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An Agricultural Law Research Article

## **True Farmer Cooperation**

**The California Plan of Cooperative Marketing. How it  
Differs from the Rochdale Plan. “Locality” vs.  
“Commodity.” Organization and Financing**

by

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# Reprint of a Second Classic

*Aaron Sapiro's concept of cooperative marketing won a brief, intense popularity in the 1920s. Most of us have read about Sapiro's ideas, but few of us have read any of his writings. Sapiro was a compelling orator and a tireless organizer rather than an academic. We are pleased to reprint this article, published seventy years ago in a popular national magazine, in which Sapiro states his case.*

## True Farmer Coöperation

The California Plan of Cooperative Marketing. How It Differs from the Rochdale Plan. "Locality" vs. "Commodity."  
Organization and Financing

**Aaron Sapiro**

The factory system is recognized as the key to all forms of productive industries to-day all over the world—except in agriculture. Now, where there is the factory system or group production there is group capital. Where there is group capital there must be a corporation formed. That is why every state in the Union established laws whereby group marketing and production could be carried on, giving us the artificial thing called a corporation for carrying on that activity. But they forgot the farmer. The farmer is the only part of modern industry (besides art) in which you have individual production. The ideal of every man is a country dotted with farm units in which one man operates the farm and produces through his own labor or through the assistance of hired men. And they think that because the farmer produces individually, marketing is an individual problem.

But marketing is not individual at all. It is a group problem. You cannot market without a distinct consideration of what all the other producers are doing at the same time. You cannot market without knowing what the market absorption is, or what the market demand is, what the money markets are, and the other elements of trade. Production can be done individually. Marketing can be done sanely only on a collective basis and through organized effort. The cooperative structure represents that organized effort. The farmer must have some way in which he can take the crops from individual production through the group problem such as financing and marketing. This way is cooperation, with experts handling these technical group problems.

*There are two types of cooperative organizations to-day in the world that are worth real attention. One is the so-called cooperative marketing movement, which is a producers' movement. The other is a cooperative buying movement, which is a consumers' movement.*

The consumers' movement developed first to a high point in England, and is known there as the Rochdale movement. The Rochdale movement in its ultimate development is very large. They have more than 1,200 stores in England. The basic factor there is that England is not a producer of raw material. Their problem is a manufacturing and consuming problem. They develop from the consumer's standpoint. Stores were a necessity. They needed capital. Each person was a purchaser. They had to have patronage, dividends. It was a normal and right development for a consumers' movement. Then it began to go into manufacturing. This society has developed; and instead of buying, it tries to manufacture. To-day it is the largest employer of labor in England. There are 42,000 people employed in its mills and factories. They have established steamship lines, coal mines, and dairy farms. *But that is cooperation developed from a consumer's standpoint.* That is why you have to have capital to start with and give the so-called patronage dividend to the people who buy from you.

We are an English-speaking nation and few of us understand Danish. Therefore, it is only of late years that the Scandinavian groups have made known their contributions. When the American farmers heard of cooperation in England, they started to organize on those lines. They built cooperative elevators and started cooperative fertilizer buying. They thought that the right method of cooperation was to imitate the movement of the consumers' cooperatives. Take the Rochdale system, a consumers' system; apply it to farms and marketing problems, and what is the result?

In the whole Mississippi Valley there are 4,000 alleged cooperative grain elevators. The elevator is organized with capital stock. It takes in as members farmers primarily and limits the dividends to 8 per cent. Then it proceeds to buy grain from the different growers, either members or non-members. It might buy grain from Mr. No. 1, at \$1.40 a bushel. It might buy the next man's grain at \$1.60, and the next one at \$1.80. The elevator is not in business to lose money; it must make something out of its purchases. And the manager says, "No. 1 must come in and sell his wheat to me." As manager of the association, he doesn't tell him he thinks it is not wise for him to sell his wheat—because he must make money for the cooperative elevator. He lets him sell at \$1.40; so that he can make a profit and not a loss. When the second man comes in and wants to sell his wheat at \$1.60, the manager doesn't advise him either. Yet he is the paid servant of both of them. When the next man comes in, he will buy at \$1.80 from him, expecting to make a profit. He is speculating on all three. He is doing the same as any speculator on the Chicago Board of Trade, except that he is owned by the farmers, and the speculators in the Chicago Board of Trade are owned by the city people.

