There are others who look upon themselves as individually quite capable of securing the most advantageous bargains. At any rate they view indi-

vidual effort as preferable to collective action, which necessarily circumscribes their freedom and compels them to associate themselves with others whose motives they are likely to distrust.

The same classes of persons have prevented most of the local companies from securing as members all of the grain growers of the community in question. But here another class should be added, namely, those who prefer to participate in the advantages of cooperative marketing without assuming the attendant obligations. Some of the advantages accruing to the member of a cooperative elevator company, necessarily redound also to the advantage of the other grain growers of the community. In so far as the establishing of a cooperative elevator company may result in bringing about competitive conditions at that particular country station, all of the growers tributary to that station are equal beneficiaries. If a competitor pays a higher price for grain than does the local company, the non-member feels free to give his patronage to the concern offering higher prices. If the situation is reversed, he feels equally free to reverse the direction of his patronage. If a period of financial embarrassment comes over the company, he has no fears of suffering loss on invested capital. Hence, granting the existence of a local company, the non-members are at times in a more advantageous position than the members themselves, although if there were no such company all the farmers of the community might suffer a loss through lower prices.

In as far then as the local company may have been a source of personal advantage to the non-member, equity would seem to demand that in recompense he contribute toward its support. But considerations of this sort lead into the realms of the ideal. A cooperative elevator company, like every other business venture, must win its way by proving conclusively its superiority over other concerns engaged in the same business. When it demonstrates this superiority to the *individual*, it will also elicit his support. Nor should the fact that some of the farmers of the community fail to associate themselves with the company be

looked upon as totally undesirable, even though they may be certain of deriving benefit from such affiliation. The company itself will be a stronger business unit if those who are not in sympathy with it, do not become members. Persons of this type most easily create dissatisfaction, thereby undermining the general stability of the company. Aloofness on the part of some members of the community will stimulate the company to the highest business efficiency in order to be successful competitors of rival concerns; and the fear of losing its own members or patrons will prevent or at least minimize any tendency in the managing staff to deal unfairly with any of them.

This leads to a consideration of the factors that condition success in conducting a cooperative elevator company. The three most prominent factors of success are, a proper form of organization, efficient management, and a loyal membership. The advantages of the truly cooperative form of organization over the ordinary corporation, are fundamental. By limiting the amount of stock or share capital in which a person may invest and restricting the investment to the current rate of interest, the temptation of investing one's funds primarily on the expectation of high dividends is removed. By allowing each member only one vote regardless of the variations in the amount of capital invested, democratic control of the organization is assured. By distributing to the members all net earnings on the basis of the patronage that each has contributed, the greatest incentive to loyalty is offered. Collectively, these features tend to make of the elevator company a *producers'* organization, controlled democratically, and existing primarily for their benefit.

The cooperative form of organization provides, however, only the fundamental conditions most favorable to success. Without efficient management the form of organization will be of little avail. At best it can only postpone the time of failure. It is upon efficient management more than upon any other factor that the success of cooperative grain marketing depends. The varied nature and scope of the manager's work explain the intimate relation between

efficient management and success. The knowledge that he must possess of the grain trade, the business ability, the tact, the patience he must exercise, the impartiality he must show to all patrons despite his personal feelings—these are the features which make the qualities of the manager and his work so pivotal in the success of the company.

That a company needs the support of its members in order to be successful scarcely needs proof, and appears to be but citing a truism. Only by making use of the system can the advantages of cooperative marketing be secured. When the board of directors proves itself worthy of the trust that the community has placed in it; when the manager is imbued with the spirit of service for the patrons; when they in turn contribute their grain unreservedly to the company, and when all feel a sense of social solidarity, increased by virtue of association—only then has the company the loyalty necessary for its continued success.

In the light of these demands for success and also considering the factors which prompt and retard the organization of new companies, what will be the probable future growth of the movement? Prophecy is always hazardous, but in as far as the future may be judged from the past, the movement should be expected to grow steadily as it has done during the last fifteen years. In judging the future in this instance, however, it is perhaps more important to look to the present than to the past. It would seem that in the U. S. Grain Growers, Inc., a new organization has arisen which will greatly accelerate in the event of success, or arrest for some time, in the event of failure, the further growth of the movement. There seems no convincing reason to doubt that this corporation will attempt terminal cooperative grain marketing on a vast scale. If the initial experiment proves successful, the attempt will without doubt be made to organize local affiliated cooperative elevator companies in every important grain-growing community; if unsuccessful, this fact will receive wide publicity, financial losses on the part of local companies and individual members will probably occur; distrust in its leaders and organizations, and in the value of

all corporate effort so laboriously built up, will revive in a large section of the rural classes. The present should, therefore, be looked upon as a critical period in the history of the cooperative elevator movement—critical in the sense that its future growth or retardation is closely bound up with the success or failure of the plan devised by the “Committee of Seventeen” and finding application in the U. S. Grain Growers, Inc.

