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A Brief Review of the Cooperative Movement -- 1965

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It is entirely appropriate to take a good look at the cooperative movement for farmers. Some competent observers think the new administration will devote much effort toward strengthening farmer cooperatives as a substitute for the controls and subsidies of the past thirty years. Should this change in policy materialize, the impetus would give the cooperatives a transfusion of new life and such unbelievable strength that many unforeseen changes in the marketing pattern could follow almost automatically.

The pioneers of the mountain west used cooperative effort as the device to provide the necessities of life. They taught each other, preached and organized to do all major undertakings cooperatively, which included surveying and dividing townships, building irrigation systems, building gristmills, sawmills, and establishing the general store. The leaders displayed a missionary-like zeal and dedicated themselves and their resources into their success. As long as this enthusiastic leadership was present, adjustments were made and the organization succeeded. With the passing of the leader, private and corporate organizations replaced the co-ops. One by one they have all faded in the memories of the past. The second generation had not sacrificed and invested enough into them to be interested in their preservation. Private investment had greater appeal, and decision making could be made easier by other business organizations.

Industrial development forces successful men into highly competitive conditions, and the capacity to produce and market farm products at the lowest possible cost are companion challenges. The question is, can farmer cooperatives do the job, or is the corporate structure better qualified? Looking only at the past, it appears that well managed corporations have stood the test of time better than most cooperatives. At least it will pay young men to look carefully into the reasons for success in the markets and serving the needs of farmers of each type of business organization before selecting the cooperative method of providing markets or service.

Almost every industry dealing with the processing and marketing of agricultural products is subject to the law of decreasing costs. Since profits are usually small and short-lived, it is

the capacity of the cooperative to keep costs low, that will determine to a considerable extent its competitive power. Authorities usually agree that money for advertising cooperatively produced goods can be saved over the advertising costs of its competitors. It may also be able to solicit business with less expense than is necessary by competitors because of the loyalty of certain producer and consumer groups. Also it may be able to reduce cost through large volume purchasing or handling. Since the cooperative has no profit motive, only the determination to render efficient service at the lowest possible costs, there can hardly develop abuses because of size. At any rate, a monopoly position would likely not carry with it the abuses usually possible with privately owned or corporate firms. In fact, the larger size would strengthen the competitive power of the co-op in both price and service because of the accompanying reduction of costs. The cooperative may also be successful in improving the quality of products or service rendered by means of supplying incentives to farmers and customers, thereby increasing its competitive position. Large organizations which cover many regions with different degrees of competitive pressures are able to make varied price adjustments which supplies many avenues for competitive power not possible with purely local organizations.

A vulnerable area, which has always been associated with the cooperative movements, is in the area of management. This involves both the board of directors and the employed manager. Although this may really not be a handicap in some industries, it usually becomes awkward to direct and control. Board members are often elected without knowledge of business and economic principles to make important decisions. Thus efficiency becomes a matter of chance rather than a planned efficient operation. Such untrained and inexperienced directors may tolerate mismanagement to the point of failure before changes can be made. Under such conditions it is difficult to distinguish between the responsibility of the manager and that of the board of directors, thus encouraging conflict and development of vacillating policies.

Whenever a large percentage of the membership displays unusual interest in a cooperative, it

will usually be in good hands. They will sacrifice for its success. As soon as it is difficult for the leaders to achieve good attendance at business meetings intended as a means of keeping membership loyalty, the management should heed the warning. At one time 25 members appeared at a co-op meeting for the purpose of electing a new director. There should have been 350 farmers in attendance. In the course of the evening two men were nominated for the office which selected the new director by a 13 to 12 vote to represent 350 farmers. It was later learned that the manager had personally visited most of the 13 men who were friends of one of the nominees. He had felt impelled to enter the political arena in order to pack the board of directors with men who agreed with his policies or whom he could influence. This example is surprisingly typical of situations arising in many of our local cooperatives. It is needless to describe the conflict of purpose and get-even attitudes which prevail in such an organization. Perhaps the worst condition of all is the need on the part of management and some of the board to conceal many of the decisions followed.

Sometimes co-ops have held back the patronage dividends as a retainer for the purpose of financing operation costs. These retainers are often little more than acknowledged, and no negotiable certificate is issued, and no interest is paid for their use. The control and decision are in the hands of the board of directors as to how long such retainers are kept and the policy with regards to their use is changed to meet the convenience of the firm. The membership, never having seen the money and with no power of direct control, soon lose interest. Most firms can hardly afford the loss of this support. It would seem extremely conducive to good management to have the enthusiastic sustaining influence of both the investor and the patron: who, for various reasons are not identical. The flow of capital into a firm is every bit as important as patronage. The interest and counsel of investors, even when costing an appreciable interest rate, may reflect itself in management and hence be realized in increased income and security of financial position.