At the end of the year what happens? He will say, "I have made a lot of profit. Because No. 1 didn't guess right, and No. 2 didn't guess right, I have won something. There is a patronage dividend of 5 cents a bushel as No. 1 gets \$1.45 for his year's experience; No. 2 gets \$1.65 for his year's

experience, and No. 3 gets \$1.85. Two made money on one; one made money on two; and the association, which was supposed to be cooperative, has made money on the farmers instead of making money for the farmers."

That is the whole course of procedure of these so-called Rochdale stores and elevators throughout the Mississippi Valley. Each one stands as a separate unit and sells against the other elevator. As soon as they think the market is going to be high, they dump their wheat in and the market is swamped. As soon as they think the market is going down, they hold off until the banker puts pressure on them. It is not good merchandising; it is not cooperation. They are building the system from the wrong standpoint. That is why every time a crisis appears these men hold indignation meetings, urging everybody to punish the firms who dare to break.

The trouble is not with these men. They started to follow a consumer model instead of a model that would be developed naturally in a country that produced. That is fundamental. I have devoted some time to it because I want to show that it has been one of the most egregious blunders committed in agricultural America. The worst of it is that the men who were supposed to lead—the university men as well—did not detect the difference. They are simply local speculators with a profit-sharing plan.

In California, on the other hand, the cooperatives have stabilized industries. That is why in California, if the producers do have a hard year, the Non-partisan League cannot make them listen to its tenets.

The California farmers have found a way of salvation for themselves even in a bad year. Go elsewhere in the United States and you will find the League or some similar body thriving, because it feeds on discontent. It offers to the farmer a political remedy. It has been proved in California that the farmers can solve their own problems by purely economic means. They need not depend on politics or radicals; they just retain a solid businesslike arrangement.

This is almost universal in California. Practically all the dominant industries are organized, except where it is impossible to organize them because of Japanese control. Some industries, unfortunately, are under an adverse element which will not mix. The Japanese believe in a feudal system. It is surprising to know that in the San Joaquin delta, where they raise an enormous quantity of potatoes, sometimes half of the potatoes raised are controlled by one man, a Japanese. So we cannot organize potatoes very well except on a small white scale. But wherever the white man is, organization has been effected. And where organization has been effected in California, it has been effected on a huge scale. We have 97 per cent of all the berry growers in central California in one association; 86 per cent of the almond growers in one association; 92 per cent of the raisin growers; 83 per cent of the apricot growers; 80 per cent of the prune growers; over 75 per cent of the walnut growers; over 80 per cent of the peach growers; 75 per cent of the lima bean growers; over 50 per cent of the pear growers; about 50 per cent of the grape growers; and so on. The California cooperatives are now handling products in excess of \$250,000,000 a year.

We have even organized the egg industry—the most difficult industry of all to organize. Eggs come not only from America—the biggest producing state, of course, is Missouri—less than 5 per cent of the eggs in the country

are raised in California)—they come from China and from Australia, eggs of all kinds. We get Chinese eggs, buried in clay for six months so as to keep from spring to fall, then sold in the California market mixed up with the middle-western storage eggs. If you want to get eggs with a particularly Chinese flavor, get those eggs that have been buried for six months!

We have to compete with eggs from all over the world. Yet we have a poultry producers' association, that handled last year twenty million dozen eggs. Every storage egg is candled and graded and the proceeds pooled.

They have, under contract, 2,300,000 hens—the hens are not under contract to lay; but the owners are under contract to deliver. This year the association will handle over 23,000,000 dozen eggs.

So you can organize, no matter how difficult it seems at the start. The California idea has been adopted by numerous states. It has been adopted bodily by Canada. The Canadians are now studying their wheat industry, 300,000,000 bushels, for a five-year plan. They are checking up the plan of the Washington Wheat Growers' Association. The cotton men are organized in twelve states on that basis. The tobacco men of Virginia and the Carolinas, Kentucky and all other states have already organized on the California plan.

The movement is distinctly Californian—but from California it has spread and become nationalized.

The financing plan of the Burley Tobacco Growers, experts say, is the most sound and economic plan ever evolved for growers of tobacco. There are all kinds of industries; there are all kinds of problems in each. These things are so different, that one wonders if there are any really fundamental principles that you can apply to tobacco, as well as to strawberries and beans. There are.

The important point in practically every cooperative association in California lies in the fact that it is based on the commodity idea instead of the locality idea. That means that it was built up with regard to the commodity that is to be sold instead of the locality where it is raised. On the other hand, all the Middle Western cooperatives are built around one place.

