Co-operation

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CO-OPERATION

Thesis
for
Master's Degree.

The Department of Economics.

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William Melton Tow.

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P A R T I.
INTRODUCTORY.

Division I. Nature and Scope.

Economics, by Professor Marshall, is defined as the study of mankind in the ordinary business of life; and co-operation, by Fay, is defined as one way of conducting certain parts of this business.

"Co-operation", according to Fay, "is concerned with free men in self regulated action." The aim of co-operation is not charity. "Charity is concerned with the weak men, as such; it exists to heal his wounds and send him out whole from the hospital for another venture on the path of free life. In proportion to its success, its field of activity diminishes, for the aim of charity is, or should be, to abolish charity. Co-operation is to charity organizations as prevention is to cure. Its first concern is the weak, but it is the concern of weak men for themselves, so to conduct the ordinary business of life that they may develop to the full their own welfare and that of their fellows." ¹

Being not only concerned with business, but constituting one way of conducting business, co-operation has a

¹. C.R. Fay, Co-operation at Home and Abroad, page 1.
range of possible activity limited only by the limits of business itself.

It is necessary, however, at this point to make a distinction between the general term co-operation and the limited use of the term which is here to be made.

Co-operation in the sense of working together covers every possible phase of business organization. By the term in its general sense is understood the working together of a number of persons for some common end. It may also mean working together in some manner devoid of organization. For example, two natives unite efforts in building for themselves a hut or two, farmers exchange work in cutting logs with which to construct houses. These are examples of co-operation. In manufacture, wherein organization is thoroughly existant, co-operation is highly developed. One group of men digs the ore, another transports it, a third reduces and refines it, a fourth molds it, and a fifth markets it.

But these co-operators are not engaged in the co-operation with which we are here to deal. Such contracts are for mutual services, in which the sole connecting link is money. They terminate when the one service, or series of services, have been performed. The men engaged in such co-operations are not members of the company in the management of which they have a voice. They are not doing the work for themselves and have no particular interest in their
work or in the institution which employs them except that they retain their situations and receive for their labor a fair wage. In the case of the owners of the business, the return is in the form of interest, rent and profits.

In this form of organization, the rewards are on the individualistic basis and are to be determined by the labor performed, land owned, capital invested, or special business advantage. In the management of the business, the voting powers of the proprietors is ordinarily in proportion to the capital owned by each.

Co-operation of the sort with which we are here concerned, -- sometimes referred to as technical co-operation -- implies a bond of union over and above the mere relations of the money tie; it implies a co-operative society, or association, in which the associated members join together for the attainment in common of some specific business purpose. The compact of the society, not necessarily perpetual, obligates each member, as long as he remains so, to regulate his dealings, insofar as these concern the society, in the interests of the society as a whole.\(^1\) In this narrower type of co-operation with which we are concerned, the business is owned and run by the groups among whom the rewards are apportioned, whether on the basis of capital contributed, business transacted, or labor performed.

The distinguishing feature in the owner and control of the

\(^1\) Cf. C. R. Fay, Co-operation at Home and Abroad, p. 2.
business by the group concerned and the interest of the group in the business, not as wage earners or investors, but as buyers, sellers, producers, borrowers, or consumers, are on a par. Co-operators to an extent, constitute a special class and are not representatives of several classes. Thus the group of co-operators may consist of farmers who are organized as either sellers or buyers or both; or possibly as borrowers, or as breeders of live stock, or as manufacturers. In all cases, however, they are banded together for the common purpose of doing for themselves jointly that which they would be unable to perform economically were they working separately. Co-operation, then, means an organization of farmers, producers, or consumers, banded together for the transaction of business. The essence of the business is the common advantage of the group. It is a method of performing a work or of securing an advantage which presumably can be performed or secured more economically and satisfactorily by parties directly interested, than by tradesmen outside of the group, who are disposed to perform the work for gain to themselves. It is clear that in true co-operation there are really no profits but savings. In fact it is the precise aim of many co-operative concerns to eliminate profits such as a private company strives to get and to term their realizations as savings instead. This, attitude, however, toward the term "profits" depends upon the nature of the co-operative society, which distinction will be made more clear further on in our study of the subject. The managers and employers of a co-operative society choosing to
call its realizations "savings" must of course be paid their salaries and wages from this realizations of the society before the savings are announced. In some minor undertakings the work is sometimes done by members free of charge, it being considered an honor by the official to be called by his brothers to perform the services required.

The co-operative society is to be distinguished from the Fraternal Society and from the Trade Union.

The Fraternal Society teaches thrift and foresight. It makes provision against death, accident, sickness, and old age. The concern of the Fraternal Society is not its members' business but the fruits of that business -- their savings, which it is the function of the society so to dispose of that the members may enjoy them at a time and in a manner that will prove most serviceable.

The Trade Union is connected with the operations of trade. The purpose of its existence is to bargain with and if necessary to fight the employer in the interest of the employees.

There are certain forms of trading combinations, namely, the Trusts of world fame and the Kartces and Rings of European countries, from which co-operation is also to be distinguished. It is true that certain kinds of combination and certain kinds of co-operation are very nearly the same in structure; in fact, many of the co-operative producers' associations pass quite imperceptibly into a Kartel. But between a true co-operative society and a Kartel there is a difference which Fay points out
as one of "motive and atmosphere". Both seek first to benefit their own members. But the combination is an association of the strong to become yet stronger and exclusive while the co-operative society is an association of the weak united to try to lift themselves out of weakness into strength. In reality, co-operation is an idea, while combination is an industrial force. "Co-operation", says Pay, "was born and fostered amid jeers and suspicion." Frequently it is noted that there is much more co-operation in the early days of weakness than in the later days of strength. As co-operation grows in strength it seems at times that the co-operative ideal upon which it was founded has been pushed far away into the background. It is paradoxical, after stating that the purpose of the true co-operative society is to make weak men strong, to consider that a co-operative society ceases to be co-operative when it gives evidences of strength. But Pay has pointed out that it is essential to the co-operative idea that the matured society should keep its ranks open to the weaker brethren who are still without, and never pursue strength at the price of their injury or neglect.

This then leads us to make a further distinction between the joint-stock company and the co-operative society. It has been said that the Joint-Stock Company is a union of capitals, and the co-operative society a union of persons. The members of a co-operative society unite by reason of a personal confidence which they feel in each other. Since the co-operative society is a union of persons and not of capitals, the number
of members and in consequence the amount of capital are variable. The capital of a joint company is fixed and can only be altered by formal notice, for it is the material thing itself, capital, which is the essence of the joint-stock company. The co-operative share or membership is in the nature of an entrance fee allowed to be as small as the members desire or perhaps better -- as small as the particular co-operative industry finds advantageous. In Great Britain, for instance, co-operative societies can and have been registered with 1 d. shares. The amount of capital stock in the joint-stock company necessary for membership is usually considerable and determines the voting strength of the members. In fact, the voting strength of members is frequently referred to as distinctly separating the true co-operative society from a joint-stock company, the former having the "one-man-one-vote" characteristic while the voting power in the latter is determined by the stock holdings of the members. This distinction, however, needs to be modified. The "one-man-one-vote" pean of equalizing authority is to be desired whenever possible, but when great inequality exists in the amount of patronage extended to a co-operative concern by the various members, it is frequently found necessary to extend to the larger patrons a greater voice in determining what the policies of the society will be than is extended to the member giving a less patronage.  

Because the number of members is variable, the co-operative society can stand upon a more democratic basis. It can be popular and open to all and with certain restrictions, to be

mentioned later, it should be open to all. Although the co-operative laws of various countries have been framed to be adaptable to meet the needs of the small man, two countries at least make express provision for excluding the big man--England and Italy. In these two countries, the maximum amount of shares which may be held by one member has been fixed at £200. ¹ The following distinction has been made between a co-operative agriculture society and a joint-stock company by Clayton; the distinction, it will be noted, goes on to give the manner by which many co-operative societies have degenerated into exclusive joint-stock companies. "The profits of the joint-stock company belong to the shareholders, who may or may not be a purchaser, but the profits of a genuine agricultural society should belong exclusively to the purchaser according to the extent of his purchases. The joint-stock company may have been started by farmers to secure better prices for the sale of produce, and the advantage of purchasing wholesale for their own agricultural needs. But in course of time as the original members die or dispose of their shares, it becomes merely an association of private merchants trading for profit out of all who deal with it and is no more a co-operative concern than are large joint-stock supply-stores in London." ²

Professor Carver in discussing co-operative creameries, cheese factories, and elevators raises the question as to whether these are all strictly co-operative, concerning this phase of the subject, Mr. Carver writes, "Undoubtedly many of them are,

¹ C.R. Fay, Co-operation at Home and Abroad, page 365.  
in form at least, merely joint-stock companies, and it may be claimed that such companies are not co-operative in the strict technical sense. Such a claim, however, is based upon the letter rather than upon the spirit of the enterprise. Any organization of this kind may be said to be co-operative in spirit when it is managed exclusively with a view to giving the farmer a better price for his butter fat or for the grain, and not at all for the purpose of securing dividends on the stock. If the stock is owned by farmers and if each share of stock is in practice limited to a normal rate of interest and all surplus earnings go to the farmers in the form of better prices, the enterprise is co-operative in spirit, even though its form be that of the ordinary profit making corporation."¹ In continuing his discussion, Mr. Carver points out the danger under the joint-stock form of organization that the co-operative spirit will be destroyed and the organization shifted to the profit making purpose. For example, if in a creamery one man owns a large number of shares and very few cows or none at all, he will naturally be more interested in dividends than in the price of butter fat. If a majority of the shares are owned by such men the company is almost certain to be managed in the interests of dividends rather than in the interests of the price of butter fat. It is therefore highly desirable that the form of organization be such as to prevent this result and insure that the management shall always be in the interest of the producers. Nevertheless, so long as the management is in the interest of the producer, it is reasonable to list such an

¹. T.N.Carver, The Organization of Rural Credit Interests. Year Book, Dept. of Agriculture, 1913, p.245.
organization as co-operative.¹

Co-operation can flourish under joint-stock company regulations as Fay has pointed out has been the case in the signal instance of Denmark. "The ultimate criterion", says Fay, "is this: are the members prepared to admit to the benefits of their society on proportionately equal terms all those who, being of suitable character, are commercially as weak as, or weaker than, themselves? If so, the society is co-operative."²

Powell has pointed out the difficulty of organizing a purely co-operative society under the present laws of many of the states of the United States.³ Under the corporation laws of most of the states, it is generally impossible to organize a business agricultural association on a non-profit co-operative basis. The association may be formed with or without capital stock. If formed as a stock corporation for profit by farmers and managed under the principles of a stock corporation, it is not different from any other capital stock corporation. If, however, it is organized as a capital stock corporation, it may be co-operative, as already pointed out, by defining the method of voting, transfer of stock, limitation of membership, and the distribution of earnings on co-operative principles. But such restrictions by the laws of many states are not permissible, i.e. they can be made only by rules of the association but are non-enforceable under the usual stock corporation laws of the states. Thus, the inadequacy of the

¹ Cf. T.N.Carver, Organization of Rural Credits. Year Book of Dept. of Agriculture, 1913, pp.244-249.
² C.R.Fay, Co-operation at Home and Abroad, pp.4-5.
³ Powell, G.H., Co-operation in Agriculture, Chap. III.
laws is evident. The laws that govern an organization for pecuniary profit have been enacted primarily to meet the needs of capital, not those of agricultural non-profit corporations. The laws regulating non-profit corporations usually cover religious, fraternal, social, scientific, educational, benevolent, or charitable institutions, or other similar associations and are inadequate to meet the needs of the true co-operative association.

"Co-operative corporations should be given the right to regulate and limit the right of stock holders to transfer their stock, and to make by-laws for the management of its business, to regulate the limitation of stock ownership, and to provide the method of distributing its surplus earnings."\(^1\) Laws embodying these essentials have already been passed in California, Wisconsin, Nebraska, and Minnesota. In England, the co-operative trading associations are organized number "The Industrial and Provident Societies' Act", and the co-operative credit societies under "The Friendly Societies' Act."\(^2\)

For a final definition, therefore, of a co-operative society, it is the opinion of the writer that we could not do better than to accept the definition laid down by Fay, viz., "An association for the purposes of joint trading originating among the weak and conducted always in an unselfish spirit, on such terms that all who are prepared to assume the duties of membership may share in its rewards in proportion to the degree in which they make use of their association."\(^3\) A narrow definition would be likely to exclude much that claims and is

1. Powell, G.H., Co-operation in Agriculture, p.50.
2. Ibid. pp. 45-50.
recognized to be co-operative.
Division 2. Classification of Co-operative Effort.