It now remains to consider the place or adaptability of cooperative grain marketing in a general program of rural betterment. When in 1909 the late President Roosevelt transmitted to the Senate the Report of the Country Life Commission, he issued the following statement: “Our civilization rests at bottom on the wholesomeness, the attractiveness, and the completeness, as well as on the prosperity of life in the country.” In these words he at once epitomized the fundamental needs of American agricultural and rural life as also the recommendations of the commission. Since that time there has been a renewed interest in the rural problem of this country, and the aims toward its solution have been gathered in the slogan: better farming, better business, better living. Both the statement of the President and its more popular equivalent aim to inculcate the importance of promoting agriculture not merely for the sake of the individual farmer or of the agricultural classes, but also as a means of promoting national safety and stability. Both statements recognize likewise the rural problem as not merely one of increasing the farmer’s income but also of securing improved production, and better living conditions for the tillers of the soil.

In formulating a rural policy on the basis of these needs, cooperative marketing finds a ready place. Cooperative marketing approaches the rural problem from the standpoint of “better business,” but it does not thereby render more difficult of solution the problems of “better farming” and “better living.” By securing for the grain grower a larger net income, it frequently provides the necessary foundation for better farming and better living. It in no way depresses but on the contrary it stimulates the



farmer's initiative to self-help. In this it is in thorough accord with the American spirit and traditions. Local cooperative grain marketing is indeed no panacea for all the marketing problems facing the grain-growing section of our rural population, but it does contribute toward the solution of some of them. It is a form of enterprise deserving of encouragement and further extension.



## Appendix A

### ARTICLES OF INCORPORATION

of the.....Cooperative Elevator Company  
of.....Minnesota (\*).

We, the undersigned residents of.....County, State of Minnesota, do hereby associate ourselves together for the purpose of becoming incorporated as a cooperative association under the provisions of Chapter fifty-eight (58) of the Revised Laws of Minnesota, 1913, all acts amendatory thereof and supplementary thereto; and to that end we do hereby adopt and sign the following Articles of Incorporation:

#### Article I

The name of this corporation shall be the.....  
.....Cooperative Elevator Company.

#### Article II

The principal place of business of this corporation shall be.....Minnesota.

#### Article III

The purpose of this corporation shall be to buy, sell, and store all kinds of farm products, grains, seeds, coal, lumber, building materials, farm machinery, twine, tile, fence, and all such articles as may properly be handled to the interests of the stockholders of this corporation; and to purchase, erect, maintain, and control warehouses and elevators for the storage of such products; and to buy, lease, and sell such property as may be needed for the transaction of the business of this corporation.

#### Article IV

The time of commencing business for this corporation shall be.....19...., and the period of its duration shall be twenty years.

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(\*) Except for very minor changes, these Articles, as also the Form of By-laws, are taken *verbatim* from L. D. Weld, *Opus cit.* pp. 15-21.

## Article V

The names and places of residence of the persons forming this corporation are:

(Enter names on separate lines).

## Article VI

The management of this corporation shall be vested in a board of directors composed of seven members.

Officers of this corporation shall be a president, vice-president, secretary, and treasurer.

The board of directors shall be composed of these four officers *ex officio* and three other members.

All officers and directors shall be elected by the members in annual meeting assembled; provided that the four officers shall be elected annually and that the other three directors shall be elected at the first annual meeting, one to serve for one year, one for two years, and one for three years, so that thereafter there shall be one elected each year. The officers and directors elected at the time of organization shall hold office until the next annual meeting.

Names and addresses of the first board of directors are as follows:

(Enter names on separate lines).

## Article VII

No person shall be entitled to more than one vote, regardless of the number of shares of stock he may own.

## Article VIII

The amount of capital stock of this corporation shall be ten thousand dollars (\$10,000), which shall be paid in, in money or property or both, in such manner, at such time, and in such amounts as the board of directors shall order. The capital stock shall be divided into five hundred (500) shares of the par value of twenty dollars (\$20) each.

## Article IX

The highest amount of indebtedness or liability to which this corporation shall at any time be subject shall be a sum not to exceed the actual paid-in capital stock.

In testimony whereof we have hereunto set our hands, this.....day of.....19....

(Enter names on separate lines).

Signed, sealed, and delivered in presence of.....

.....

County of.....

State of Minnesota.

On this.....day of.....19...., personally appeared before me:

(Enter names here).

to me known to be the persons named in and who executed the foregoing Certificate of Incorporation, and each acknowledged that he executed the same as his free act and deed, for the uses and purposes therein expressed.

.....  
Notary Public.

**Appendix B**

**BY-LAWS**

of the.....Cooperative Elevator Company.

**Article I**

Section 1. The annual meeting of this corporation shall be held on the second Saturday of June of each year.