No one cares where wheat is produced. You don't buy geography; you buy the product. If you raise something, you think of the locality. If you buy something, you think of the commodity. That is the first and dominant point in the California idea.

We have had some failures. We had to go through a lot of experiments to find that out. The orange growers organized locally, fighting each other, each trying to get into the same market. They could not understand their lack of progress. They suddenly realized that they were organized from the wrong viewpoint. They had organized from the viewpoint of production instead of marketing. They started in to reconstruct and to-day our orange growers' association is composed of 228 locals, federated into twenty districts, with the districts federated into one central exchange.

Of course, all products have different problems. The problem of perishable products is routing. The problem of the non-perishable products is storage and financing, so that you can have sane and orderly marketing throughout the year. The routing of the California Fruit Growers' Association is done through one office that routes practically every car of oranges shipped cooperatively from the West.

It took many years to learn that. We were so stupid that our other associations didn't even learn from the experiences of the orange growers. The prune growers had to bump themselves before they recognized that. The prune growers were organized locally. At Santa Clara when they started the organization the buyers came and said: "You shouldn't go in with the Napa men. They want you because everybody knows that the Santa Clara prunes are the most desirable. The Napa district wants to come in with Santa Clara because of its prestige."

Then they went to the Napa growers and said: "You don't want to go in with the Santa Clara men, because you have larger prunes." They convinced them that Santa Clara wanted to get the benefit of the larger sizes.

## **Cause and Effect**

They organized the two separately—and they broke each one separately. The growers in central California have still a monument of over a half million dollars in a big packing plant—they lost it in one year because they organized locally. You pass it every time you go from San Francisco to the present headquarters of the prune industry. It was the best thing that ever happened to the growers for it prodded them into the commodity plan. They analyzed their failure and saw that the fault was that they were organized from a locality standpoint instead of from the standpoint of the commodity.

In California we had organization after organization breaking on the locality plan and then suddenly discovering the commodity plan. But we never realized it until 1920. That was the first time anybody ever really articulated the difference between the California plan and the other plans. That opened our eyes. We said: "How easy. That is the difference—organize from a commodity standpoint and not from a locality standpoint."

The commodity idea must be handled within practical limits. But the commodity idea is the first thing to bear in mind when you are thinking of successful cooperative associations.

Another universal rule is that a cooperative commodity association must be composed of farmers only. Not a single outsider should be allowed to join. A man may be a banker and a farmer, but he must qualify as a farmer. He should not be allowed to join just as a banker. The same rule applies to the merchant. He must actually have something to sell through that association. There must be a community of interest between him and every other fellow in that association.

Furthermore, the association must be organized for business purposes only. That is fundamental. There must be no politics in it—nothing but straight business from the ground up. We don't permit discussions on subjects that have nothing to do with our commercial problem. That is sometimes a very hard thing for the so-called professional farm leaders to swallow. The only kind of an association they are used to is a farmers' debating society. The cooperative associations are composed wholly of business interests and are organized exactly like a bank.

The first thing we think of when we organize an association is "How permanent can we make it?" We don't organize a so-called "fly-by-night"

interest on a one-year basis in California. After an organization has been going for years, like the Orange Growers' Association, it can make a contract for one year. Its trade is established, the outsider is weak. It can easily go on with a withdrawal privilege. But when it is first organized it must organize for a long period, anywhere from five to fifteen years. The new raisin contracts are for fifteen years; the peach contract is eight years; the prune contract is seven years. In Denmark they sign for as long a period as fifteen years. The average contract is a five-year one. That gives the association a chance for mobilization on a permanent basis; it gives the association a chance to work out a merchandising policy; it gives the association a chance to make trade connections and to develop personnel.

Take the question of advertising. No one supposes that advertising for one year gives us any real result. What would have happened if the prune growers had organized on a one-year basis? Whither would they have reached? To get the real results of advertising there must be a cumulative effect. There must be a long-term contract for real merchandising.

It is possible to merchandise on long contracts. Let us take prunes, for example. They have raised the consumption of prunes in the United States in a period of three years from 47,000,000 pounds to 112,000,000 pounds. The consumption of oranges in the United States was increased 300 per cent in a period of less than seven years by the advertising of the California Fruit Growers' Exchange. A number of these associations operated with brilliant success after the alleged business-on-commission-men had been doing what they thought was advertising to get increased consumption and had reported that the markets would take no more and that overproduction was the problem.