Having now before us a general idea of co-operation, we shall divide the field into its various logical divisions.

I. Co-operative Stores.

II. Co-operative Production.

III. Co-operative Credit.

IV. Co-operative Agricultural Societies.

In referring to his division of co-operation into its various departments, a classification similar to the above, Fay points out that in all but co-operative production, the act of co-operation is the taking over by the members of certain functions of organization and management heretofore neglected or inadequately performed by third parties. In Co-operative Production, referred to by some writers on the subject as "pure co-operation", the members take over functions which are adequately performed by third parties, but not under conditions of employment satisfactory to the workers concerned.

In place of the title "Co-operative Stores" used in Division I above, the term "Distributive Co-operation" is used by Professors Taussig and Ely, and by Mr. Clayton. The writer, however, agrees in the use of the above term with that used by Professor Seager, Herbert Myrick, and others.

In stead of the term "Co-operative Production" used above, which usage agrees with that of Professors Seager, Ely, Taussig
Adams, Messrs. Sumner, Clayton, and others, Mr. Fay uses the term "Co-operative Workers' Society". Under the division title "Co-operative Marketing", Professor Ely places such co-operative associations as will be considered under the title "Co-operative Agricultural Societies" used above.

Upon the use of the term "Co-operative Credit" there is general agreement with the exception of some writers, notable among whom are Professor Seager and Herbert Myrick, who use the term "Co-operative Banking".

Under the department of Co-operative Stores some writers choose to exclude the productive societies managed in connection with the wholesale societies and to place them instead under the division of Co-operative Production. The writer, however, chooses to discuss under the latter division only those efforts toward co-operative production which have no direct connection as a department with co-operative Stores.

The use of the term "Distributive Co-operation" has been avoided in division I for it would include certain co-operative sale societies which it has been thought best to reserve for division IV. The use of the term "Co-operative Marketing" for that used in division IV is avoided for certain co-operative supply societies connected directly and certain other forms of co-operation as for example, co-operative insurance, and irrigation, connected indirectly with agricultural pursuits could not logically be classified as efforts toward "Co-operative Marketing." 1.

However, certain discrepancies in the treatment of our subject can hardly be avoided and to prepare ourselves for any such variances, the above references to the disagreement, by the writers mentioned, in the methods of classifying and treating the various departments of Technical Co-operation, have been made.

Division I are Associations of Consumers, with the possible exception of the productive department of the Co-operative Wholesale Societies. Divisions II, III and IV are Associations of Producers. This four-fold classification covers the whole field of co-operative activity. It is necessary, however, that we bear in mind that under Division IV, we are to consider such enterprises as co-operative telephones, irrigation, insurance, etc. having an indirect rather than direct connection with co-operative Agricultural Societies proper.
PART II.

CO-OPERATION AT HOME AND ABROAD.

Division 1. Co-operative Stores.

The co-operative store is organized from the standpoint of the consumer. The members of a co-operative store make their living in occupations with which the store, as a store, is not immediately concerned. The purpose, therefore, is not to enhance directly the productive efforts of its members, but to economize and thus to increase the income derived from that productive effort. The co-operative store is engaged in the production and distribution of utilities, but the standpoint from which and the order in which the work is undertaken is reversed. Under the ordinary method a producer produces and then turns his products over to a wholesale dealer; the wholesaler looks to the retail shopkeeper; the shopkeeper after purchasing his supplies from the wholesale dealer, turns to the consuming public. The co-operative store takes part in their stages of creation but it starts from the opposite end. A number of consumers unite and as an association of united consumers, begin the organization of retail distribution. The various associations of consumers unite and go back one step further from themselves to the organization of wholesale distribution. The associations united for wholesale dealing go back still another step from the original association of consumers and themselves engage in organized production. Thus the association of consumers may in the manner indicated engage in all the stages of the life of a
material commodity starting from the stage of consumption backward up to the first.

It is obvious that the store may engage in exactly those types of business which are undertaken by the co-operative Agricultural Societies and by co-operative producers and for this reason, the twofold classification into Associations of Producers and Associations of Consumers has been made. To illustrate the above meeting of the ways: the co-operative dairy producers butter and the co-operative producers manufacture, let us say, suits. The co-operative store may also produce butter and suits under exactly the same business exterior but with this difference in motive: the incentive in the former is supplied by the farmers' field and the workers' factory, that of the latter by the store rooms of the consumer's own house. 1.

The history of the co-operative Store may be said to date from the year 1844 when the famous Rochdale Co-operative Store was founded by twenty eight Lancashire workingmen, known in the history of organized labor as the "Rochdale pioneers". These twenty eight workingmen received their ideas and suggestions on co-operation from a movement begun in 1824 by Robert Owen, which, however, lasted but ten years leaving only the suggestion for some one less idealistic to accept and successfully apply. Each of the twenty eight men contributed £1 to furnish the working capital, only one-half of which was paid in at the time, the remainder to be withheld from the earnings of the store.

From this extremely humble beginning the store at once prospered and met with steady and substantive success. Within one year there were 24 members, and the capital had grown to £161. In 1854, the membership had increased to 900 and the association had a capital of £7,172. The scope of business of the store constantly broadened, until in 1854, the original idea, which included the employment of members, was further carried out by the starting of a cotton spinning mill, and soon after by the addition of other similar enterprises.

The Rochdale plan of co-operation soon spread to numerous other societies not only in England but on the continent and in the United States. The United Kingdom has always been able to maintain its lead in consumers' co-operation. In 1910 there were in Great Britain 1,428 co-operative stores representing a membership of 2,542,532; a share capital of £31,614,559; loans and deposits of £4,851,753; a reserve fund of £2,166,254; a turnover of £71,861,383; net profits of £10,938,331; and a value in real estate of £12,855,862. These figures in a comparison with those for 1900 show a decrease in number of stores of 36 but an increase of over 40 per cent in membership, working capital, and turnover. In addition to the number and strength of the co-operative stores in Great Britain just given, it should be added that in 1910, 1,017 Consumers' Societies having 42,706 employees produced £22,978,440 worth of goods, which amount was twenty times greater than the value of the goods produced by independent productive societies. It might be well to add that of the 1,017
Societies mentioned which were engaged in production, 586 were engaged in the manufacture of boots and shoes, 324 in tailoring and manufacture of men's hosiery, 347 in dressmaking and millinery, 732 in baking, and 459 in the meat business. It is of course understood that in many instances a society would be engaged in more than one line of manufacture.

In other countries though less highly developed than in Great Britain, co-operative stores are numerous. In 1909, there were in Denmark 1,300 co-operative stores with 176,700 members. In Germany in 1910 there were 2,311 co-operative stores with a membership of 1,473,740 and a turnover of £ 20,635,269; in Belgium in 1908, 394 co-operative stores with a membership of 2,50,106; and in Austria in 1910, there were 1,382 co-operative stores with a turnover of 128,531,000 crowns.1

The English Wholesale Society was established in 1864 for the purpose of completing the independence of the retail stores, of furnishing supplies of undoubted purity, and of saving the profits of the wholesale trade. From the very outset this society was eminently successful until it is now claimed by some authorities to be the largest mercantile establishment in the world. The headquarters of the society are at Manchester but many branches offices are maintained. It has about thirty resident buyers in all parts of the world while nine ships ply continually between England and Ireland and England and the Continent.

1. All figures given above are taken from the 1913 Year Book of International Co-operation.
In 1868 the Scottish Wholesale Society was started upon practically the same plan as that of the British society. The members of a wholesale society are retail societies and not individuals.

It has been found best not to return to the retail societies the savings of the wholesale societies for to do so would either tend to discourage thrift or to praise in their hands a fund which they could not profitably use. The profits of the wholesale trade have therefore been invested in many different varieties of productive enterprise, and because of such investments the wholesale houses have become powerful competitors not only of private producers but of co-operative producers as well. Many of the retail stores also engage directly in the manufacture of goods for their members. In 1902, 776 Societies established primarily for distribution employed 31,000 persons in production and their annual sales of goods manufactured by themselves amounted to £10,361,648. These figures it is to be borne in mind do not represent true co-operative production but only production as it is carried on by consumers' societies. Generally the societies do not even pay a stock bonus to their laborers. The Scottish Wholesale Society, however, does pay a bonus to its laborers which corresponds in rate to the dividends paid on members' purchases.1

In 1910 The English Wholesale Society had affiliated with it 1,160 retail societies, had a capital stock subscribed and paid up of £3,400,000, a turnover of £26,567,833, produced

worth of goods, and realized £ 462,470 profits which amounted to a dividend of 16.6 per cent. The Scottish Wholesale Society in 1910, had affiliated with it about 275 members, representing a paid-up capital of £ 431,230; a turnover of £ 7,738,138, a value of goods produced of £ 2,435,313; and a profit of £ 273,564 which equaled a dividend of 33.3 per cent. The Wholesale Society of Germany had affiliated with it 675 retail societies, representing a capital of £ 100,000; a turnover of £ 4,433,482; and a profit of £ 50,788 equalling a dividend of 2 per cent.¹

It is difficult to obtain adequate statistics concerning either producers or consumers co-operation in the United States. There has never been any central organization in this country which could exercise a cohesive force over the movement of co-operation. Moreover, very few of even the consumers' societies have had in the United States more than a short existence and many co-operative enterprises have doubtlessly existed and passed from the scene unrecorded. There have been repeated attempts to establish co-operative stores in this country. It is likely that the first known attempt was that of a Boston tailor who started in Boston in 1844 a so called "dividing store" among the members of the New England Association of Mechanics and Workingmen. From this beginning in 1844 sprang what was called the New England Protective Union, which in 1852, had 400 sub-divisions, 165 of which made sales amounting in 1852, to $1,696,625. In 1858 the co-operative organizations

¹. Figures from Year Book, International Co-operation.
began to decline and at the outbreak of the Civil War finally fell to pieces. It has been said that among the causes of the failure of the 769 Stores which it is known at about this time existed, aside from the business paralysis caused by the Civil War, were (a) the difficulties of the system of selling at cost, (b) the choice of incompetent managers, (c) the use of credit, (d) lack of intelligence and of the spirit of co-operation.

Following the efforts of 1844 and 1852 which collapsed during the Civil War came the effort of the late sixties which was made in the grange stores of the Patrons of Husbandry, a farmers' organization started in 1866. Most of these stores soon passed from prominence but it is estimated that as a result of this second impetus there were in Texas alone in 1885, 150 co-operative retail stores and one wholesale store.

In 1874, The Sovereigns of Industry and a little later the Farmers' Alliance established co-operative stores in the United States, none of which existed for more than a comparatively short period. To the former organization, however, is entitled the distinction of first founding in this country the Rochdale System of co-operative stores. ¹

It is difficult to estimate the number of co-operative stores operating in the United States at the present time. In 1904, it was known that there were in New England at least 43 stores, in Kansas 36, in California, Washington and Idaho 70, and about 30 in the North Central States. Professor Parsons estimated that in 1903, there were 200 co-operative stores having a membership of 60,000 and doing a business of about $7,000,000 per year. Perhaps the best and most recent

¹ Cf. Adams and Sumner, Labor Problems, pp. 379-407; Carlton,
investigation of co-operative effort of all kinds, limited, however, to only one State, is that made by the State University of Minnesota in 1914. The survey disclosed that there were in 1913, 120 co-operative stores successfully operating in the state of Minnesota doing in that year a business of $4,250,000. An incomplete survey of co-operative effort in Montana conducted by the writer in 1914-15 disclosed that there were at least seven co-operative stores operating in the state at the time of the study. The writer also learned of at least four recent failures of co-operative stores in Montana.

The two essential features of co-operative stores are,

(a) democratic management and (b) some system

The plan of Organization and Modus Operandi.

Usually co-operative stores are controlled on the "one-man-one-vote" principle regardless of the number of shares, the member may hold, and this principle is considered essential to co-operation. In some cases a member is allowed not more than one share; in others, as in England, he is allowed as many as 200. The value of a share in England is usually low being £1. The share holdings themselves usually entitle the owners to not more than a fixed rate of interest, which is treated as one of the expenses of the business.