Sec. 2. Ten days' notice shall be given of all meetings of the shareholders by publishing notice thereof in the local paper, and by circular notice mailed to each stockholder.

Sec. 3. The directors, at the written request of twenty-five shareholders, may call a special meeting of the shareholders; the notice of said special meeting to contain a statement of the business to come before the same.

Sec. 4. The president of the corporation shall preside at all meetings of the shareholders, and shall cast the deciding vote in all cases of a tie. Each shareholder shall have only one vote and no one will be allowed to vote by proxy. All officers shall be elected by ballot.

Sec. 5. Twenty-five (25) per cent of all members shall constitute a quorum at all meetings of shareholders.

Sec. 6. The board of directors shall hold at least four regular meetings each year, one in each of the months of September, December, March, and June, the exact time and place to be determined by the president.

Sec. 7. Special meetings of the board of directors may be called by the president or any three of said board, and notice of such meetings shall be given each member by mail.

Sec. 8. No business except that mentioned in call for special meeting shall receive final action at said meeting. Five directors shall constitute a quorum at all meetings of the board of directors and a majority vote of the members present shall decide all questions except the transfer of grounds and buildings, which shall require the presence of the whole board and a majority vote thereof.

**Article II**

**Board of Directors—Duties and Powers**

Section 1. The board of directors shall appoint and fix salaries or compensation of all officers, agents, and em-

ployees of the corporation, except as hereinafter specified, and have power to fill all vacancies in the board or its officers.

Sec. 2. The board of directors shall at every annual meeting of the shareholders render a full detailed account of all business and property of the corporation during the year. They shall also render a similar account at any special meeting of the shareholders when required to do so by a vote of the shareholders, a reasonable time being given to prepare the same.

Sec. 3. The board of directors shall audit all accounts at their regular meetings at least four times a year, and shall have the books audited at least once a year by an expert and qualified auditor who is not a stockholder of the company, such audit to take place during the thirty (30) days preceding the annual meeting.

Sec. 4. The board of directors shall have power to do such acts and adopt such measures, not inconsistent with the Articles of Incorporation, as they shall deem best calculated to promote the interests of the shareholders, and to that end, shall from time to time, prescribe such rules and regulations for the management of the business of the corporation as they deem expedient.

Sec. 5. Each member of the board of directors shall receive two dollars (\$2) for each regular or special meeting he attends.

### Article III

#### Duties of Officers

Section 1. The president shall be the presiding officer at all meetings of the board of directors, and of the corporation. He shall be *ex officio*, member of all committees. He shall sign, execute, and deliver all deeds or conveyances of real estate which the directors may order executed, and shall sign all certificates of stock of the corporation, and perform such other duties as the board may direct. In case of absence, inability to act, or death of the president, the vice-president shall discharge the duties of the president until his return, or until his disability is removed or the vacancy filled.

Sec. 2. The secretary shall attend all meetings of the shareholders and board of directors, and keep in a suitable book the minutes of said meetings. He shall have charge of the records and papers of the corporation; shall have charge of and affix the corporate seal to all such documents as may require attestation; shall issue notices of all meetings; shall countersign all certificates of stock and all

orders drawn on the treasurer; and perform all duties generally incident to the office of secretary. His records shall be open to inspection of any of the directors at all proper business hours.

Sec. 3. The treasurer shall receive all money paid to the corporation and give his receipt therefor; he shall pay out the same under direction of the board of directors, and he shall make such disposition of the funds on hand as the board of directors shall determine. He shall keep in a suitable book a true account of all transactions. He shall make a full detailed report of all receipts and disbursements to the board of directors at their regular quarterly meetings, and an annual report of the same to the shareholders at the annual meeting thereof. The books of the treasurer shall at all times be open to the inspection of the directors. He shall also furnish bonds to the amount of from three thousand dollars (\$3,000) to ten thousand dollars (\$10,000) at the discretion of the board of directors.

Sec. 4. The manager shall keep a true record of all business transacted by him and carefully keep all correspondence of importance. Said records and correspondence shall at all times be open to inspection by any member of the board of directors, or any person the board may direct or appoint to investigate said books and correspondence, and the general manager shall at all times give any information the directors may ask, and report the condition of the affairs of the corporation to the board of directors at their regular meetings, make a daily report to the treasurer of all business transacted, and an annual report to the president for the annual meeting of the stockholders five days before such meeting each year; shall call in all moneys due or belonging to the corporation except stock subscriptions and pay the same immediately to the treasurer, taking his receipt therefor; shall make drafts on the treasurer for all commodities handled by him, stating what they are given for; shall perform all other duties which the board of directors may direct, and shall give bonds to the amount of three thousand dollars (\$3,000) to fifteen thousand dollars (\$15,000), at the discretion of the board of directors, for the faithful performance of his duty.

## Article IV

### Stock

Section 1. No member shall be entitled to hold more than five shares of stock at any one time.