It is not possible to do these things on a short-time basis. You hear some objections to that. The growers may say they wouldn't think of signing for five years. You may hear the same story that went through California some years ago.

When we started the prune campaign, that was the "Last of the Mohicans" as far as the speculators of California were concerned. Prunes were proving profitable for speculators. All the other dried fruits were organized. They put on a real fight to prevent the organization of the growers. They sent buyers into district after district, trying to convince the farmers that they should not sign. The buyers would sit down and talk to the individual farmer and would say: "Yes, it's a mighty good contract, a fine idea for the growers. We believe in cooperation. If it were only for one year instead of five, I would advise you to sign it. But how do you fellows know that those other fellows aren't crooked? For five years you will have to tie yourself up to the same fellows and you don't know who they are."

One wise farmer gave an answer—it went all over the state: "I have two choices before me, either to sign with these growers who are just like me, and have the same interest—they are taking as much chance with me as I am taking with them—or I have to sign up with you for life, only you haven't told me where to sign on the dotted line and what you'll make me take for my prunes."

"I have had enough of you, I am going to take a chance for five years with the other fellows."

That went all over the state. They began to realize that it was a question of tying themselves up with an association for a fixed period or tying up with the speculator for life.

And we go still further: we organize not only from a permanent standpoint, but just as one would organize a bank. To start a bank the capital needed would depend on the field in which it was to operate. That is sound banking. If a banker trying to locate in New York had to open a bank with \$25,000 capital most people would say: "Poor man, he is so limited in his field of activity he can't do anything." Wherever a bank is to be located there is a proper minimum, a proper capital, a proper figure at which it can do business.

### **How the Minimum Is Set**

The farmers' business in California is as important as a bank. When a cooperative association is started a minimum is fixed at once for our cooperative contracts. With raisins the minimum was 75 per cent. That was based cold-bloodedly on the idea that there would be an overproduction. With that minimum there was enough tied up so that if there was an overproduction and they couldn't increase consumption in a few years, nevertheless they could carry over some and compel the buyers to come for some raisins.

With other products there are different minimums. With eggs all the contracts were conditioned on signing up the owners of 1,000,000 hens. To-day we have 2,300,000. With prunes the minimum was 75 per cent; with pears, 50 per cent. No contract is effective until that minimum is reached. With this arrangement the cooperatives start as solidly as a bank. It is a business proposition.

Then those growers are tied to each other under as tight a contract as can be drawn. We have been criticized for that type of contract. Men refer to it very scathingly, calling it all kinds of names. We see to it that if any man signs a contract he is going to deliver the product. We have taken the contract into court time after time, and not only got liquidated damages, but likewise got injunctions to prevent delivery to other people. We get decrees for specific performance on this contract. We get equitable relief all the way down the line. In short, we make the contracts the strongest link, not the weakest. We use strong clauses in just the same way as if a bank were being organized, the subscription agreements for capital would be drawn up making it the strictest contract possible. We always realize that the speculators are interested in preventing our success; sometimes they keep fighting until we wipe them out. The speculator gets some growers. The temptation is strong. We have welchers occasionally; then we need strength in the contract. An honest man doesn't really need contracts. The man who is not honest had better not sign. If he does sign, we will get his product. We organize from a purely business standpoint and have strong contracts—a fixed minimum and the idea of permanency; all on a non-profit and cooperative method.

The association without capital stock is ideal for the marketing association. If a building, a warehouse, or packing plant is needed, no matter how

cheap or expensive, we organize a subsidiary organization. Conservatism is a primary necessity. Monopolies are forbidden under the Sherman Anti-Trust Act. The Clayton Amendment, however, exempts agricultural and horticultural associations not organized for profit and not having capital stock. This is extremely technical. The Sherman Act involves law. Every part must be strictly construed. In organizing, it is wise to keep as closely as possible to the text of the law.

The marketing association is organized without capital stock. The only association that buys or sells has no capital stock. Not a single penny's worth of stuff is handled for an outsider. It is purely cooperative. There is no speculation. If we have a monopoly it is a monopoly solely and literally through cooperation. We get the benefit of this exemption. Now the Capper-Volstead Act gives a similar exemption to all kinds of cooperatives; but we shall prefer no capital stock in cooperatives.