In the division of profits two methods have been employed. Profits have been divided simply among share-holders in proportion to their purchase or they may be divided among

History and Problems of Organized Labor, pp.210-220.
both shareholders and non-shareholders, the latter receiving a smaller proportion, frequently one-half the dividends allotted to the former. The first plan is the one usually followed in the United States, the second is the Rochdale, or English method. Sometimes a full dividend is declared for the non-shareholders, only one-half being paid in cash the other half being credited toward the purchase of a share of stock. It is generally accepted as good business policy to allow non-members to share in dividends though to a less degree than full members. It is necessary where profits are granted to none but shareholders to carefully limit the number of shares to be held by one individual else the concern will degrade into a joint stock company.

Under the Rochdale plan the current prices are the prices accepted by the store, though it is insisted that the goods sold shall be pure and of a good quality. With each purchase a customer is given a ticket which is presented at the end of the fiscal year, and each purchaser receives his proportion of dividends, according to the amount of his trade. Some co-operative concerns sell at the lowest possible prices. There is, however, danger under this plan that unforeseen expenses or losses will wipe away all profits of the business and even produce ruin. This plan would necessitate selling only to members and thus the patronage and advertising from non-members is sacrificed.

Moreover, the system which sells at current prices has certain positive advantages. First, thrift is encouraged by lumping savings. Second, it renders it difficult to conceal bad administration. And third, the opposition of other stores
because of pretending to undersell them, is not roused. It too frequently happens that competing stores will sell articles below cost to attract trade from the co-operative store and thus to bring about its destruction.

Some stores have declared dividends semi-annually and even quarterly but this policy like that of selling at a minimum price is open to serious objection because of the danger of unexpected expenses and losses.

One of the fundamentals of co-operative stores is cash payments, and though this principle has not been universally followed the giving of credit has perhaps caused more failures of co-operative stores than has any other one thing. By the payment of cash the co-operative stores are saved from the embarrassment of small debts, the necessity of taking part in legal disputes and are enabled to pay cash for their supplies from the wholesale societies.

Perhaps one of the most fundamental necessities of a co-operative store is the selection of an efficient manager. The history of co-operative stores reveals that too many times directors have chosen managers on merely "good fellowship" qualifications. Such action on the part of boards rarely results otherwise than in disaster. The unwillingness on the part of co-operative stores to pay salaries sufficiently large to attract capable managers has been attended by inevitable failures.

Concerning the co-operative store in England, Clayton writes that "the co-operative store is a recognized institution in every large industrial center -- London excepted -- in
Great Britain today." Clayton further points out that the shifty population of London, frequently changing employment and moving, are too nomadic to be lured by the appeals of economy or thrift. The enormous middle class population of London, Clayton tells us, look too coldly upon a democratic thing as a co-operative store. The wealthier of the middle class avail themselves of the advantages of the big joint stock company stores. But to the working men it is that credit should be given for the establishment of co-operative stores. "They planned co-operative societies and set them up when their days work was finished and gave enthusiastically of their leisure to the co-operative propaganda." 1.

A want of initiative keeps the London middleclass out of co-operation. And added to this a feeling of class pride and an existing indebtedness to the tradesmen of the neighborhood have prevented the growth of the co-operative store in London.

Clayton has pointed out and emphasized some of the fundamentals of co-operation already referred to. "Given a congenial neighborhood" says Clayton, "the success of the co-operative store will depend largely on the ability of its managers, and the choice of its manager is in the hands of the committee, who in their turn are elected by all the members of the local society. It is not sufficient that the committee should make a wise choice. The manager must be backed up and feel that in the committee he has a sensible and alert body of directors. Loyalty on both sides is essential. A manager being human may err, and with the best faith in the world, bring a

1. Clayton, Co-operation, p. 32
society to ruin unless the committee are awake to the needful exercise of discretion. A committee, on the other hand, troubled by doubt, or of mean spirit, may cramp and discourage the activity of a good manager. Loyalty on both sides fully appreciated will prevent disaster. The manager will not resent advice, and the committee will support their manager wholeheartedly without shrinking from dissuading him from what may seem rash courses, when all put the success of co-operation before personal advantage.  

As a rule the employees of co-operative stores do not share in the profits except as they be members and receive dividends in purchases. They usually have no direct voice in the management of the business of the concern. There has, however, of late been a strong tendency to permit the employees in the productive department of consumers' societies to enjoy the same privileges which are enjoyed by the workers in the producers' societies. "A co-operative society whose members make the earning of a dividend for purchasers the beginning and end of co-operation will care little what wages and conditions prevail in the store and what hours are worked by the persons enjoying them."  

It has been pointed out by Mr. Clayton that patronage and loyalty by the local co-operative store to the co-operative wholesale societies is essential. The reason, Clayton intimates, for the establishment of the wholesale societies was, that good and pure goods made under fair conditions of labor could be assured. If, suggests Clayton, the Co-operative stores patronize other

2. Ibid, p. 34.
wholesale supply companies without an eye toward "pure and unadultered goods made under fair conditions of labor", one of the permanent objects of co-operation has been defeated. He writes further, "a sure test of the health of a co-operative society is the amount of its trade with the wholesale."

Much is being done in England to promote a co-operative education campaign the same to be conducted by the co-operative stores and to be financed from the earnings of the store. "What," asks Clayton, "if the dividend is 1 s. 8 d. when it might have been 1 s. 9 d. or 2 s. 3 d. when it might have been 2 s. 4 d. or even half a crown? If the difference is due to expenditure in education, or lectures or conferences, the money has been well spent, and the members may congratulate themselves." The British co-operators maintain three or four publications the object of which is to promote the true co-operative spirit.

Reference has already been made to the slight decrease in number of co-operative stores in England between the years 1900 and 1910. This decrease in number of stores is not an evidence of weakness but an evidence of growth. The various local stores continue to spread out in their trade until competition and friction between some two becoming acute, forces them to amalgamate. Clayton writes, "when disputes arise as to the rival claims of societies for new territories, it is a sure sign that the time is ripe for amalgamation."

What then are our conclusions concerning co-operative stores?

Conclusion

To summarize the essentials for co-operative stores, we would include the following: (a) Employment of efficient managers, (b) Harmony and loyalty between manager,
directors, and members, (c) Loyalty of members and officials to the store, (d) Limited shareholdings, (e) Spirit of democracy, (f) A just method of allotting dividends, (g) Current prices, (h) Cash payments.

Referring to the reasons why co-operative stores have succeeded, Professor Seager mentions the following: (1) The service they render is simple, (2) The co-operative stores are sure of their customers, (3) They can run on a cash basis, (4) They require little capital and can easily get it from the savings of the co-operatives.

Among the reasons for the slow and unsteady growth of co-operative stores in the United States should be mentioned the following: (1) The better organization of retail trade in the United States offers less encouragement and opportunity for co-operative stores, (2) The absence of a settled and homogeneous population. (3) American wage earners with good wages and more extravagant habits are unwilling to give necessary time and thought to co-operative stores for the sake of petty economies. (4). Labor leaders are spending all their efforts toward the organization of labor unions and not toward the establishment of co-operative enterprises. (5). The present well established system of industry with which co-operative stores in their infancy must compete.
Division 2. Co-operative Production.

Producers' co-operation has already been referred to as an effort on the part of workers to enter into manufacturing pursuits under conditions of employment, etc. determined and managed by themselves co-operatively. It has also been referred to as pure or true co-operation. The purpose of producers' co-operation, as has already been intimated, is to raise prices for the benefit of the laborer; while the purpose of consumers' co-operation, it may be said, is to lower prices for the benefit of purchaser. Both are to eliminate profits; consumers' co-operation to eliminate the profits of the middle man, producers' co-operation to eliminate the profits of the employers. In the case of producers' co-operation the object is to be accomplished by making the functional employer and association of workmen themselves. The essence of producers' co-operation therefore is getting rid of the managing employer.

A number of working men come together, furnish or borrow capital, rent or purchase a place of business, buy tools and supplies, elect a manager and commence business. The essential features of producers' or industrial co-operation are: (A) that each group of workers is to be associated by their own free choice, (b) that these associates shall work under a leader elected and removable by themselves, and (c) that the collective remuneration of the labor performed by the group shall be divided among all its numbers (including this leader) in such a manner as shall be arranged, upon principles recognized as equitable, by the associates themselves. 1

1. Schloss, Methods of Industrial Remuneration, p. 228
As in consumers' co-operation, so in producers' co-operation, adherence to the one-man-one-vote principle is indispensable if the management of the society is to be kept democratic. If the voting power should be determined instead by the capital invested the co-operative enterprise would soon become indistinguishable from an ordinary business corporation. To attract capital usually a fixed return corresponding to the customary rate of interest is promised to those who supply the capital. The capital is usually supplied on the joint security of the members. Frequently certain wages and salaries are agreed upon in advance by the co-partners to be paid out of the proceeds of the business before the profits are calculated. Wherever this method is adopted, the profits over and above all expenses are usually distributed to the members in proportion to their salaries previously agreed upon. In case the enterprise is small and all workers are of about the same skill, often no wage or salary scale is agreed upon but instead all returns above replacement found and expenses are apportioned to the members equally. This arrangement is in point of equality most satisfactory but it is of necessity applicable to a very limited number of industries. In nearly every industry of first consequence, different grades of labor are required. This implies the necessity of providing for skilled laborers a larger return than that enjoyed by unskilled workers. It has been found further that even when larger shares have been provided for, skilled workmen the limiting of them by the one-man-one-vote principles to a voice no greater than that enjoyed by their
unskilled brothers works upon the former a hardship and causes dissatisfaction. Many producers' co-operative enterprises have degenerated into mere business partnerships or corporations because the more intelligent and skillful workers of the organization have decided that it is more satisfactory and profitable to hire manual workers to perform the unskilled labor than to retain such workers as copartners in the enterprise.

It is not a simple undertaking for a number of wage-earners to join together in a co-operative manufacturing enterprise and to provide a capital from their limited savings sufficient to finance the undertaking. "Successful manufacturing requires intelligent and progressive management and large capital. Workingmen rarely appreciate the importance of the first and are not in a position to supply the second."¹ Efficient managers for productive associations are rarely secured because the workmen usually object to paying sufficiently high salaries and do not give sufficient weight to managerial ability. Furthermore, when an efficient manager is secured, co-operators are usually unwilling to give him sufficient authority in the management of the plant.²

In 1911 the productive societies of England and Wales had 6,829 persons employed and a trade of £2,413,423. In Scotland in 1911, the productive societies employed 2,209 persons for a trade of £878,643. By comparison with the productive department of the consumers' co-operation, it is shown that in truth amount of trade and number of persons employed, producers'

co-operation is much the weaker. The British Wholesale Society, for instance, in 1911 had 16,038 persons employed and a trade of £6,834,354. The Scottish Wholesale Society employed in 1911 5,553 persons and had a trade of £2,344,995.1

In France, in 1911 there were 498 productive societies having a membership of about 20,000. Approximately 18,000 employees were maintained, about one-half of whom were members, the other 9,000 being non-members employees. The annual dividend of 467 of the 498 productive societies in France in 1911 amounted to 63,455,000 francs.

Germany in 1909 had 64 productive societies representing a membership of 11,147 and an annual realization on sales of £560,836.

In Italy, in 1911, there were 468 productive societies with a membership of 65,789 and an annual business of 29,011,031.2

In the United States producers' co-operative attempts have met with almost uniform failure, though they have been made in a large variety of industries and in nearly every part of the country.

The earliest attempt at producers' co-operation in the United States was probably that made by a group of Boston Tailors in 1849 who organized with shares at $50 and divided profits in proportion to labor performed. Following this unsuccessful experiment came several attempts in Massachusetts in the shoe and foundry industries during the '70s and '80s. During the days of the Knights of Labor, from 1884 to 1888 particularly, various producers' co-operative enterprises came into some prominence.

2. 1913 Year Book, International Co-operation.
to remain so, however, for only a brief time.

The oldest existing producers' co-operative establishments are undoubtedly those of the Minneapolis coopers. The management began in 1868 but all of the first attempts resulted in failure. In 1886, it is stated, there were eight co-operative producers' companies in Minneapolis. By ten years later, however, only four remained and in 1904, but three were still in operation, viz., the Co-operative Barrel Manufacturing Company, the North Star Barrel Company, and the Hennepin County Barrel Company. The latter company, started in 1880, now has an annual business of $400,000. Fifty per cent of the employees are stock holders. In all three companies each member holds the same amount of stock, but profits are divided on shares. Wages are the same for non-members and members alike. Certain friction, however, has arisen between the employees who are members and the local coopers unions regarding the non-member employees. Similar friction has arisen in the co-operative coal mines of Illinois and also in the co-operative cigar factories.