Competition is the life blood of free enterprise, and the sources of competitive power need the support of farm people. The farmer needs to feel this power both as a purchaser of supplies and as a marketing agent. The large farmer cooperative, when properly organized and managed, is ideally situated to give this strength at the bargaining table. It should be able to represent him well when dealing with large firms in purchasing and marketing. One cooperative manager used to speak on the radio for 15 minutes during the noon hour each day. This was during the belt tightening period of the early 1930's. He always closed his remarks with this statement: "Remember, we always pay what we can, our

competitor pays what he has to." Wherever highly competitive conditions already exist, the farm co-op has little chance to succeed in this price setting capacity. Its greatest opportunity lies in the secrets of leadership capable of developing patron and investor loyalty to induce competition.

A few years ago, a branch of a prominent co-op was organized to facilitate the marketing of potatoes. The patrons were solicited and an investment of \$40 per carload was requested of each. The contracts were soon completed and enough money collected to erect a warehouse and the associated facilities. This was done under the direction of the local board. When fall came and the harvest started, the parent cooperative manager took over. The local board was largely ignored. He hired a stranger to manage the new warehouse over the objection of the local board. The new man came in thinking he merely needed to notify the members when to bring the potatoes. The competitors seeing what was happening, went to work contracting potatoes at real good prices. The result was that even the local officers sold potatoes to competitors and the new warehouse was idle nearly half of the first season. Since that time it has either been closed entirely or rented by competitors. Most farmers feel a pride in ownership and want a part in the control of resources. Take these away and little enthusiasm or loyalty remains.

If the real interests of the American farmer are to acquire property and make money under competition rather than devote considerable time to defending and promoting his own cooperative firm, he may find satisfaction through governmental assistance. Under the direction of the Farm Credit Administration the Federal Land Bank has become a shining example of success. It has become large enough to serve the whole country and still keep the local touch with the individual farmer. It has indeed attained efficiency in securing money at low interest rates for long term loans on a flexible repayment plan. It seems to be able to assemble all the capital that is required and the borrowers have developed an unusually cooperative spirit. The regulations required by law are just enough to insure good business for the lender.

The Production Credit Associations have attained a similar position in the short term credit field. Also the Marketing Order system has much to recommend it. In the order markets the Secretary of Agriculture selects the board of producers and can thus overcome the hazards of electing unqualified individuals into these responsible positions. The administration of the order then gives a certain amount of stimulus toward good business management for the cooperatives who function in such markets. Perhaps the auditing is sufficient supervision to keep management alert to the requirements of an unquestionable operation. Many kinds of changes

in cooperative programs have taken place to indicate that this influence is effective.

The corporate structure of mutual life insurance companies has proven to be an effective competitor in our present society. Some of the stock companies have adopted a policy of limited returns on capital set up by the Rochdale Weavers and have thus enabled the division of pure profits among the patrons. So many of these incorporated organizations exist as examples of success that their effectiveness in the field of agriculture cannot be questioned. They have also proven themselves capable of production for use without the profit motive if it were desirable.

In conclusion let us keep in mind the fact that it is the quality of leadership, the amount of energy devoted efficiently, and the degree of loyalty obtained from producers, consumers, and investors that makes the real difference in business firms. The form is much less important than the men that are involved. The flow of capital into the firm and the quality of the service rendered over the long run indicate the vision and leadership of the management. All is right

when the confidence and the enthusiastic loyalty of a sufficient number of people is stimulated. Should the Department of Agriculture decide to take positive steps comparable to that taken by The Farm Credit Administration and then by use of such an agency as the Commodity Credit Corporation give stability and continuity to bargaining associations and distribution associations in areas where profits are attractive and competition could be helpful, many changes could be brought into being. It reminds one of the vision Abraham Lincoln expressed when the Department of Agriculture was first set up: "This new department of government is peculiarly adapted to serve the needs of all the people." It is conceivable that such bargaining associations could become nationwide, well financed, and so attractive to great consumer groups that they could compete with our great retail chains and super markets. Many skeptics of 50 years ago never thought a farmer's cooperative in farm financing could compete with our great banking system on the money markets of the world. This has already been accomplished and the broad benefits of long term cooperative credit have not reached the limits of their capacity to bless agriculture.

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