As a matter of fact, a cooperative marketing association doesn't need capital. It isn't buying anything for cash or a fixed price. It is organized to sell something. Keep distinct the difference between the Rochdale Consumers' Stores and the Farmers' Marketing Association. The marketing association needs something to market. Therefore, its basis is the marketing contract with a minimum. The Rochdale Consumers' Store wants something first to buy, which then it sells. It needs capital and needs dividends. There is the big distinction.

So, then, a cooperative marketing association should be absolutely non-profit producing. The association makes agreements directly with the growers. They are either agency arrangements or sale and resale arrangements. The association grades the product; pools by grades; sells the products; deducts the cost of doing business; then the balance goes to the growers proportionately.

There are two types of contracts under which the cooperative association works. One type is the agency contract. If it is dealing with fresh fruits or vegetables—things on which there is a routing problem to get them to the market where they are best able to be absorbed—if there is no necessity to store anything or finance anything—it would work with an agency contract. The association is the producer's agent. Agency contracts are the easiest things to draw, and are perfectly simple things, so simple that one of our past governmental departments put them out as ideal contracts for cooperative marketing associations. Apparently that particular department had never heard of the sale and resale type of contract, which is the type universally used by associations that deal in non-perishable products.

Where there is a non-perishable product it must be financed. Where it is financed the association must get title to the property or it cannot give any adequate collateral; it cannot endorse a warehouse receipt; it cannot handle the product as collateral. Therefore more than eleven years ago we evolved the so-called sale and resale contract; in which the grower sells his product and gives title to the association. The association agrees to pay him his proportionate share of the resale proceeds, less the cost of doing business.

The key to the Californian cooperative is the pool. The prune growers give a good example of the pooling idea.

Prunes are, first of all, fruits of different types or varieties. There is the Italian brand, which is sometimes known as the Oregon brand. There is the French brand, the Petite, and the Imperial brand. Prunes are also sold by size, so many to the pound—20–30, 30–40, 40–50, 50–60, 60–70, 70–80, 80–90, 90–100, 100–120, and 120 up. Then, in addition, prunes are sold by quality. If it is a fine purple prune, which has not been dried out too much, and which is not too soft, that is the highest grade, "The Sunsweet." If it is dried too much, or a little too soft or cracked or bronzed, it is not the highest grade, but goes in another pool. If it is badly bronzed, or cracked, or dried, or entirely too damp and is likely to spoil quick and become mildewed, it goes into the third class. We make various pools of the poorer grades of prunes by sample.

### **Where a Crop Goes**

So every man delivering prunes may deliver into ten different-sized classes and at the same time deliver two different varieties and two or three different grades. He may have prunes in forty different pools in a single crop. Then that same association handles apricots, and he may have apricots in perhaps twenty pools. His fruit may be in sixty pools in the association at any one time. When he delivers his fruit he gets a grade receipt telling him how many prunes he has sent in, the size, and the quality. That is all. He doesn't own those prunes any more; the title passes to the association.

The association mingles that man's prunes together with prunes of the same grade, type, and variety from every other grower in a common pool. The pool is sold and the grower has an interest in the entire proceeds exactly proportionate to the percentage of the pool which he put in. If he puts in 1 per cent of the prunes in the 20–30 Sunsweet or first grade he gets 1 per cent of the net sale proceeds. Thus, every man in the association gets the same as every other man for the same type, grade, quantity, and quality of product. It is absolute cooperation.

In the process, of course, the first problem is the problem of grading. We have had said to us that every man's prunes are different from every other man's prunes. That is absolutely true, in a sense. But we realized that even though there were differences, there were some methods of grading, for often penalties were imposed and often premiums paid. There are always bases for commercial classification.

So, from the standpoint of grading, the problem is not so difficult as we are told. There is no reason, why the cooperatives should not employ the very same men the buyers employ, using the best talent available determining the value of their products.

The California farmer pays his farm hired man sometimes \$4 a day, to help with production. Then he has a \$20,000-a-year man who sits in Fresno and is hired to sell the fruit for him. The farmers know that their sales will be handled successfully, because they know they have an expert in a position where specialized knowledge is the first requirement.

We have unquestionably the finest experts in their lines in our industries. There are no better men in the United States than the men in the California fruit associations. They are paid well, for one can't ask for a fair price for

raisins and deny a fair compensation for brains. There is competition for brains as well as for products. The cooperatives employ bankers for financing problems, and railroad men for transportation, and they get experts. Our farmers do the thing they are best fitted for. Our experts do the other things that the farmers are not fitted for. There is a very good economic reason why the farmer is not fitted to sell his own products.