It is estimated that there have been in all about 200 experiments in producers' co-operation in the United States but of this number nearly all have disappeared or passed into joint stock companies. At present there are likely not more than 50 establishments which can be called co-operative. However, by the co-operative establishments at present in operation in the United States several industries are represented. There are co-operative manufacturing establishments maintained by labor unions in the iron, glass, garment, shoes, and cigar making trades.
There are also co-operative woodworkers' establishments in different parts of the country. Co-operative sawmills, gristmills, wood yards, starch factories, canning factories and mines are in existence. New York City has a co-operative restaurant, Los Angeles a co-operative laundry and in Boston certain buildings have been constructed by co-operative builders.¹

The number of productive societies in England have decreased.

"The 125 productive societies in England in 1903" says Clayton, "have shrunk to 95 in 1912." In commenting on this decrease in number, Clayton adds, "In some cases the Society has been absorbed into the English Wholesale, and in other cases commonly a small and struggling society has succumbed under economic pressure."

It is pointed out by Clayton that the future growth of co-operative production will probably be by the expansion of the existing societies rather than by the creation of new ones.

Concerning the future of co-operative production, Clayton writes as follows: "Apart from agriculture, where co-operators must adopt methods suitable to that great industry, the prospect of further advance in copartnership co-operation seems distinctly limited. Old established societies may increase their trade and their members, and may amalgamate. Small societies fighting against heavy odds cannot hope, in many cases, to survive, and may surrender themselves into the hands of the Co-operative Wholesale, or seek annexation by a larger productive society engaged in a similar trade. Printers indomitably start new societies,

but the days of creation for co-operative tailoring, bootmaking, and baking are over. For a handful of earnest, enthusiastic workmen with a few pounds of capital to start a co-operative workshop is, in the year 1912 A.D. to court destruction. Even the Rochdale Pioneers would have no chance nowadays had they delayed their start till the era of universal stores, trusts, and combines was upon them.¹

Whatever else is said of co-operative producers' enterprises this must be admitted. They have taught the workingmen the advantage of mutual aid and the art of business management. They have suggested to the working men that they can manage their own affairs and have taught them the meaning of responsibility.

Adams and Sumner in writing on the weaknesses of producers' co-operation ² refer to producers associations as associations anti-democratic in structure and in essence merely profit-seeking societies. Their interests are directly opposed to the interests of the community as a whole and if they should become general society would either be divided into small, self-governing circles of producers engaged in bitter competition with industries, or would be split into a series of monopolies, each controlling a certain industry and each representing to all of the others the antagonistic interests of the producers as opposed to the consumer.

In referring to the above reference of Adams and Sumner, Professor Seager mentions that the situation depicted, that is, ¹ Clayton, Joseph; Co-operation, p. 43. ² Adams and Sumner; Labor Problems, p. 430.
groups of co-operating producers monopolizing different branches of business, with a government sufficiently strong to protect consumers from outrageous prices, is the ideal toward which many of the prominent co-operators look forward. Professor Seager suggests that outright labor co-partnership subjects to rigid governmental control does not seem an impossible or even a very distant goal for public service industries. But in industries which are actively competitive the prospects of being taken over by labor copartnership are more remote.

It seems that the ideals for which labor copartnership stands are admirable substitutes for the competitive system whenever and wherever they will succeed. The appeals of producers co-operation are to high motives than mere self-interest and its influence upon the characters of those who engage in it, is broadening and ennobling. The fields of producers co-operation may in time gradually broaden but with the increase of fields must come an increase in the willingness and ability of workers to meet the recognized fundamentals of producers' co-operation, viz., a fuller appreciation of the value of the services of a business manager and an organized, a willingness on their part to take orders from bosses of their own choosing, and finally, an accumulation by them of capital.

1. Seager; Principles of Economics, p. 596.
Division 3. Co-operative Credit.

With the exception of one or two systems of co-operative credit in use in this country and abroad, all co-operative credit associations have been primarily interested in and in fact founded for the benefit of the agricultural industries and rural communities. There are several forms of rural credit in use in Europe. Three leading forms of co-operative rural credit have originated in Germany; first, the Raiffeisen, or rural credit banks, which were founded in 1849 by Herr Raiffeisen, a burgomaster of Weyerbusch; second, the Schulze-Delitzsch founded in 1850 by Herr Schulze, Mayor of Delitzsch; and third, the Landschaften or co-operative non-profit societies organized within a province and obtaining credit for the members by means of bonds guaranteed by the land owners of the province collectively. The Landschaften banks, as will be explained more fully later, originated at the instigation of Frederick, the Great, at the close of the Seven Years War in 1769. The Raiffeisen and Schulze-Delitzsch banks were organized after Germany had passed through a dire famine in 1846 and 1847. Great distress existed among the small farmers, who because of their helpless conditions, were thrown upon the mercies of the unprincipled usurers of their time. Thus necessity was the mother of these banks and they prospered. These systems of credit slowly spread to other European countries. In 1851, the co-operative credit idea was carried over into Austria and Hungary, in 1860
into Italy, in 1864 into Belgium, in 1883 into France, in 1889 into Scotland, and in 1894 into Ireland.

"A number of farmers in a community join and form a co-operative bank in which the members are jointly liable for the debts of the association, and each member is liable for his neighbor as well as for himself. Each member owns a limited number of shares of stock usually only one. The average amount of paid up capital in Germany was less than five dollars. The interest paid on the stock is the same as the interest paid by members on loans. Each member has one and only one vote in determining the policies of the association. The profits from the baning operations are carried in the reserve and are prorated to the members. The management of the bank is in the hands of the entire membership which acts in a body known as the General Meeting. The General Meeting installs the management to a supervisory council and to an executive committee or committee of management, and to a treasurer. all of which are appointed by the General Meeting, the treasurer usually being the only paid employee of the bank."

It has been pointed out by Mr. Metcalf that the principles of the Raiffeisen societies are unlimited liability, very limited field of action, great care in the selection of members, close and careful supervision and inspection, no salaries -- only the manager is paid and he gets from $2 to $12 per month -- no profits -- either there is dividends or it is limited to the usual charge for money, 4 per cent -- and the basic principle of

1. Powell; Co-operation in Agriculture, p. 287.
2. Metcalf, Ralph; an address on Rural Credits in Germany. Senate Document No.571, 63d Congress, 2nd Session, p.24.
all co-operative societies, one-man-one-vote. It is not the purpose of the banks to make money but to provide credit for borrowers most of whom are poor. Thus the man with the smallest shareholding, which in some German societies is as law as one penny, has just as much voice in the bank's management as a man holding the limit of stock which may be as high as $1,500.

Unlimited liability requires a very limited field of operation, where every man knows every other man. In the first place only trustworthy men are admitted to the bank. Then when application for loan is made the use to which the applicant proposes to put the money is investigated. If the applicant's proposed doesn't seem to the directors to be one which could be considered a good business investment the request for a loan is denied.

Professor Carver in discussing this point, states that it must be borne in mind that quite as many requests for money are refused as are granted.

The working capital that the Raiffeisen bank uses to loan to its members is derived from the paid-in capital, the reserve which has been accumulated, the current deposits and deposits in the savings departments and the money which is borrowed from either individuals, from the central co-operative banks, or from other banking institutions. The available capital in the fifteen thousand Raiffeisen banks in Germany in 1909 was $ 461,089,632.

Loans are made for periods of from three months up to two or three years and in some cases when deemed advisable up to ten years. Loans running for a period longer than a few months must be reduced by partial payments. The rates of interest vary from
3½ to 5 per cent. Many times while the rural co-operative banks charge the above low rates of interest the commercial banks around charge 7 and 8 per cent. The remarkably low rates are possible only because of the extremely small expense, practically no rent or salaries, no overhead officials to pay, the absence of necessity to make a profit, dividends being restricted to the interest charges and many times being eliminated entirely, and the absence of all speculative business, and its attendant risk.

The little Raiffeisen bank, the manager of which is usually a school-teacher, or clergyman or one of the large farmers who is the educated man of the community able to figure 4 per cent interest and keep a simple set of books, keeps in its own little safe just what money is needed from day to day, two or three hundred dollars; the balance is kept at the central bank drawing interest. When more money is needed the central bank advances it at a low rate of interest.

The Raiffeisen banks in a province usually join and organize a provincial federation, and these federations in turn are federated into the National Federation of Dormstadt, Germany. The object of the federation is to look after general questions which affect all co-operative rural credit banks alike, to guard their interest and to develop the co-operative movement among the rural classes by propaganda and education.

In addition to the federations just mentioned, the banks of a province are federated into a central bank, recently referred to, for strictly banking purposes. These provincial banks are again united into two national central banks. The function of the provincial bank and of the central bank is to receive deposits
from and furnish capital to the next bank below. The provincial and state central banks and the provincial and national federations for propaganda, protection and education, are closely affiliated, the officers of the one frequently managing the affairs of both. In 1910, the National Federation in Germany had affiliated with it 41 provincial federations, and they in turn included 12,894 co-operative credit associations.

As to the precise principle upon which the Raiffeisen banks are founded, Mr. Metcalf points out that the little piece of land and the house and the barn, if the farmer happens to have them, the clothes and the beds and the working tools, all the member has, might run up to $1,000 to replace, but would be worthless as security for a commercial bank, for the expense and trouble of selling it up and realizing anything would be far greater than the small sum earned in interest. But all these little possessions foot up a thousand dollars, and when all of the hundred members is combined in the society, it becomes $100,000 of Raiffeisen security. And so the security has a rating of $100,000, although its capital is only two or three hundred dollars, and at any time the central bank, without any other security, will advance one-tenth of this rating, or $10,000. 1

To make more vivid to the reader, the following account of the Raiffeisen bank at Krems, Austria, a little village on the Danube, some miles up the river from Vienna, is given in the words of the visitor, Mr. Ralph Metcalf, state senator for Washington and member of the United States Commission to Europe in 1913 to study rural conditions.

1. Metcalf, Ralph, Senate Document No.571, 63d Congress, 2nd Session, p. 29
"This is an unusually large Raiffeisen bank, having members in seven communities and a member of the supervising committee from each community. The bank has 357 members, holding shares valued at 7,140 crowns, or $1,428. Shares are 20 crowns, $4 each, instead of the usual $2.50, each member holding one share. They own their building, valued at $6,660. They have an accumulated surplus of $2,670 and a cash balance of $5,540 on deposit with the central at Vienna. Their deposits are $106,776, and loans are $91,459. The expense is $600 a year, covering everything. They pay depositors 4 per cent and charge 4 1/2 per cent interest, although commercial banks were charging 7 per cent at this time. The bank made a profit last year of $63, of which $71 paid a 4 per cent dividend to members and $6 was passed to surplus. Understand, this is a big bank, and has on deposit, practically all of the money of the villagers and the country people. Although the share capital is only $1,428, the unlimited liability of the members is rated at 5,000,000 crowns, or $1,000,000, and the central will loan them $100,000 without security. Loans are made not to exceed a year, but are extended in exceptional cases. When this bank started, there were 50 members and a paid up capital of 1,000 crowns, or $200. The bank at once borrowed 10,000 crowns, or $2,000 from the Central, on the unlimited liability of its 50 members. The bookkeeper is a clergyman, the cashier a pensioner. Only the bookkeeper is paid. In such cases, the salary ranges from $2 to $12 a month, according to the amount of business. It is this giving of services by the officers and the consequent very small expense that enables these co-operative banks to loan at so much lower rate than the commercial banks, the president explained."

The following quotation from Mr. Fay taken from A. Wuttig "F.W.Raiffeisen", page 71, will illustrate better than can be done in any other way, what the Raiffeisen rural credit banks of Germany have done for the rural communities:

"About an hour's walk from Neuwied on the Rhine is situated on a plateau bordering the Westerwald the little village of Anhausen. The district is not very fertile and the inhabitants are mostly small peasant proprietors, some with only sufficient land to graze a single ox or cow. An owner of ten acres is a rich man. Before the year 1882 the village presented a sorry

1. Huscalf, Ralph; Senate Document No.571, 63d Congress, 2d Session, p. 32.
aspect; rickety buildings, untidy yards, in rainy weather running with filth, never a sight of a decently piled manure heap; the inhabitants themselves ragged and immoral; drunkenness and quarreling universal. Houses and oxen belonged with few exceptions to Jewish dealers. Agricultural implements were scanty and dilapidated; and badly-worked fields brought in poor returns. The villagers had lost confidence and hope, they were the serfs of dealers and usurers. To-day Anhausen is a clean and friendly-looking village, the buildings well kept, the farmyards clean even on work days; there are orderly manure heaps on every farm. The inhabitants are well if simply clothed, and their manners are respectable. They own the cattle in their stalls. They are out of debt to dealers and usurers. Modern implements are used by nearly every farmer, the value of the farms has risen and the fields, carefully and thoroughly cultivated, yield large crops. And this change, which is something more than statistics can express, is the work of a simple Raiffeisen bank."