Sec. 2. In case of the sale of stock by any member, the corporation shall have the first acceptance or refusal of such stock, after which the stock may be sold to any person eligible to membership as shall be determined by the board of directors.

Sec. 3. All applications for stock must be submitted to and approved by the board of directors, before such stock is issued. The certificates of the capital stock of this company shall be issued in such form as the board of directors shall direct, and shall be numbered and registered as issued. They shall exhibit the holder's name, the number of shares, and the number of certificates, and shall be signed by the president, and countersigned and sealed by the secretary. Any person who owns one or more shares of stock shall be deemed a member of the corporation.

Sec. 4. Transfers of stock shall be made only on books of the company in the presence of the secretary or other authorized officers of the company, either by the holder in person or by his attorney, and in case of transfer by an attorney, executor, administrator, guardian, or other legal representative; duly authenticated evidence of their authority to act shall be produced to the proper officers.

Sec. 5. Stock shall be assessable, but there shall be no assessment levied at any time unless at a regular or special meeting of the stockholders, and no assessment can be made at any such meeting unless each stockholder has been duly notified by a written notice thereof ten (10) days prior to such regular or special meeting at which time an assessment shall be levied.

## Article V

### Distribution of Dividends and Profits

The proceeds of the business, after the payment of operating expenses and interest on indebtedness, shall be distributed as follows:

1. Dividends not to exceed six (6) per cent on subscribed capital stock, at the discretion of the directors.

2. Of the remaining balance there shall be set aside each year as a surplus or reserve fund, twenty (20) per cent, until such surplus equals forty (40) per cent of the paid-in capital; said sum to be used in payment for improvements and new buildings, to make up losses, and for such other purposes as the board of directors shall determine.



3. The remaining balance shall be divided on the basis of the amount of business transacted with the corporation by individual patrons, provided that non-sharing patrons shall receive only one-half the amount received by shareholders per unit of business transacted; and provided also that this amount in the case of non-shareholders shall not be paid out but shall be credited to said non-shareholder without interest until a sufficient amount to pay for one share has accumulated, whereupon a share shall be issued as fully paid to said non-shareholding patron entitling him to all the privileges of a member of this corporation.

#### Article VI

##### Speculation

All stored grain shipped out, all grain bought or held, and contracts with growers involving future delivery of actual grain, shall be properly hedged in the "futures" market; otherwise there shall be no buying or selling of "options" or "futures."

#### Article VII

##### Neglect on the Part of Officers

Any officer who fails to perform his duties as prescribed in these by-laws may be removed from office by the board of directors, and any officer making a contract not authorized by the board of directors shall be liable to dismissal from office and such officer and bondsman shall be liable to the full amount of said contract.

#### Article VIII

##### Amendments

These by-laws may be amended at any regular or special meeting by a two-thirds vote of the members present and voting at such meeting, provided due notice is given of proposed amendments to all members at least ten (10) days before such meeting.