The next universal question is: "When you get the experts on the job, what do they do? Do they work miracles of merchandising?"

Cooperative marketing simply permits you to merchandise your products. Merchandising your products means to follow the theoretical rule of supply and demand. But the term "supply and demand" is not used in the style in which old-style economists used it—as weird machinery which in some way skillfully strips the producer and carries home riches for the middleman. The term "supply and demand" is a flexible term. There are movable factors in those words. Take the term "supply,"—it includes the terms of "where and when," "time and place." There are two movable factors in the word "supply." The cooperative association always tries to find the movable factors.

In the case of eggs, the time factor is storage. About two thirds of the supply is produced in three and a half months of the year. In the other eight and a half months the other one third is produced. We know from experience in all parts of the country, that there is a flush and famine period in production. What is the merchandising problem there? The merchandising problem is time and place again. In spring eggs are stored. The association stored 2,000,000 dozen eggs last year from the flush period for use in the October-to-December period. We did more than that. We found a process by which we could take perfectly fresh eggs and by machinery dip them in oil at a temperature of 240 degrees. By moving the eggs through that oil for five seconds, it boils that little filament underneath the shell and makes it impervious to air. We then have a processed egg which may be put in ordinary storage for a year or two years; and the egg can be poached at the end of that period, and no one can tell by taste or smell or in any other way that it is not an absolutely fresh egg. It cannot be made fresher than it started out; but it can be kept fresh.

Last year it processed about 25,000 cases of thirty dozen to the case. We sold them as California processed eggs. We made a fine premium on those eggs. That is taking care of the problem of time and place. We are not missing any legitimate methods, by which we can get for our growers any merchandising advantage of eggs. At the same time the public is going to get marvelous advantage through processed eggs, when those eggs become better known, because, instead of paying very high prices for perfectly fresh eggs in fall and winter, they can use processed eggs. The association puts out high-grade fancies for the people who want them; but it believes the people may prefer the processed eggs and get all the benefit they can from the better merchandising methods.

Every association experiments. They have experimented on the prune package—two-pound cartons, five-pound boxes—so that they won't sugar, won't mold, won't spoil with the heat—so that the people won't have to buy them out of dirty boxes that are put on the floor at the groceries.

They experimented with the package, with every phase of production. They tried to get people to eat more prunes. Men are sent to China. They came back and told the associations that the people over there who could afford to buy prunes were very limited in number, but there were enough in a big country like China to justify opening a market. They said that it would be necessary to give away samples because the Chinese did not know what California prunes are. Acting on this suggestion small samples were projected—two or three prunes in a little box. A Chinese expert was asked to pass on it. He was shown the kind of boxes that were to be used, and the labels on them. The label had a purple prune. He threw up his hands in horror. "You can't give away those."

"Why?"

"Purple is the sign of old age and death; you couldn't give those away; they wouldn't touch them."

So when the prune associations start to develop the Chinese market they will not use purple on their boxes. But they are going to develop that market; they are going to develop the Japanese market. They will give away samples. They will have to get out posters and put them on poles. They are going to try to make arrangements for plastering them on jinrickshas. They stay right on the job as to merchandising methods. The problem of financing the growers must be faced at the start.

## **How Advance Payments Are Made**

Cooperatives couldn't exist unless they could find some method for making advance payments—payments on account when they get the product. They have gone through that process time after time in California. Different methods are used. In some cases the association gets direct credit on the basis of its stored products.

In 1919 the prune growers had a written arrangement with a group of bankers; they considered the problem locally with the local bankers and then they invited their city correspondents and they got New York bankers into the pool. They formed a great pool under which, by written agreement, they could borrow up to \$10,000,000 at 4¾ per cent for their needs during the year. They didn't even have to give up the warehouse receipts. They gave a statement of the quantities of fruit coming into the warehouses. They got all the funds needed for the advance payment and paid the growers from 4 to 8 cents, depending on the size and quality. That 4 to 8 cents advance payment paid them was a good deal more than the average that they used to receive for the entire crop for a period of over six years, and almost twice as much as they received for the average of the entire crop for a period of over twelve years. Then, in addition to that, they got the balance of the payments, the average bringing them up to more than 11 cents a pound for the entire year. They got that balance from time to time—1 cent in October, 1 cent in December and so on—until the prunes of the season were sold. That is one system.