The Schulze-Delitzsch banks, it may be said, are doing for the town people what the Raiffeisen banks are doing for the country people. The business of the Schulze-Delitzsch banks is conducted more like modern banking institutions. The banks have a large capital, pay good dividends, pay salaries and have either limited or unlimited liability. Most of these banks are affiliated into provincial federations. There were, in 1910, 939 Schulze-Delitzsch banks in Germany with a membership of 600,000 and loans amounting to 4,015,900,000 marks. To compare the Raiffeisen banks and the Schulze-Delitzsch: the average membership of the Raiffeisen banks is 100, the Schulze-Delitzsch 600; average share, Raiffeisen, $2.50, Schulze-Delitzsch, $90; average working capital, Raiffeisen, $40,000, Schulze-Delitzsch, $40,000.  

nearly $400,000; average share capital, Raiffeisen less than $500, Schulze-Delitzsch, $60,000 (which is 1.2 and 15 per cent of their working capital); dividends paid non generally, never above the interest rate, Schulze-Delitzsch, 5 to 7 per cent and in some cases as high as 18 and 25 per cent.¹

The Schulze-Delitzsch banks, it will already be seen, are conducted on a much larger business scale than are the Raiffeisen banks. Yet the Schulze-Delitzsch banks are co-operative. Their membership is composed of farmers, who cultivate medium sized farms and are fairly well to do, wage earners, professional men, artisans, merchants and others. These men form the original credit society by subscribing an initial capital. On the strength of this capital, and of their own individual and joint liability, they borrow more money, possibly two or three times the original capital. The bank being established, these men get together, their own and borrowed, are then lent out to the members in amounts from one hundred dollars up to two or three thousand at moderate rates of interest. By thus combining their resources and their credit, and by managing the loans among themselves, they are able to borrow at moderate rates. The interest charged the members for the use of this money is somewhat higher in rate than that paid for the money which the bank borrows on its collective security but lower than the members would have to pay outside of the Schulze-Delitzsch bank.

The Schulze-Delitzsch bank though sometimes extending credit for considerable transactions is essentially for the small

man. Its spread and growth in Germany are largely due to the fact that a great deal of small scale production still persists in that country. Large-scale operations to be sure have in no country superseded the small ones entirely but in Germany perhaps more than in any other foremost country the small producers have continued to operate by adopting themselves to modern methods of production. The Schulze-Delitzsch societies have done much to maintain these smaller operators, and the smaller producers needing credit have in turn furnished a fertile field for co-operative credit associations.¹

As already mentioned, the Landschaften was instigated by Frederick the Great of Prussia in 1769. After the close of the Seven Years' War, the nobles, who owned the land lacked the working capital necessary to build up and cultivate their damaged estates, and so were unable to pay their creditors. Frederick the Great perceiving the dire situation ordered the suspension of interest on all estate debts for three years. The result of course was the withdrawal of the money lenders from agriculture, the rise of interest to ruinous rates, and the threatening of a financial stringency. Some further relief was necessary. Frederick the Great again took a hand and in 1769, forced the nobles of Silesia to join an association whether they wished to borrow or not, and to make their lands jointly liable without limit for all loans granted by the association. Loans were granted only upon the consent of the directorate elected by the members them-

selves. Great care was naturally exercised, so no losses occurred, while immense credit came to the association. This was the first Landschaft credit association.¹

The Landschaft idea of credit soon advanced. In addition to the one just described nine more were soon formed by the Provinces and one was formed independently. Later two companies were organized on the co-operative principle, and later still others. There were in 1912, 25 Landschaften in Germany, holding mortgages on farm lands exceeding $500,000,000.

The Landschaften are managed by an assembly of land owners and an executive committee having legal knowledge and rendering services and advice to the association, receive remuneration, the rest donate their services.

In seeking a loan, a landowner makes an request and gives a detailed statement as to his object. The land of the proprietor offered as security is inspected by the Landschaft officials and if satisfactory loans are made equal to from one-half to two-thirds the value of the land. The loan, however, originally was in the form of bonds which were issued to the borrower and sold by himself for cash. The estates of all land-owners who are members of the Landschaft taken collectively form the security for the bondholders. At present the association assumes direct responsibility, and gives cash to members for their mortgages, raising funds for the purpose by selling bonds of even denominations called debentures for large and small amounts.

was abandoned and the amortization system adopted. By this latter system, the borrower pays off the loan by paying a little of the principal each year. The payments or annuities consist of the interest, a payment on the principal, and a contribution to the cost of conducting business. Under the Landschaften banks loans are made for long periods running from 10 to 75 years, the usual period being 50 years at the end of which period the mortgaged debt becomes extinguished, and the property returns to the owner free and clean of all encumbrances.

The New Landschaften banks, as the old Landschaft societies are syndicates of borrowers formed to supply The New Landschaften proprietors with capital on low terms and payable in an easy manner. They may be characterized, however, as gratuitous intermediaries between the outside capitalists and the borrowers. Their function thus is to test the security offered by the borrowers, and to guarantee to the public the safety of the capital lent by them. For this service no charge is made save a small commission of about 1/2 of 1 per cent and in some cases as low as 1/10 of 1 per cent, to pay actual expenses.

Each landschaft is usually confined to a limited area. Minimum limits for loans are usually established -- generally $25. In the New Landschaften as in the old Landschaften modernized, debentures are placed upon the market by which to raise money for candidates for loans, but in the New Landschaften the security to the bondholder includes the property of the members, the reserve or guaranty fund, and also the sinking funds. In some banks, bondholders are given the power of having courts assign as
security for their particular bonds some particular mortgage as special security in case the bank should fail to pay the interest or capital when due. This right is very rarely exercised. A debenture holder cannot demand payment except when the debenture is due, but on the other hand, the bank can call in all debentures upon six months notice. These debentures have a high respectability, usually selling above par. Inasmuch as cheapness is the sole object of the bank, it is customary to call in debentures selling above par and issue a fresh series at a lower rate.

The interest paid by a borrower on a loan is that paid by the bank on the debentures, the bank being as before stated, merely an intermediary between the borrower and the lending public. A bank cannot demand payment of a loan except in case of waste, deterioration, or the like, but a borrower can pay in whole or in part any time he so desires.

The annuities paid in usually average about 4 per cent, the constituent proportions being about 3 per cent for interest, \( \frac{1}{2} \) of 1 per cent for sinking fund, \( \frac{1}{4} \) of 1 per cent for guaranty fund, and \( \frac{1}{4} \) of 1 per cent for expenses.\(^1\)

Other forms of co-operative credit not so prominent as those mentioned but which merit some attention in this study are the Credit Foncier of France, the Credit Unions and the Building and Loan Associations.

The Credit Foncier, an institution founded in France in 1852, is in many ways similar to the Landschaften banks. It was formed for the purpose of organizing the land credit and improving

\(^1\) Cf. Powell; Co-operation in Agriculture, pp. 291-298.
the agricultural credit facilities of France. The Credit Foncier was very soon after organization placed under government control, given a subsidy and granted a monopoly for 25 years. The monopoly at its expiration was not renewed but all its original privileges are still enjoyed by the Credit Foncier which fact undoubtedly accounts for the Credit Foncier being the only land bank in France. The relation of the bank to the state is very close. The governor and two sub-governors of the bank are appointed by the President of France. It is subject to the Treasury Department of the Government, it being essential that three of the directors of the bank be high officials in the Treasury Department. Further discussion of the Credit Foncier is hardly necessary, except that it be said that the main co-operative feature of the bank is the amassing of land security.  

The Credit Unions have been organized for the purpose of providing for the needy better advantages in credit. Shares of about $25 are bought by the members. The number of shareholdings is limited usually to 1 but the number of shareholders is unlimited. Loans are made to members for short terms. The security is personal, but each member is fully liable for all debts. The Credit Unions in Germany were begun in 1850. They have had phenomenal growth. In 1901 there were 12,140. The membership of German credit unions is very largely composed of small industrialists. About 10 per cent of the members are wage earners. In the United States the Jewish Credit Unions are the most prominent.

by Jewish merchants of means provide for the Jewish farmers a means of obtaining credit for moderate amounts on easy terms.

The Building and Loan Associations, successful particularly in the United States, are used only to enable members to obtain homes. The funds of the association are collected from members and loaned to members. The association thus acts as a savings bank and as a credit union. The shares are usually of about $200 each paid in monthly installments. The member is entitled to a loan as soon as his payments have begun, the security for his loan is the house upon which it is made.

The advantage of the Building and Loan Association are this: the payments usually run for about eight years but in the meantime the member has the use of the house and though he seems to be paying high rent he is eventually the full owner.¹

Building and Loan Associations have attained greatest success in the United States. In 1903, there were 5,299 such associations in this country having a membership of 1,530,707 and total assets of $577,228,014. Building and Loan Associations, however, are not being patronized by the working people to the extent they were intended to be. More often professional men, small business men, clerks, managers, and salaried officials are availing themselves of the associations while the laboring men for whose benefit the associations were originally founded are unable to accumulate the membership fees. Moreover, "the chief commercial profit of such societies goes to the outside investors, who do not intend to borrow."²

¹. Cf Adams & Sumner; Labor Problems, pp. 391-394.
Considerable agitation recently has been current concerning the establishment of a better system of rural credits in the United States. In 1913 a commission consisting of representatives from thirty-six states and seven members appointed by President Wilson for the United States at large, visited Egypt and every country in Europe except the Balkan States for the purpose of studying the rural conditions and more particularly, the systems of rural credit in those countries. Previous to President Wilson's administration, President Taft addressed the Governors of the States at Beverly, Massachusetts, October, 1912, on the subject of Rural Credits. At the session of the Southern Commercial Congress in the spring of 1912, the subject of rural credits was given much attention. At this conference resolutions were adopted which resulted in Congress sending Mr. David Lubin as delegate of the United States to the International Institute of Agriculture held at Rome, Italy, in 1912. At this institute much attention was given to agricultural credits.

Very thorough studies on Rural and Agricultural credits have been made by Myron T. Herrick, Ambassador to France. Several valuable contributions \(^1\) from his pen have been made to the people of this country. Congress has repeatedly debated the subject and many state legislatures have concerned themselves with this problem.

In his address to the governors of the states in 1912,\(^2\) President Taft pointed out that the farmers of the United States add each year to the national wealth $8,400,000,000. They are

\(^1\) See particularly, Herrick, Rural Credits.
doing this on borrowed capital of $6,040,000,000 on which they pay annually interest charges of $510,000,000. Counting commissions and renewal charges, the interest rate paid by the farmer of the country is averaged at 8½ per cent, as compared with a rate of 4½ to 3½ per cent paid by the farmer of France or Germany. Further, it was pointed out that the rate paid by the American farmer is considerably higher than that paid by the individual corporations, railroads, and municipalities. The reason for this is that the corporation is able to place its security before the investor in a more attractive and negotiable form. The farmer lacking the machinery whereby to make his security attractive suffers unreasonably. Yet it undoubtedly will be admitted that the security of the farmer — his fertile land — is quite as sound as that of the industrial corporation.

It has been pointed out by Powell,1 Lindsay Coulter and others that if the rural communities of the United States are to be built up luxuries of city and country must be more nearly equalized. "If we are to save the rural districts from decadence, we must bring about conditions in the country that will make country life as satisfying as is the life in the city."2

"The people of the city have paved streets, and sidewalks; we have muddy roads in the country. They have street cars, carriages, and automobiles; we have heavy work-horses and wagons or, at best, heavy buggies on the farm. They have electric lights or gas; we have the old oil lamp or tallow candle. They have telephones, telegraph and free mail-delivery, and they don't need them half as badly as we; yet few of us who live far apart, a long distance from the doctor and

1. Powell; Co-operation in Agriculture, Chap. I.
from friends, have these. They have furnaces in their homes, and when they get up in the morning their house is warm and pleasant, but we get up to find everything frozen and the house chilled. They have hot and cold running water and baths; we must go out to the old pump or melt snow and ice, and take our bath in the dish pan or wash-tub. They have toilet facilities and sewers; we must go out in the cold of winter to the snow-filled privy, and in the summer to a foul-smelling, unsanitary one. They have theaters, concerts, and orchestras; we read about them. They have good dancing halls, with fine music and smooth floors; we wish that we had half as good. They have good stores, where they can telephone for the things they want when they want them; we get what is left over, and we have to go after it and have very poor choice. They have libraries where there are papers, magazines and books which we cannot get without buying and so we seldom see these.