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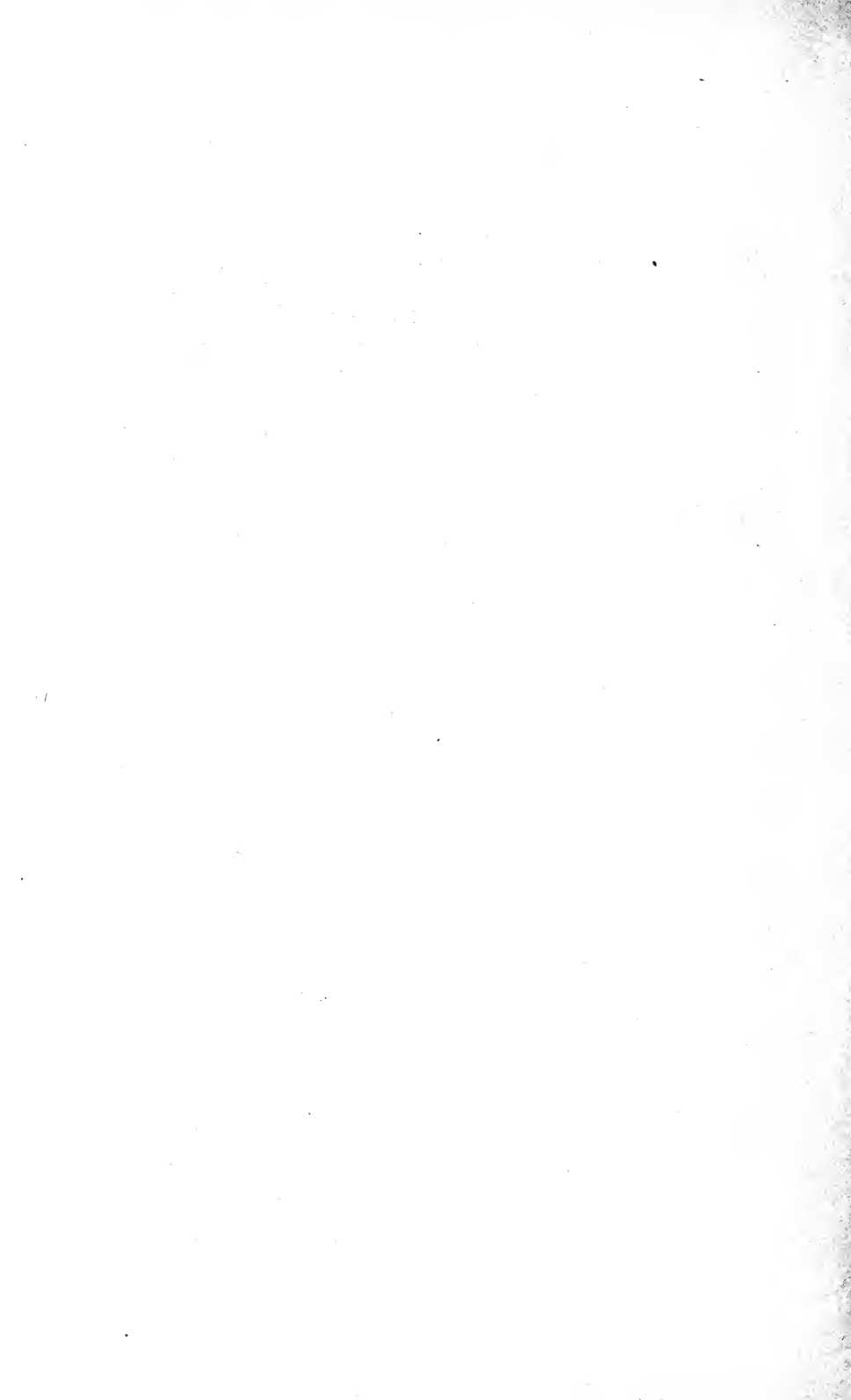
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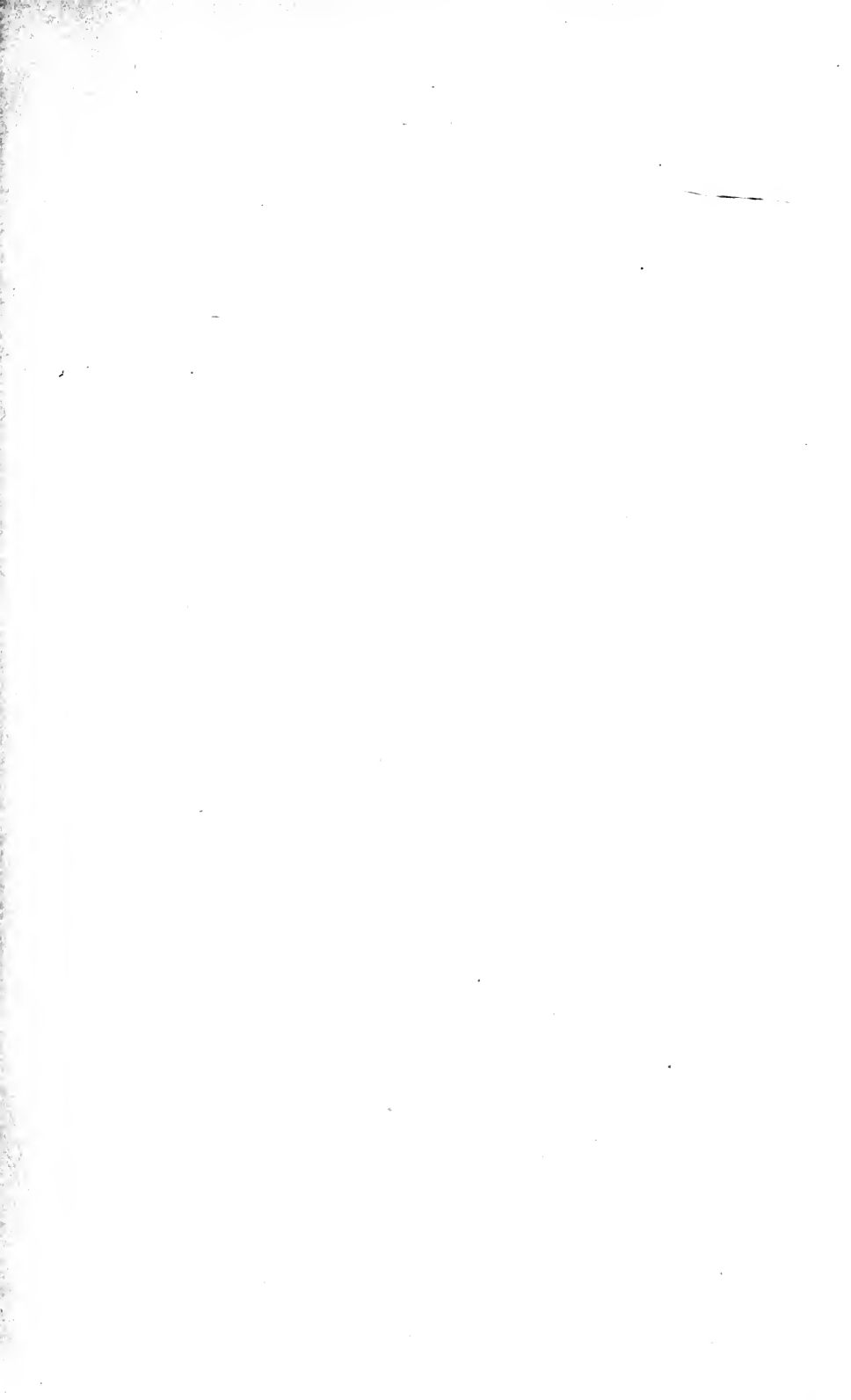
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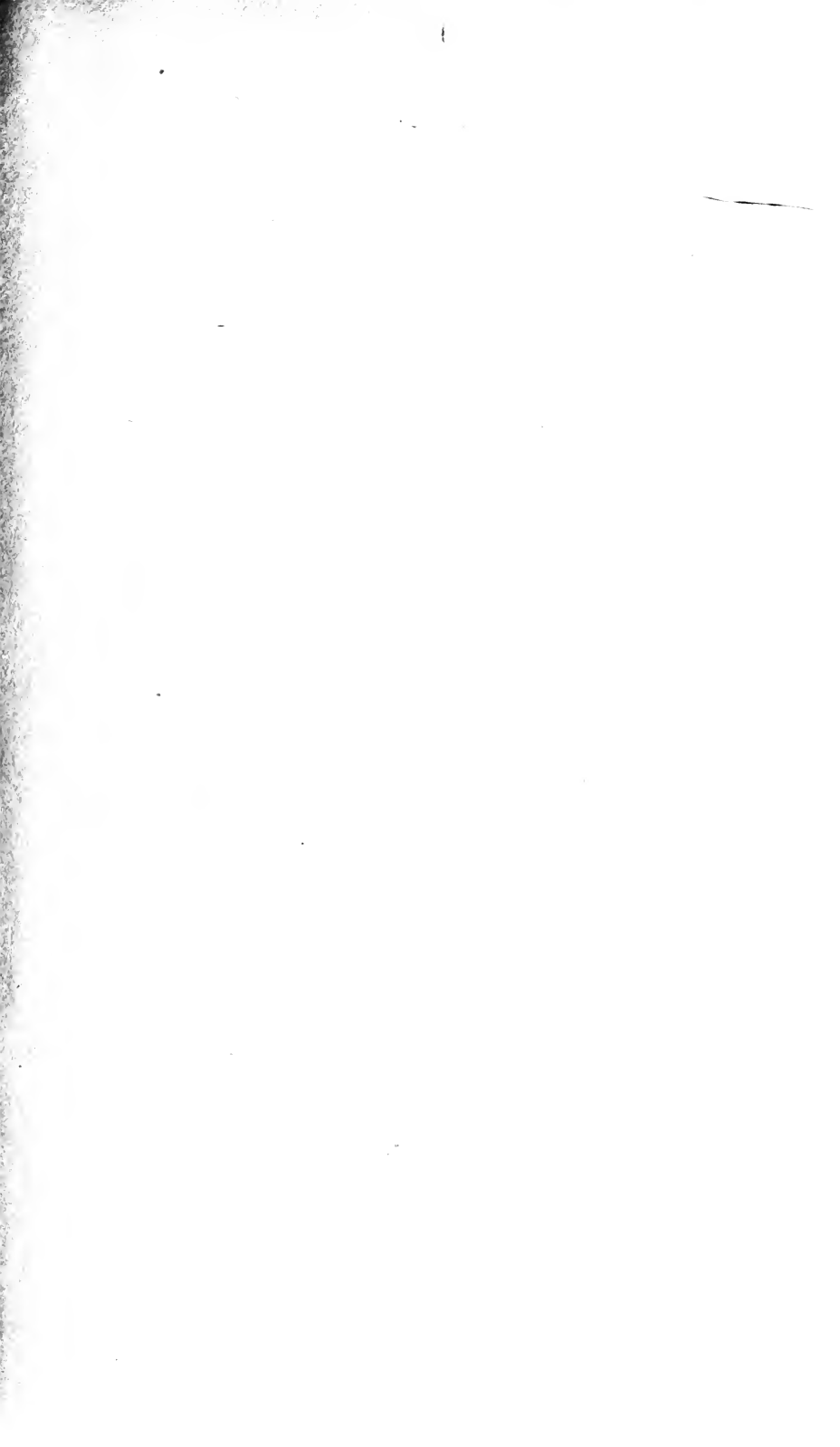
The author of this dissertation was born at Newport, Ohio, on January 1, 1894, and received his early education in the public school at Egypt, Ohio. In September of 1907 he entered St. Joseph's College, Colledgeville, Ind., where under the direction of the Fathers of the Precious Blood he completed his academic and collegiate courses on June 15, 1913. In September of the same year, he entered St. Charles' Seminary, Carthagena, Ohio, where he attended the courses in