Another system was evolved by one of the wheat associations in 1921. They arranged with some local bankers what the fair loan value on the crop would be. They were business men. They were not speculators. They

did not go to the bankers and say: "Give us 90 or 80 per cent." They went in and fixed the amount and the banks said: "You men are certainly sound." They arranged for an amount of from \$1 to \$1.25 a bushel for wheat, depending on the grade.

Here was the process: The grower delivered his wheat to any public warehouse or any public elevator. If he delivered it at an elevator he got a so-called grain or wheat ticket showing that he had delivered there say 10,000 bushels of No. 1. If he delivered it to the public warehouse he got a warehouse receipt.

He took the receipt over to the association manager or mailed it in. That was delivery of his crop. The association mailed a regular form (that would be a three- or a six-months' draft, because those drafts are agricultural paper) for \$12,500 to be signed by the grower, and, of course, it was sent to him signed already by the association. If the grower needed money or wanted money—I think the growers always wanted money—he took the draft to the approving local bank. With the draft went a list of bankers that approved the plan. (We insist on the growers dealing with the local banks wherever the local banks will deal with us. The local bank discounts the draft at the current rate—6 or 6½ or 7 per cent.) If the draft was a three-months' draft, as most of them were, the bank deducted its three months at 6 or 6½ or 7 per cent and handed him \$12,500 less the discount. The bank then had that draft—which was an inland trade bill, technically signed by the grower and accepted by the association. At the end of the day we sent over to the bank, which notified us that it had the draft, the warehouse receipt covering that transaction. (Or the association may give the draft to the grower with the warehouse receipt attached.) So the bank had that draft signed by the grower and the association, with the warehouse receipt attached.

The grower's name is worth something because in most cases he is known personally to the banker. And if not, the bank knows there is something behind that, something of value. If the moral value and the grower's signature are not worth anything, the bank knows the association has not only that man but a great many growers signed up for a period of four more years and the bank knows that that is worth something. The banker says he doesn't care primarily about either. What he cares about is the wheat. He favored a steadied market value and a conservative basis, not at a high basis in a choppy market—because anybody with sense knew that 1920 markets on wheat were not conservative or stable markets, but choppy markets. Here the association and the banks agreed.

The bank has on hand a paper that is rediscountable by the Federal Reserve Bank by direct written ruling from the Federal Reserve Board. If he is a member of the Federal Reserve system, he discounts direct with the Spokane branch and gets the money. If not, he keeps the paper or sells it to his city correspondent. The city correspondent may sell it again, or may discount that paper.

In financing these cooperative associations, no new banking channels have been created, no banking methods changed, but existing systems have been found adequate to meet every financial emergency experienced by the growers.

As the responsible guides of the commercial life of America, the bankers should study critically the cooperative movement in America and adapt the proved principles of successful cooperation to the commodities which they finance. If they want to keep the farmer producing, and to enable him to adopt a decent standard of living and to avoid tenancy, there is only one proved means to accomplish this end.

But the solving of the financial problems for the growers of our great crops is not the primary accomplishment of cooperative marketing.

Our agricultural citizenship has frequently been assailed because of its disregard for the culture and erudition which characterized metropolitan citizenship.

What spirituality and what unwavering vision must a man possess who clings to some hope of social or commercial opportunities for a family he has not sufficient income to provide with the bare necessities of life!

What chance is there for cultural development in a disorganized and undirected population?

In sections of the country where this new system of orderly distribution of agricultural products has been introduced the enduring farmer is transformed into a man of accomplished efforts; through better roads, leading to more centralized educational units, through better rural schools with teachers sustained by a suitable recompense, and through an added number of churches injecting higher aims and a sense of social responsibility.

Money accumulated in a banking institution for the sole purpose of the interest accruing is an infirmity; but an increasing bank account helping to realize higher dreams is a moral asset.

The justification of cooperative marketing is that it has been the means of a more progressive form of living and a superior type of citizenship, as well as an economic remedy.

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## **Aaron Sapiro's Theory of Cooperatives: A Contemporary Assessment**

*Roger G. Ginder*

When Aaron Sapiro wrote his article "True Farmer Cooperation" in 1923, the popularity and acceptance of his plan for cooperatives was nearing its peak. In this article Sapiro divided the cooperative world into two distinct

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