To build up the rural communities and to place the agricultural industry on equal rank with other industries of profound organization, more business methods must be applied to the industry and a better system of rural credits is imperative.

Our financial system has not been developed to meet the needs of agriculture. The American farmer is handicapped by not being able to negotiate loans by offering his land as security for his credit needs, or to make use of his character as security to the extent that the European farmer is able to do. The farmer needs credit to make permanent improvements to his property, to increase its productive power, and for short term purposes to enable him to meet his current expenses while his crops are maturing, and particularly to provide for the planting, harvesting and moving of his crops. To meet these needs the farmer at present has three general ways of obtaining credit, viz. by borrowing from an individual or other private agency on such

terms as two will agree upon; by obtaining credit from a local store or mercantile institution giving as security, if necessary, a mortgage or lien upon his crop; or by borrowing from a bank, insurance company, loan and trust company, etc. giving to them such security as they demand. In some cases warehouse receipts for grain, cotton, wool, tobacco, fruit, etc. are given as security for credit received.

By the individual credit system a farmer secures credit from another farmer, neighbor or resident who has money to loan giving for the loan a mortgage on the land in case of a long-term loan, and a note or crop lien in case of a short term loan. Many farmers have been materially assisted by this form of credit but others, the victims of unscrupulous loan sharks, have been subject to exorbitant rates of interest and foreclosures. This form of credit is expensive and dangerous.

By the crop lien method of obtaining credit, the farmer will have some individual extend to him credit giving in return a lien on the crop. In this case, the individual providing the credit is usually a commission merchant, jobber, auction company or warehouseman. And with the lien the lender usually reserves the exclusive right to handle the crop and is thus able to dictate the conditions under which the crop is to be sold. In the truck growing and fruit growing industries, this system is very frequently used. In the cotton growing states of the south, many growers obtain credit in this manner. This system is not entirely bad but is open to many objections. By properly handling the crop, the unscrupulous lender is able to keep the farmer
constantly indebted to him. The farmer losing his independence becomes discouraged. He is unable to improve his farm. Life on the farm to him is mere servitude to a financial master. The crop lien system of credit is inadequate and unsatisfactory.

The store credit system is very similar to the one just described. The farmer obtains provisions and implements from a storekeeper or general merchant to run him from one season's harvest to the next. To the creditor the farmer gives a crop lien. This system of credit has proved to be haphazard, unsystematic, and often vicious to both storekeeper and farmer. Powell points out that the store credit system of credit is based on a false security for it is given on the crop before it is developed and often before it is planted. To make his risk secure the storekeeper is obliged to charge higher prices for his goods, which frequently are of inferior quality. Often the storekeeper will absolutely dictate as to what the crops shall be, the methods of farming to be followed, the crop rotation and so forth. The farmer, obligated to a storekeeper, is obliged to continue in his patronage and thus to pay whatever prices are asked. At harvesting the farmer must bring his crops in at once to the storekeeper and receive what is offered. To sum it up in few words. "The farmer sells his products at lowest wholesale price and buys his supplies at the highest retail price."¹

The chief objection to bank credit is that it cannot be had for land securities and particularly for sufficiently long periods. The national bank act of fifty years ago forbade the

¹ Powell; Co-operation in Agriculture, p. 281.
loaning of money on land securities the theory of the law being that real estate mortgages cannot be quickly liquidated in case of emergency. Bank credit is further unsatisfactory because of its high interest rates.

Clearly then, the agricultural industry of the United States is sadly in need of a more adequate system of farm credits. Proposal of various sorts have been made, taking usually something of the form of the Raiffeisen and Landschaften banks of Germany. Farm loan bills have been proposed in the legislatures of various states but generally objection is made to any system which would tend to foster paternalism.

It would seem that some plan of the nature of the Land-shoafsten banks of Germany would be best adapted to the needs and sentiments of the American agriculturists. In finishing this topic, we cannot do better than to make reference to Mr. George Woodruff of Joliet, Illinois,1 who in 1912, started a 30-year, 5 per cent amortizable farm mortgage bank in his local community. In 1913, a dull year for the sale of securities, Mr. Woodruff loaned between $300,00 and $400,00 in 30-year 5 per cent amortization loans. The experiment of Mr. Woodruff's has met with unex-
pected success. It is believed that there is ample field for other such efforts in the United States.

Division 4. Co-operative Agricultural Societies.

Today is a day of specialization and organization. Since the dawn of the industrial revolution production and distribution in all industries have undergone profound re-organizations. The individual at one time independent of his neighbor as it were, has been gradually merged until he has become a mere item in the subdivision of labor. Production and distribution once controlled by the individual, as such, have today been turned over to the giant corporations. Organization and re-organization has continued until today concentrated energy and capital are in command. It has been said where a directory of New-City 50 years ago gave one corporation today we shall find 100 and presently 1,000. But mark a qualification. This forward march of organization of which we have spoken does not so readily apply to the industry of agriculture. True it is that great corporations have been developed to take the products of the farm from the hands of the producers and convey them to the tables of the consumers. But these institutions, though contributing to society a great service, have left the American farmers unorganized. The farmers have done nothing more than produce, they have failed to enjoy their share of the price paid by the consumers. They still conduct their business on the lines of the centuries when industry was carried on by the individual worker. They are in fact using eighteenth century methods of co-operation with which to compete with their urban brothers, employing the systems of organization of the
Farming is a business, but not yet has the fact fully impressed itself upon the mind of the American farmer. Mr. Coulter in writing under the head "Farmers must become business men" has very suggestively pointed out that we must cease saying "business men and farmers". The farmer must in the future be placed on the same level or as nearly so as are other business men. "We must say from now on," says Coulter, "bankers, farmers, merchants, and other business men". 1

The farmer being a business man to make his business efficient and to obtain from his business the fullest returns, must co-operate and organize with his fellows as do the business men of other industries. Sir Horace Plunkett, in an address delivered in Philadelphia, in March, 1912, in speaking of the high cost of living said: "I think the ultimate analysis will show, that of all the causes to which the high cost of living is to be attributed, the chief cause is that the farmer has failed to apply new business methods both to production and distribution and that he leaves distribution in the hands of multitudinous middle men, unnecessarily costly, and often the middle interests victimize both the producer and the consumer. * * * * The whole trouble is that the farmers dont work together; they waste energy. * * * The great change that the farmers have got to make in their business methods is simply this: they have got to introduce methods of combination in their business and work together." 2

The difference between the scope of the agricultural

industry in this country and in Europe has been pointed out by Mr. Lindsay.¹ In America, the farmer produces crops -- that is all. He stops with production. Someone else prepares the crops for market and markets them. In Europe the farmers produce the crops, then by co-operation they prepare their crops for market, market them, and also finance the whole operation. "In this country agriculture stands on one foot; in Europe, on four."

Some system of co-operation in the United States is needed whereby the farmers can upon their own financing produce their crops, prepare them for market, store them if necessary, and finally market them. "The fact is," said Mr. Russell, emphasizing the above point, "the farmers have allowed the control of their industry to slip out of their hands, and they are squeezed because the organized industry always unloads its burden on the unorganized.

If farmers are to retain a surplus of wealth beyond the bare necessities of life, if they are ever to see in the rural districts any of the comforts and luxuries of the city, they must make it their steady, persistent and fundamental policy to work towards complete control over the manufacture and sale of all of the produce of the country side, its live stock, its crops, its by-products, and the manufacturing businesses connected with these, so that they can act in their own interests through their own agents in distant markets, and push their produce with the energy of self interest." ²

Thus we have the great agricultural industry composed of 6,500,000 farmers independently working producing crops, in too

¹ Senate Doc. No.334, 63 Cong. 2d Sess., p. 29.
² Coulter; Co-operation Among Farmers, pp.22-23.
many cases by methods far from scientific, to be turned over to an army of middlemen receiving a handsome remuneration for their services in conveying the products, to the consumers. But the farmers are not utterly unmindful of their position. They have in later years in the United States come to realize that they are the victims of numerous middlemen, receiving for their products only a pitiful portion of the price paid by the consumers. They have come to realize at last that the systems of distributing farm crops as well as the sale of farmers' supplies are so handled that the individual farmer who acts alone pays the highest price for what he purchases and receives the lowest price for what he sells. While the distributing agencies, the railroads, the middlemen, and the retailers, on the other hand, receive a maximum return on their labot and capital, or at least have so organized the distributing system that the producer is prevented from sharing in the general prosperity to the extent to which he feels he is entitled.

Co-operation then has been undertaken in agriculture under many different phases and in many localities.

Before taking up a discussion of some of the more important fields of agricultural co-operation a few of the recognized fundamentals will be briefly mentioned.

Under the present economic conditions in America, it is fundamental that if an agricultural co-operative society is to achieve strength it must be founded on some special industry as for example, butter, milk, eggs, cotton, apples, citrus-fruits, tobacco, etc. Farmers who produce general farm crops for which
there is a steady demand and an open market have not always a common motive for uniting. Heretofore it has been the almost uniform experience that organizations composed of farmers producing general crops result in disruption.

On the other hand, the special industries such as those mentioned above have to meet special problems of production, of crop handling and marketing. In such an industry the risk is greater, the stakes larger, and the interests are for farmers of some ability and inclination toward specialization. Farmers in such an industry have a common purpose and are more fitted and anxious to meet it. In an orange growing section the growers are interested in standardization of grades, in a central packing house or a storage plant, in the purchase of supplies for spraying, pruning, for the picking and handling of fruit or for other purposes. In a dairying section, the farmers are interested in the testing of cows, in the manufacture of butter and cheese, in the sale of milk, and in the purchase of feed.

It is fundamental also that the unit of the co-operative agricultural society should be confined to a comparatively small area. It is essential that the numbers be acquainted with each other, that their aims and motives be similar and that they grow a similar quality of products. If the products vary greatly in quality because of differences of soil or climate, the grades will not be uniform and the growers cannot easily be held together in a common society. The membership of the society should be stable. A community in which the farmers are frequently changing hands will have difficulty in attaining the best results. It is
desirable from every phase of consideration that each locality and each individual should retain its individuality, that local price and ambition be not stifled by an admixture of other communities and that it strive to build up for itself and its product a reputation.

Another essential to a firm and vigorous rural co-operative organization is that it be built up as the result of necessity. The reason for its existence must be some vital service which it is expected to perform. This essential can scarcely be stated too strongly. The new organization, particularly if it be its purpose to market products at better prices, is sure to be attacked by fierce competitors. Many will enter its field seeking to destroy it. Insidious suspicions and unfounded reports are apt to be circulated by enemies, railroads by quiet discrimination are apt to seek to destroy it. If the new association is able to survive the storm it must be founded on a rock with a vital service to perform and must possess the absolute loyalty of its members.

A distinction was made in Part I of this paper between a joint-stock company and a purely co-operative association. It is essential that an agricultural co-operative society be really co-operative. This does not mean, however, that it is absolutely essential for the society to be founded on a non-profit basis. As has already been stated the laws of many states do not provide for the organization of such societies on a non-profit basis. In such cases it is necessary that the association subscribe a capital stock and become incorporated under the state laws. But if the
incorporated society apports its earnings to its members either on a basis of amount of goods handled by the association, supplies purchased, etc. or in proportion to the amount of shares possessed it can rightly be called co-operative provided in the latter case that the membership is not exclusive.

The membership of an agricultural organization should be composed exclusively of farmers who have a common motive and who are acquainted with each other. If the associations includes in its membership merchants or other business men of a neighboring town, it is in danger of losing its co-operative features. However, if the control of the society is carefully kept in the hands of the farmers it may be successfully handled even though a limited number of business men not directly interested in farming are included in the membership. In a stock corporation in case a member wishes to sell his stock, it should be within the power of the association to have some say as to who the buyer might be. Frequently it is stipulated in the by-laws of the associations that members wishing to sell their stock must first offer it to the association.

