

PROCEEDINGS
OF THE
SECOND INTERNATIONAL CONFERENCE
OF
AGRICULTURAL ECONOMISTS

HELD AT
CORNELL UNIVERSITY,
ITHACA; NEW YORK,
AUGUST 18 TO AUGUST 29, 1930

The Collegiate Press
GEORGE BANTA PUBLISHING COMPANY
MENASHA, WISCONSIN

1930

3 cards
cooperative, marketing

1 - 5
RELATION OF THE FEDERAL FARM BOARD TO
COOPERATIVE MARKETING

A. W. MCKAY

FEDERAL FARM BOARD, WASHINGTON, D.C.

ALMOST nine years of agitation for farm relief legislation culminated in the enactment of the Agricultural Marketing Act. This Act created a Federal Farm Board of eight members, with the Secretary of Agriculture a member ex-officio. The appropriation of a fund of \$500,000,000 was authorized.

The Federal Farm Board has been given far-reaching powers and a tremendous responsibility. Congress gave it a mandate, "to promote the effective merchandising of agricultural commodities in interstate and foreign commerce so that the industry of agriculture will be placed on a basis of economic equality with other industries." This is probably the most difficult and intangible task ever placed before any federal board.

Encouragement of cooperative marketing is essentially the heart of the Agricultural Marketing Act. The word "cooperative," appears in practically every paragraph. The Board is directed to encourage "the organization of producers into effective associations or corporations under their own control * *," "to promote education in the principles and practices of cooperative marketing * *," and to make loans to cooperative associations from the revolving fund, and to stabilization corporations, owned and controlled by cooperative associations. Inevitably, the Board's work will have a profound influence on the development of farmers' cooperative organizations in the United States.

This paper deals only with the relation of the Federal Farm Board to cooperative marketing and the effect which its activities may have on the cooperative movement. The work of the Farm Board was discussed, I believe, earlier in this session. It is unnecessary, therefore, to consider the powers of the Board, the mechanics of its operations, or the work which it has done during the past year.

Financing of cooperative associations is an important feature of the Farm Board's program. In fact, by and large, the work incident to extending financial assistance to cooperative organizations makes up the greater part of the activities of the Board and its

staff. It is obvious, of course, that cooperative associations can be greatly aided by wise financing, and equally obvious that they may be retarded by unwise or unsound assistance. Furthermore, federal aid to cooperatives will be of little benefit unless it results in strengthening and extending the movement. The substitution of Farm Board funds at low rates of interest for money obtained by cooperatives from other sources will not be helpful unless it results in organizations which can serve the producers more effectively. The Farm Board consequently has agreed that it will not lend money to a cooperative association merely to enable that association to obtain the advantage of a lower interest rate. The money must be used specifically to further the development of cooperative organizations. The Board is not interested in helping groups which are content to stand still.

As a condition of its financial assistance, therefore, the Board requires that the association aided shall become a member of a national or regional cooperative organization, or if no national or regional cooperative association is then in existence, that the association will join such a regional or national agency whenever established. It is the purpose of this policy to centralize cooperative control, by commodities, and, whenever feasible, to make local and regional associations members of one large national marketing agency. One of the weaknesses of cooperative marketing in this country has been the existence of small competing groups, handling grain, livestock, or fruits and vegetables, without reference to the activities of similar groups handling the same product. Cooperative marketing has been lacking in unity. Sectional and organizational jealousies, local pride, and the pride of independent control, have been retarding factors. The assistance, financial and otherwise, which the Board is able to extend has served as a magnet to draw together many organizations formerly antagonistic.

It is not the policy of the Federal Farm Board merely to pass out money to cooperative associations. It does not intend to become a source of low-interest credit for cooperatives, but it is its purpose to use the funds which it has at its command as wisely and effectively as it can to strengthen and extend cooperation.

Its responsibility as a financial agency inevitably places the Board in an advisory relationship to the cooperative associations. Federal funds can not be disbursed without assurance of the safety of the loan, or without assurance that the money will be used to

further cooperative marketing. A preliminary investigation must be made before a loan is granted. Properties must be appraised, and the financial condition of the organization made clear by an audit. Furthermore, consideration must be given to the form of organization and business policies of the association, the relation of the association to its members, and its place in the field of marketing. After a loan is granted, a somewhat similar inspection or survey of each association indebted to the Board must be made at least once a year to assure the Board that the association is being operated efficiently and the loans used for proper purposes. The Board can not avoid assuming a greater or less degree of responsibility for the success of associations to which it has made loans. This relationship possesses obvious advantages from the point of view of improving the business methods of the associations. It also possesses certain disadvantages. Perhaps the extent to which the advantages outweigh disadvantages will determine the success of the Federal Farm Board's program.