Philosophy and Theology. On September 8, 1915, he was received into the Society of the Precious Blood as one of its members. He was ordained to the Holy Priesthood by his Grace, the Most Reverend Henry Moeller, D.D., Archbishop of Cincinnati, on December 29, 1918. Soon after he entered the Graduate School of Philosophy of the Catholic University of America, choosing Economics, Sociology, and English as his subjects of study. In Economics he followed courses under Dr. O'Hara, Rev. Dr. Ryan, Dr. Deviny, and Dr. Purcell: in Sociology, under Rev. Dr. Kerby, Rev. Dr. O'Grady, and Rev. Dr. Cooper: in English, under Dr. Lennox and Dr. Hemelt. He moreover attended the course in Social Psychology under the Rt. Rev. Dr. Pace. The writer takes very great pleasure in expressing his gratitude to all his professors. In a special manner he feels indebted to Dr. O'Hara, who supervised his major work and under whose direction this dissertation was written. His corrections, suggestions, and encouragement are most gratefully remembered. The writer expresses his thanks also to Mrs. O'Hara, who read the manuscript with the view of correcting faults of style. He is indebted likewise to many others who have supplied him with necessary and useful information in the preparation of this work. He takes special pleasure in thanking Rev. Dr. Kerby, Rev. Dr. Ryan, and Mr. Millard R. Myers, of Chicago, the editor of the American Co-operative Journal, for valuable suggestions and for having reviewed the entire manuscript.