The voting power should as far as possible be based on the one-man-one-vote principle, for the association must be one of individuals and not of capitals. In some cases, however, when there is considerable difference in the amount of patronage of the various members, it is necessary to apportion the voting power accordingly. At any rate the democratic principle of the association must be carefully guarded. In co-operative agricultural societies as in co-operative stores managerial ability and loyalty to the organization are of paramount importance. 1

1. Cf. Powell, G.H., Co-operation in Agriculture, Chap.II. The above several paragraphs are based on this chapter.
Mr. B.H. Hibbard, writing in the Chicago Dairy Produce, referred to earlier in this paper, enumerates and discusses the following essentials of agricultural co-operative societies. Here they will be simply mentioned as follows: (1) Co-operative agricultural societies should avoid business speculation, as, for example, speculations in grain, etc. (2) A spirit of homogeneity and co-operation must prevail. (3) Loyalty to the association at all times is absolutely necessary. This means that the member must not yield to temporary inducements from other sources. (4) The co-operative society should as far as possible confine its membership to actual farmers. (5) The society must be democratic. Either the one-man-one-vote system of voting should be adopted or the voting power should be apportioned according to the members' interest as, for instance, in a dairy society, 1 vote to 1 cow, or in a farming society, 1 vote to 1 acre. (6). The association should have authority to penalize members for failure to patronize the society, as for instance, the enforcement of a written agreement to forfeit membership for such a disloyalty. (7). The association should have power to determine to whom shares may be sold. This power is necessary in order that undesirables may be kept out. (8). The association, as for instance a creamery, etc., must have a good manager. And he must be the manager. It is right that he receive suggestions from members but above all, his judgment and authority must be respected. (9). Earnings should be distributed on democratic principles. (10). Sufficient capitalization must be had. Can be secured by payment of only a part to being with and balance to be obtained
by holding back earnings.  (11). An adequate system of account-
ing must be employed. For example, if a new machine was
installed, the cost of the machine and installation should not
be made up by retaining all earnings for any one period. To do
so would place an extra heavy burden upon the number who at just
that time was milking many cows, or whose fruit yield was
particularly heavy, etc. (12). Finally, co-operative agricultural
societies should federate. A number of local societies should unite
to form a union or federation for the furtherance of their common
interests.

Co-operative Agricultural Societies are of many forms. To
classify these various forms, the writer has taken the same
classification used by Mr. Fey for the first three divisions with
slight re-arrangement, and added the fourth division. These divisions
and the order in which we shall consider them are:

A. Productive Societies.
B. Sale Societies.
C. Supply Societies.
D. Miscellaneous Societies.

It must be stated at the outset, however, that these various
divisions will overlap and must be treated together to considerable
extent, as for instance, a co-operative creamery— a productive
society, having also an egg selling department -- a sale society.

By a productive society in this division we mean one the
function of which is to take some agricultural product not yet
ready for market, transform it, prepare it for market, and finally
A. Pro-
martket it.
ductive
Societies. The co-operative creamery is undoubtedly the
best example of the productive society, but others
of not minor importance are the co-operative cheese factories,
co-operative bacon-curing societies and co-operative vintries.
The latter two, scarcely known in this country, are quite well
established in the leading European countries.

According to Professor Carver,¹ there were for the United
States in 1913 a total of 2,165 co-operative creameries. A few
of the states with their corresponding number of creameries are
here given: Minnesota heads the list with 652, Wisconsin follows
with 355, then in order follow, Iowa with 308, New York with 120,
Michigan with 105, Pennsylvania with 99, Indiana with 67, Illinois
with 66, Vermont with 59, and South Dakota with 46. According to
this list Montana had 9. More have recently been established,
however.

According to this same report, there were in 1913 a total
of 336 co-operative cheese factories in the United States. Wis­
consin heading the list with 247, New York follows with 34, then
Minnesota with 15, Pennsylvania with 13, Utah with 6, Michigan
with 4, California and Washington with 3, Illinois, Missouri,
Ohio and Oregon each with 2, and Indiana, South Dakota and Vermont
with 1 each.

In Denmark, a country 1/10 the size of the State of Texas,
there were in 1909 1,157 co-operative dairies representing 159,000
members possessing 1,059,956 cows. There were in 1909 in Denmark
¹. Carver, T.N.; Organization of Rural Interests, 1913 Year Book,
Department of Agriculture, p. 245.
34 co-operative bacon-curing societies or slaughter houses, representing a membership of 95,000 and a slaughtering in 1909 of 1,466,800 hogs. ¹

In Ireland, in 1906, there were 370 co-operative dairies representing 45,201 members and a turnover of £1,507,040; 29 poultry societies with 458 members and a turnover of £73,175; and 2 co-operative bacon societies with a membership of 3,500. ²

In Belgium there were in 1905, 496 co-operative creameries. ³ In Germany in 1906 there were 2,826 co-operative dairies with 218,999 members, and 159 co-operative vineries with 33,886 members.⁴

Concerning the co-operative dairies in the various countries the following figures are given by Fay showing the average membership and average number of cows per member to each dairy for the various countries:²

<table>
<thead>
<tr>
<th>Country</th>
<th>Aver.Membership</th>
<th>Average No.Cows per member</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>150</td>
<td>7</td>
</tr>
<tr>
<td>Ireland</td>
<td>159</td>
<td>7</td>
</tr>
<tr>
<td>Belgium</td>
<td>108</td>
<td>24</td>
</tr>
<tr>
<td>Italy</td>
<td>80</td>
<td>---</td>
</tr>
<tr>
<td>France</td>
<td>540</td>
<td>238</td>
</tr>
<tr>
<td>Germany</td>
<td>97</td>
<td>---</td>
</tr>
</tbody>
</table>

It is not possible in this paper to enter into the details of the co-operative creamery as it is found either in this country or in Europe. Suffice it to say that the plan of organization of the co-operative creamery is for the dairymen,

¹. 1913 Year Book, International Co-operation.
². Fay, C.R.; Co-operation at Home and Abroad, p.104
³. Ibid, p.129.
⁴. Ibid, p. 92.
⁵. Ibid, p. 158
of a community owning between 400 and 500 cows to form an association, on co-operative lines embodying the fundamentals and principles enumerated above and quoted from Mr. Hibbard's article in the "Chicago Dairy Produce". Having organized an association a factory or creamery is built in which the cream of the members is assembled under rules and regulations established by the association, made into butter and prepared for shipment. In the larger dairying sections, as for example, in Minnesota and Denmark, a number of local associations unite and form a district association and several district associations organize to form a central exchange. The purpose of the district association is to look after local questions common to all and to provide market facilities. The function of the central exchange is to act as brokers for the district associations, operating at actual cost in furnishing market facilities and handling questions of general policy.

Regarding the high development of agricultural societies in Denmark and especially the co-operative creameries it may be said briefly that agriculture is Denmark's one industry, dependent upon this industry farmers with the aid of the government have made the most of it. It can likely be said in all safety that in no country in the world is agriculture so elevated to a science as it is in Denmark. A country not one tenth the size of Texas but having 29 Agricultural High Schools where the youth of that land assemble to become expert in their father's industry. Every village has its co-operative creamery, every cross road its co-operative store or co-operative users' association as it is called by the Danes. In Denmark there are at
least nine selling federations that represent the dairy associations in the sale of their products.

For information regarding co-operation in Denmark the writer is greatly indebted to President C.M. Batch of the Helena Merchants' Association. In a recent conference with Mr. Batch, who had just returned to Helena from a visit to his native country after an absence of 17 years, the writer was told that undoubtedly the cause of Denmark's supremacy in dairy farming is due to her profound emphasis on this industry, which in turn is explained by the very necessity of such emphasis. It was stated by Mr. Batch that when he left Denmark 17 years ago, everyone was of the opinion that the land and farms had then approached their maximum productivity. But astonishing as it is, says Mrs. Batch, the lands are now producing three-fold their former production. Burdened with heavy debts due to high taxes from supporting a court, and an army and adequate schools, the farmers were driven to co-operate. Now the farmers of Denmark import corn and cotton-cake from the United States to feed to their hogs and cows, and top the markets of London with their world famous eggs and bacon and butter.

Mr. Batch pointed out that in Denmark the cow is a machine. Her consumption and production records are thoroughly known. Unless she reach a high standard she is disposed of. By the aid of inspectors employed by the co-operative cow Breeding and Co-operating Cow Testing Associations, and also by the aid of inspectors employed by the government the dairy herds of Denmark are kept pure and standard.
By briefly stating that the purpose of the co-operative Bacon-curing societies of Denmark and other countries is to eliminate the middleman's profits and to return to the farmers their own; and that of the co-operative vintries famous in Austria and southwest Germany is to make and dispose of co-operatively the wine from grapes, we pass on to our next division.

B. Sale Societies.

By co-operative sale societies is meant those co-operative efforts in agriculture the purpose of which is to dispose of farm products already in shape for market. Leading among these societies are the co-operative egg-selling associations, the co-operative fruit growers associations representing all the various kinds of fruit, the co-operative farm elevators, the co-operative cotton growers' and co-operative tobacco growers associations, and other organizations of similar nature handling the various kinds of farm produce in its nature ready for market.

The co-operative egg-selling associations in Denmark are the most important of the sale societies.

Co-operative Egg-Selling Societies. "The Danish Farmers and Co-operative Egg Export Association was organized in 1895. In 1909, it included 500 egg collecting circles, aggregating 43,000 members. The association markets poultry as well as eggs. Its central office is in Copenhagen. In addition, there are ten other packing plants. The members pay an entry fee of thirteen and one half cents. The sales in 1907 were some 10,000,000 pounds of eggs and poultry valued at about $1,080,000. The object of the
association is to develop the best possible market in foreign
countries (the largest market being London) for Danish eggs by
guaranteeing that the eggs delivered with the registered trade
mark stenciled on each egg are absolutely fresh and clean and
by protecting the general interests of the Danish poultry keepers
by preserving eggs and fattening and selling the poultry of the
members, permitting a rational poultry management. 1

The Agricultural Department of Canada has promoted a
study of co-operation in the marketing of eggs. Both the
Dominion Government and the government of Quebec have done much
in this line and are expending much effort to forward co-operative
concerns. Australia also has done considerable in this
connection and had in 1909, 21 co-operative egg collecting and
selling circles consisting of mostly small farmers. 2

The problem of the marketing of eggs is an important one
for the reason that, with the exception of a relatively few large
poultry farms, eggs are regarded as a by-product and marketed are
not handled and marketed with proper care and due dignity.
Yet it was estimated by Secretary Wilson of the Department of
Agriculture that the value of the poultry and egg produced on
the farms of the United States reached in 1909 the enormous sum of
$600,000,000, or the equivalent of the value of the hay or of
the annual crop of wheat. 3

The egg problem is such, however, because of the poor
facilities and methods of marketing employed by the farmers. Eggs
are collected in the evenings usually, in some cases regularly
and in others at irregular intervals. Stolen nests often accumu-

1. Powell, G.H.; Co-operation in Agriculture, pp. 177-178.
   12, 1910.
ulate a large lay which frequently are for several days covered by a brooding hen before they are discovered, yet so long as the shells are sound and the contents does not rattle, to market they will probably go. After the eggs are collected, they will still further be kept on the farm until the trip to town, regular in some cases but in others depending upon the spare time the farmer has at his disposal and the amount of business he has to transact. The eggs then are sold to the local dealer who assembles them with others in the back room of his store or in his basement with little regard for temperature or ventilation. After several cases have been filled they are taken to the platform of the depot where they wait in the hot sun for hours for the arrival of the local freight or express. What surprise is it then that under such a system the farmer realizes little for his eggs.

In the United States and also in Denmark to some extent it has been found to be advisable to install facilities for the handling of eggs in connection with the co-operative creameries. The regular trip to the creamery each morning affords the farmer an excellent opportunity to bring in his fresh eggs. The creamery on the other hand, thus receiving many dozens of eggs is in a position to provide ample refrigerators and to market the eggs to the greatest advantage.

In December, in 1911, Mr. Slocum 1 of the Animal Husbandry Division of the United States Department of Agriculture found that there were 14 creameries in the United States handling eggs and that 7 more contemplated the immediate installation of the

necessary facilities for the handling of eggs. A creamery having a very successful egg department is to be found in Northern Minnesota. In the summer previous to the installation of the egg department of the creamery there were shipped from the village only 15 cases of eggs. In 1909 under the new arrangement the creamery paid out over $4,000 for eggs all of which were shipped from the village. Mr. Slocum found that 135 farmers were availing themselves of the facilities of the egg department. It was found that the farmers thus selling their eggs through the creamery were receiving in December 40 cents per dozen for their eggs while the farmers of neighboring villages were selling for 25 cents per dozen. Better prices for eggs though not of the same proportion just indicated were realized all through the year by the patrons of the creamery.