First, let us consider the advantages. The watchful eye of the Federal Farm Board on the associations indebted to it will tend to encourage good business practices. It will serve as a check on loose accounting methods and unwise expenditure of funds. The advice of the Board's marketing specialists will be available to the associations. They will be brought into closer contact with marketing information compiled by the United States Department of Agriculture and the state colleges. There will be an insistence upon sound financial and merchandising policies.

Secondly, support by the Board of a cooperative association gives farmers and business men added confidence in the organization. This is true in particular instances and is true of the cooperative movement as a whole. The fact that the government, through its Federal Farm Board, is definitely supporting cooperation has created interest and confidence. There has been ample evidence of this development during the past few months.

Again, the Board's relationship to cooperative marketing will serve to protect the interests of the farmers in the large cooperative marketing organizations, wherever a tendency may develop to neglect the interests of the producers. It is not implied that cooperative associations are generally unmindful of the interest of their members. The contrary is true. But in some cases, large cooperative associations have been diverted from the primary purpose for

which they have been formed, and have been operated to serve the interests of small groups rather than those of all the members.

When farmers without previous experience in big business operations come together to form a large association, or federate their local organizations to form a large overhead agency, they are, to an unusual degree, dependent upon the ability and integrity of their management. Cases of actual fraud on the part of the management are, fortunately, rare in cooperative marketing. But there have been cases in which the interests of the members were not the exclusive concern of the management. Under such conditions, policies may be determined or colored by the selfish interests of certain officials. When these interests come into conflict with the welfare of the association, the right view may not prevail and the organization may be wrecked.

Tendencies of this kind have come to light sufficiently frequently to make me believe that the Board should scrutinize carefully the management of any association applying for financial aid. This danger, it is to be hoped, will be entirely removed by the development of understanding regarding cooperative principles and practices and the growth of leadership among the farmers themselves. Such understanding and leadership are to be found in many cooperative associations. There are many other groups, however, which require protection from the possible encroachment of selfish interests and from their own mistakes.

Let us consider now some disadvantages to cooperative marketing which may be by-products of the activities of the Federal Farm Board. There is the danger that the Board may be induced to support unsound cooperative enterprises. Associations promoted by individuals for their personal profit, or which are not designed to further the interests of the farmers may be presented to the Board so plausibly that it will be misled. The development of the Board's staff and the careful system of inspections inaugurated have largely removed this danger. But there is the further danger that cooperation may grow too rapidly, that the structure may become top-heavy and collapse because proper foundations have not been built. In many instances, well-meaning individuals exert tremendous pressure to persuade the Board to support doubtful cooperative plans. The only protection against these dangers is the quality of the Board. Fortunately, the present Board is made up

of men who have had first-hand experience in cooperative marketing and are able to withstand considerable pressure.

There is also a real danger that dependence on government aid may inhibit the initiative of the cooperative associations. It may encourage some officials of these organizations to depend on the Board for direction, and to place on the Board responsibility for mistakes which may be made. Carried to an extreme, this tendency might in a few years result in a government controlled system of marketing, rather than a cooperative system of marketing. The advantages which arise from self-help would be lost.

The Federal Farm Board is aware of these possibilities and the members are guided in their policies by a desire to preserve the independence and initiative of the cooperative associations. The chairman of the Board anticipated this danger at the time of his appointment. In his first address as a member of the Federal Farm Board, he stated that it was the purpose of the Board "to help the farmers to help themselves." It is evident that great care must be exercised in the extension of financial assistance by the Board. The appraisal of men is necessary, as well as appraisals of facilities and balance sheets. The Board does not propose to be the permanent, financial god-father of the cooperative organizations, and certainly will do everything in its power to encourage them to become independent of federal aid.

The work of the Federal Farm Board should stimulate research workers to give further attention to the problems of cooperative marketing. The growth of associations is making research more and more necessary. Cooperation is a different method of marketing and new questions are constantly arising. The Federal Farm Board will be in close touch with the problems of the associations and should be in a position to coordinate the activities of research agencies and centralize their objectives. Furthermore, the contacts of the Board will furnish a more extensive and more intensive source of fact material than has previously been available.

I should like to suggest the formation of a cooperative marketing research committee, made up of representatives from the state experiment stations, the Federal Department of Agriculture, and the Economics Division and Division of Cooperative Marketing of the Federal Farm Board. The need for more knowledge of the facts regarding cooperative marketing was never greater. Very

effective work is now being done. It should be extended and should be coordinated so as to meet the needs of regional and national associations. Cooperative marketing has grown away from the local. Its interests and problems are now nation-wide or world-wide. In our research work, although we may be dealing with local problems, it is essential that we should have at least a national point of view and be working toward a central objective.