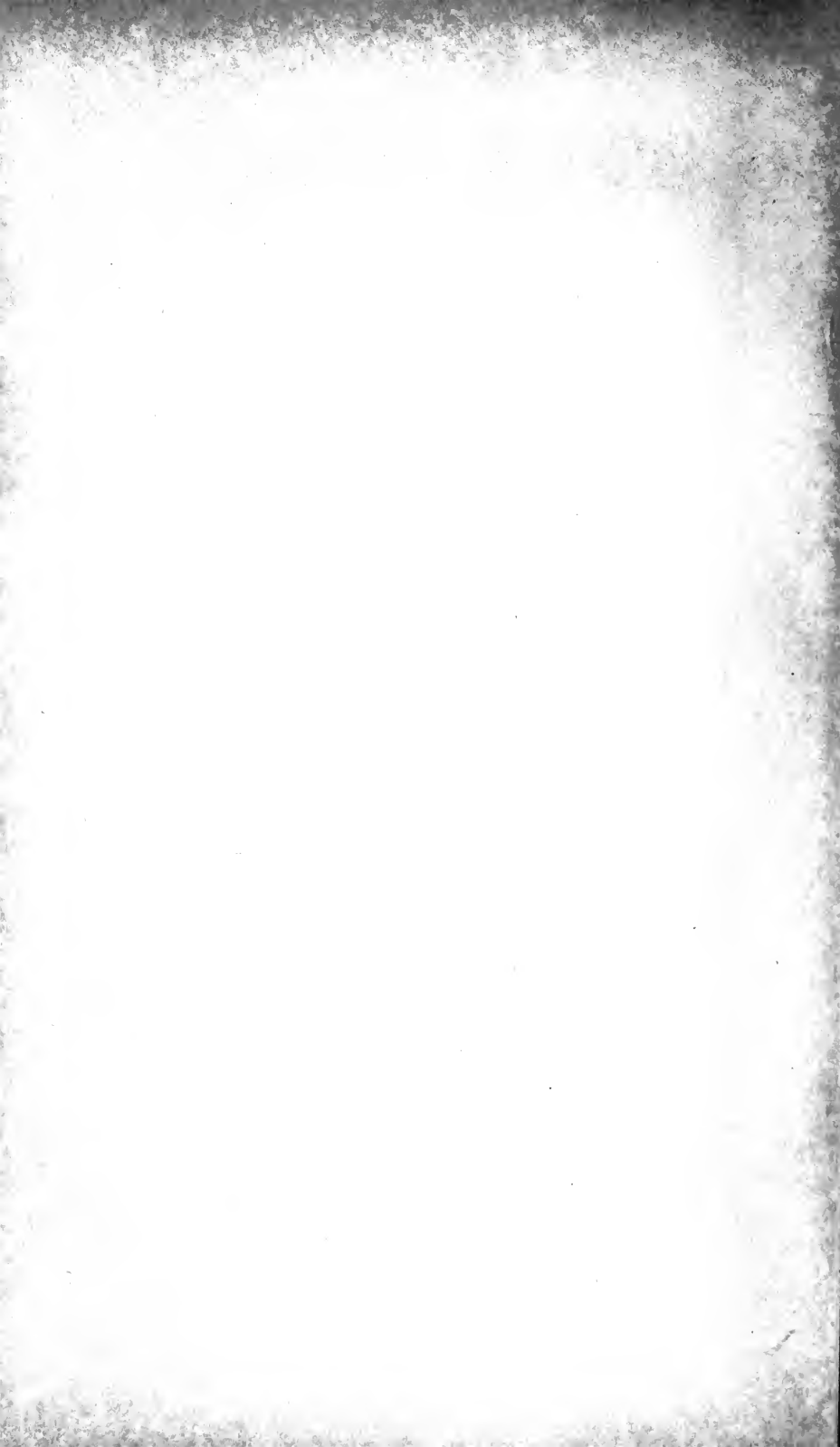


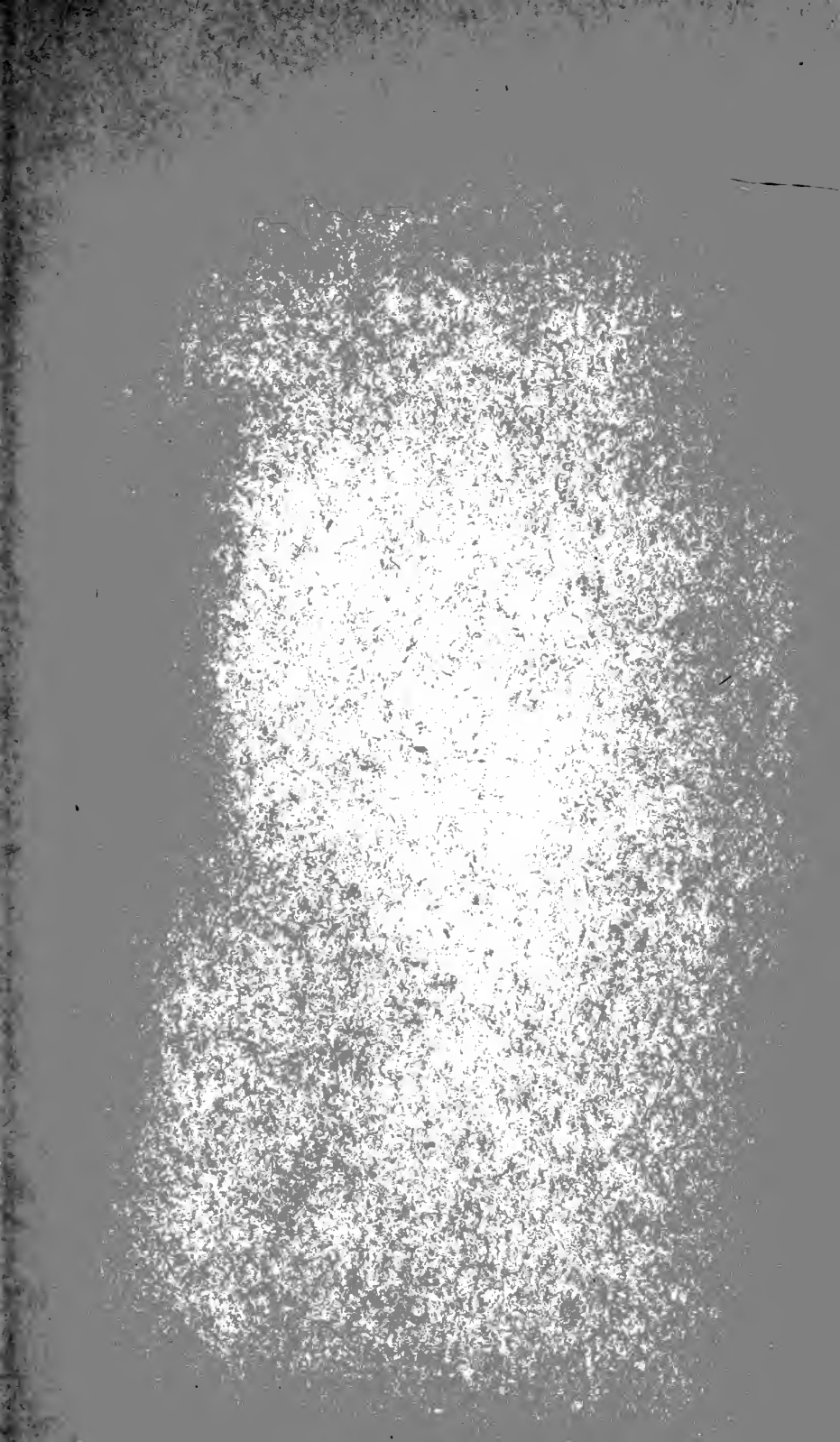












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