It should be added that it is the function of the creamery to demand that only fresh eggs be brought in and to guarantee them to be so to the purchasers. By so doing a splendid local reputation is built up for the creamery eggs.

The various fruit industries of the United States have all to a greater or less extent adopted co-operative methods. This best example, however, and the only one which will be more than mentioned is the co-operative organization of the California Citrus Fruit Growers.

The citrus-fruit industry of California was confronted with the problem of placing its products on the market of the United States the best of which are two and three thousand miles distant from the place of production. Numerous middle men had taken advantage of the opportunity and were realizing the profits of the industry to an extent which threatened destruction. It was
necessary that the powers themselves take steps to protect and
 develop their industry, and for such purposes the fruit-growers
 associations were formed. "Growers could not consign their pro-
ducts to dealers 2,000 miles or more away, they could not depend
on local or distant buyers to pay a fair price for their fruit;
as individuals they could not deal effectively with the railroads
or with courts. They had to organize as a matter of necessity.
In no other way could their industry be protected and developed."

The cost of distributing the fruit crop of the United States
from the grower to the producer previous to the organization of
the industry was and even yet is about one-half of the price which
the consumer pays for his product. This distribution cost includes
freight, and the different selling charges of brokers, jobbers,
commission merchants, retail dealers, and various local expenses.
The bunglesome system of distribution becomes more impressive
when one realizes that in the vast army of middle men, including
commission merchants, jobbers, local and travelling buyers, salesmen,
general merchants, and others, there is a great deal of overlapping
and unnecessary dickering. It was discovered that in many cases
brokers representing the growers would pretend to sell the product
to a jobber at the highest obtainable price but in reality sell
them to themselves at a low price to be resold later at a higher
price; the difference representing the brokers' profit.

These conditions together with inadequate means for hand-
ling the fruit led to the adoption of co-operative methods.

The nature of the organization of the citrus-fruit industry

is as follows. The growers of a certain locality, valley, etc. in numbers ranging from 40 to 200 and owning groves of an average of 500 acres, unite under the laws of California to form a non-profit association and issue stock to members in proportion to the bearing acreage, to the number of boxes shipped, or in equal amount to each grower. The association then constructs a packing house along side a railroad where the fruit is graded, pooled, packed, and prepared for shipment. The cost of these operations is pro-rated to the number of boxes handled for each grower. The associations are managed by a board of directors and an employed manager, and are conducted solely for the benefit of the growers. No profits are accumulated, and no dividends declared. The fruit is usually pooled each month, sometimes at the end of the season, and each member receives his proportion of the proceeds of the fruit handled by the pool. Many associations employ experts to pick the fruit, and in such cases insist upon the regular pickers doing the work. Some associations even prune and fumigate the trees of the members. The fruit of the local associations after grading through the pools is marketed in co-operation with the district exchange. There are 115 local associations in the California Fruit-Growers Exchange.

The district exchanges are nominal corporations without profit, each local represented having one share and one representative on the board of directors. The function of the district exchange is to act as a clearing house in marketing the fruit, working in connection with the associations through
the facilities provided by the central exchange. It falls upon the district exchange to order cars and to see that they are placed at the proper sidings, to keep a record of all cars shipped by the associations and their destinations, and to obtain through the central exchange information regarding the citrus-fruit business and to pass it on to the associations.

It is also the duty of the district association to receive the returns for the fruit through the central exchange, and to return the proceeds to the local association. There are 17 district exchanges composed of the local associations as members.

The central exchange, which is the California Fruit-Growers' Exchange, is a non-profit corporation with a capitalization of $10,000. The Exchange is managed by a general manager and has a board of directors of 17 members, one from each district exchange. The function of the central exchange is to furnish marketing facilities for the district exchanges and associations at a pro-rata cost. The central exchange places bonded sales agents in all the principal markets of the United States and Canada, it collects and distributes daily information relative to the markets, makes prompt accounting of the returns, which are sent to the shippers through the district exchange, and takes care of all matters of litigation.

In the apple industry organization, the Hood River Apple-Growers' Union of Hood River, Oregon, is the pioneer.

1. For references to last three paragraphs, Cf. Powell, Co-operation in Agriculture, pp. 241 - 248.
Under this association the fruit is picked by the growers but packed by men, on the grower's farm, working under the control of the union. The Hood River Apple-Growers' Association has made Hood River apples famous over the world.

Other Fruit-Growers Associations.

The peach growers of Georgia have a co-operative association, not strong, however. Likewise the growers of pears, plums, and the nut growers and in many localities the vegetable growers have associations founded on more or less co-operative principles.

Co-operative Farmers' Elevators.

Formerly the farmer sold his grain to a local merchant or consigned it to a commission merchant in one of the primary markets where it was later sold to a dealer. The local merchant who bought the grain shipped it to a commission merchant in a primary market. As the grain industry grew in the west these commission companies from the primary markets constructed grain elevators along the railroads through the grain belts, and placed their own buyers in charge with direct power to purchase grain from the farmers as it was brought into the towns. These elevators to distinguish them from a few local elevators constructed by local merchants, were called line elevators, due to the fact that several of them owned by one company were built at various points along the railway line. The growth of the co-operative farmers' elevators is due to the abuse of the local and line elevators. Formerly at every grain
station during grain hauling season a number of buyers would congregate. The local merchant would have a buyer, the line elevator one, and several track buyers would be present who would buy grain on their own speculation or for an eastern firm. The result was that with several buyers present competition was good and prices were satisfactory. But eventually the line elevator companies, organized as a grain dealers' association, by coercing the commission companies not to receive grain from the smaller buyers, and by obtaining concessions from the railroads, succeeded in forcing the weaker buyers from the field. It was then in the power of the line elevators and other strong companies, members of the grain dealers' association, to buy grain at their own figure. As an outgrowth of these conditions, the farmers' co-operative elevators were formed. The first one formed was in 1889 at Rockwell, Iowa. The farmers rented an elevator and proceeded to handle their own grain. In 1900, two more were formed, in 1904, 13 were in existence, in 1913 there were in the United States a total of 2,020 co-operative grain elevators, the States having the largest number being the following: Iowa in the lead with 332, North Dakota following as a close second with 320, then Minnesota with 286, Illinois with 260, Nebraska with 224, South Dakota with 220, Kansas with 149, Wisconsin with 51, Oklahoma with 36, Indiana with 28, and Montana occupying tenth place from the top with 25.1.

The plan of organization of a co-operative farmers' elevator is simple. A number of farmers of a community subscribe a capital stock of from $2500 to $20,000, allotted in shares of from $10 to $500. The company usually incorporates under the joint stock company laws. Earnings are generally distributed on basis of capital, and votes usually limited by the one-man-one-vote principle. When the capital is all paid in or borrowed, the elevator is bought or built, an expert grain buyer employed and the doors opened for the business of buying and selling grain. In some cases dividends are allotted on the basis of grain sold, in others on the capital stock possessed. The co-operative feature of the farmers' elevators has often been seriously questioned. In this connection Professor Carver has said, being once before referred to in this paper, "Any organization of this kind may be said to be co-operative in spirit when it is managed exclusively with a view to giving the farmer a better price for his grain and not at all for the purpose of securing dividends on the stock."\(^1\) It is probable that the primary purpose of organization of nearly all farmers' elevators has been the securing of better prices for their grain and thus under the above definition they are correctly called co-operative.

Cotton and tobacco growers of the south have taken some steps toward the organizing of their industries on co-operative principles.

\(^1\) Carver, T.N., Organization of Rural Credits. 1913 Year Book. Dept. of Agriculture, p. 246.
The efforts in the south, however, are yet comparatively recent and a great deal has not yet been accomplished. The cotton and tobacco growers are in need of co-operative organization, but their progress in such efforts seems to have been slow.

C. Supply Societies.

By supply societies is meant those organizations formed on co-operative principles, the purpose of which is to furnish the larger necessaries of the farm. Most supply societies are, however, either managed in connection with an existing co-operative organization or are simply a department of an existing co-operative concern.

The best illustrations of supply societies existing separately but working in connection with established co-operative concerns are the co-operative box making societies, which make boxes for the citrus-fruit growers of California. The box-making societies frequently handle other orchard and packing-house supplies. One such supply society in California furnished in 1911 over 12,000,000 fruit boxes, and $347,000 worth of orchard and other packing house supplies. 1

Very many of the co-operative farmers' elevators have in connection with their grain business a department for the supply of seed, flour, bran, hay, coal, lumber, farm machinery, fertilizer, etc. Such supplies are sometimes handled by separate societies, but not generally is this the case.

1. Cf. Powell, Co-operation in Agriculture, Chap. IX.
D. Miscellaneous Societies.

Under this heading is placed those efforts, on the part of farmers and producers, to supply those essentials having a more or less indirect rather than direct connection with the production of crops.

Among the more important of the societies to be considered under this division are those organized for the purpose of providing irrigation facilities for farmers. Many organizations of this nature have been formed. The usual method of organization being for a number of farmers owning farms so situated that they may be irrigated under a common ditch, to incorporate under the joint stock company laws of a state, build dams, reservoirs, ditches, etc., employ a ditch man, and thus to provide water for themselves at cost. The duty of the ditch-man, often called ditch-rider, is to keep the ditch in order and to apportion the water. According to the Thirteenth Census report there are 13,739,679 acres of land under irrigation in the United States. One-third of this large acreage is irrigated by farmers co-operative companies.

The organization of a farmers' telephone line is very simple. The usual method being for a number of farmers to incorporate, construct a telephone line, and install instruments and in some cases to employ a line rider. The work of constructing the lines is usually done by the farmers them-
selves at a time when the work on the farm is not heavy. In many cases poles are cut from the groves of farms thus leaving the instruments and the wire as the only items of particular expense. The switch board is usually placed in some farmer's house and attended by the farmer's wife or his daughter. The matter of repairing and keeping up telephone lines has caused some little embarrassment. Under some organizations each farmer is responsible for the good condition of his particular share of the line, but always there are those in a community who are negligent about such duties. It is usually found more satisfactory to levy proportionate assessments and to employ regular linemen to keep up the line. According to the bureau of census there were in 1907, 17,902 farmers' telephone lines in the United States. These lines included 565,649 instruments.

The farmers' mutual insurance companies are quite extensive in certain portions of the United States. The plan of organization is for a group of farmers to incorporate for the purpose of providing insurance for their property and crops against fire, lightening, tornadoes, cyclones, wind storms, hail, etc. and also in some cases to insure certain valuable livestock. There are two plans of organization. By the first plan a fixed premium is charged and a surplus created. From the surplus fund the losses are paid. If the fund is insufficient to meet the loss, a pro rata assessment
is levied. By the second plan no premium is charged but a small fee is collected at the time of issuing the policy to pay the costs of examining the property, etc. Under this plan all the members are bound by a written agreement to pay a pro-rata share of the loss sustained by the company when a loss occurs. Some states by law require that an insurance reserve fund be maintained equal to a certain proportion of the value of the property insured. Some of the farmers' mutual insurance companies are limited to a township and others cover a wider scope. The danger of the first is that in case of a heavy local loss the company would not be able to meet all its liabilities. The objection to the second plan is that the advantages of acquaintance of members is sacrificed which in turn implies great risks, more losses, and also the self-seeking motive on the part of agents.

In 1913 there were in Minnesota 154 township mutual fire insurance companies, representing an insurance of about $300,000,000 and paid-in premiums of $696,732, and 7 mutual hail and cyclone insurance of $38,278,197. In Iowa in 1911 there were 19 state mutual fire insurance companies, 153 county mutual fire insurance companies, 9 exclusive hail insurance companies, and 1 mutual tornado insurance company. The risks written in 1911 by the Iowa State and county mutual assessment associations was $175,718,435; losses paid $1,235,637;

1. 43d Annual Report of Commissioner of Insurance, of Minn. p. 32.
and risks in force $653,324,809. Many of the leading farming states of the United States have various farmers' co-operative associations for the improvement of livestock. There were in Minnesota in 1913, 60 cattle and horse breeding associations, Iowa and other leading farming states also have a large number of livestock associations for the purpose of promoting certain breeds of livestock. In many states there are associations for the shipping of livestock. In the corn states the corn growers have organized certain corn breeding associations, the purpose of which is to foster the growth of certain pure types of corn.

There are other co-operative associations which could be mentioned in this connection, but all of the more important have been mentioned.