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The History of the Indiana Farm Bureau Cooperative Association

Dudley Diggs Davis
Butler University

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THE HISTORY OF THE INDIANA FARM BUREAU COOPERATIVE ASSOCIATION

by

DUDLEY DIGGS DAVIS

A thesis submitted in partial fulfillment of the requirements for the degree of Master of Science College of Business Administration.

Division of Graduate Instruction
Butler University
Indianapolis
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PREFACE

Social unrest among farmers has been a conspicuous feature of the history of the United States since the Civil War. In 1873 the Grange made a meteoric rise to prominence. A little later farmers shook the country with a demand for the free coinage of silver. With the Populist party, the Nonpartisan League, the Progressive movement, the Farm Bureau, the Farmers' Union, the farm bloc in Congress, and the agitation for farm relief, farmers have voiced dissatisfaction with their relative economic position.

At various times farmers have advanced many different schemes designed to improve their condition. Some of these appear rather novel in retrospect. Most of them were never tried, and most of those that were tried, failed. A frequently recurring theme has been the effort to gain more control over the marketing of the products which the farmer buys and sells. This has sometimes taken the form of a plan of governmental control; sometimes it has been a plan of co-operative farmer ownership or control.

Most of the schemes of the latter type have been short-lived; but some of more recent date, which have been influenced by the European type of co-operative, have proved to be enduring. It is a strange fact that American agricultural developments have been greatly influenced by a movement which started and developed in the industrial working class in England. American farmers with their co-operative organizations have freely imitated the organizational structure and even the ideology of the English Rochdale co-operative movement.

Today many Americans are advocating the co-operative movement as a means of achieving fundamental economic and social reforms. Co-operative
supporters believe that they have a solution to the problem of poverty and social insecurity which avoids the pitfalls of other movements. The co-operative movement has the virtue of being democratic, peaceful, and evolutionary; and it has attracted to its support many whose sincerity, honesty, and devotion to essential American ideas can hardly be doubted. In 1936 the President of the United States appointed a commission to investigate and to make a report on co-operative enterprises in Europe, and Congress has shown a friendly attitude toward agricultural co-operatives in a number of legislative measures designed to protect and aid them.

The subject of this study is probably the largest and most successful farmers' co-operative in Indiana. It was started twenty years ago and it has grown with remarkable rapidity and regularity. Today it has a volume of business of several million dollars a year; about one third of the farmers in the state are members and stockholders of the association. Its organizational structure and operating policies have been so successful that it has been a model for the organization of farmers' co-operatives in other states. These facts would seem to justify the writing of a thesis on a co-operative subject and the selection of the Indiana Farm Bureau Co-operative Association for detailed study.

Such a study should throw light on a number of questions of social import: Can a co-operative be a success, from a purely business point of view? What is the effect of a co-operative organization on capitalist business? What effect, if any, will a co-operative have on prices? Are co-operatives subject to mushroom development and doomed to a short life? What are the factors which lie behind the organization of a co-operative? Do co-operatives serve their members and patrons better than capitalist
businesses? What are the social effects of co-operative associations? This thesis answers these questions insofar as the history of one great co-operative organization brings evidence to bear on the problems involved.

Chapter one is an outline of the development and history of the modern co-operative movement in England and on the Continent, an exposition of the principles of the movement, and a brief statement of early developments in the United States. Chapter two is a history of the farm bureau movement, which at first was intimately related to the county agricultural agents and had little to do with co-operation, but which later became the fountain-head of the co-operative movement in the Middle West. Chapter three describes the organization of the Indiana Farm Bureau Cooperative Association in 1920, its development, and the many changes in its organization and method of conducting business up to 1926. Chapter four is an account of the reorganization of the association following the pattern of the Rochdale co-operatives, and a description of the organization and its operations to 1940. Chapter five is a summary, and a statement of the writer's conclusions.

In the preparation of this thesis, material has been drawn from many sources. Primary reliance has been placed on the minutes of the meetings of the board of directors, the executive committee of the board, and of the stockholders of the Cooperative Association. Unfortunately this material has been lost for the period before March, 1922. From that date to the end of 1925 the minutes are fairly complete; during 1926 and the early part of 1927 they are scattered. Since 1927 all minutes are available in complete form. Equally important as source material has been the
Hoosier Farmer, which has been published continuously by the Indiana Farm Bureau since 1919. The early issues, particularly, contain a great deal of factual information. Each year (except in 1922 and 1923) the Cooperative Association has had its books audited by a firm of accountants. These reports have been drawn on whenever possible for all bookkeeping data given in this thesis.

However, after everything possible had been secured from the written sources, there remained many unanswered questions. Information was then secured from personal interviews. The author of this thesis has reason to be extremely grateful because of the friendly way in which he has been received by the officers and employees of the Cooperative Association. Most of all, thanks are due to Mr. Everett Jeanes, secretary of the association. Mr. Jeanes' thorough acquaintance with the affairs of the association almost from the beginning of its history, his complete honesty, and his ever-patient willingness to answer questions made his assistance almost invaluable. Others cannot be mentioned by name, for a long list would result, but the assistance of officers in formal interviews and of employees in casual conversations is hereby gratefully acknowledged.
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The co-operative movement has an old and honorable lineage which extends far back into English history. Robert Owen was one of the first great prophets of the movement. Owen, with many other Englishmen of his time, was distressed by the fact that the industrial revolution was making England rich but was not improving the condition of the poor.\(^1\) After proving in his own great mill at New Lanark that higher wages and better conditions for workers were compatible with business success, Owen hoped to persuade the members of his own class, the factory owners, to adopt his plan. When they refused, and the government demonstrated its lack of interest in reform, he turned to the workers with plans for them to accomplish their own salvation. Perceiving that the fundamental cause of their low status was the fact that they were men without property, he planned to improve their condition by making them owners of property. Since individual ownership of the new tools of production by the poor was manifestly impossible, he suggested joint ownership. Owen and his followers established numerous mills, factories, farms, and stores, owned and operated collectively by common workers. One of the most celebrated of these experiments was in the new world, at New Harmony in Indiana. All of them met the same fate; they failed because they did not eliminate the conflict of interest of individuals; they were not organized in such a way that each individual wholly identified his individual interest with

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the interest of the group.

Although the "Owenite" experiments failed, the work of the great leader was not in vain. While he still lived, an obscure group of weavers in the town of Rochdale began meeting for study and discussion of a successful means whereby poor men might become owners of productive property. In 1843 these weavers went on strike in a desperate but vain attempt to better their lot. After the strike was defeated, twenty-eight of their number began meeting to discuss their common problems. Their thoughts naturally turned in the direction suggested by Robert Owen. They were serious, these twenty-eight weavers; they desired to build well even if slowly. A year they spent, saving their money, and even more important, discussing, thinking, and planning together. At the end of that time they had $140 and a plan—with these they built the world's first successful co-operative.

In the constitution of the Equitable Society of Rochdale Pioneers there were few principles which were entirely new, but there was a new combination of principles which had been parts of other ventures. The Pioneers established a little store in a basement on Toad Lane on December 21, 1844. At first its stock consisted of just five articles: sugar, oatmeal, flour, butter, and candles. The store was open only during the evening, two days a week; unpaid volunteers did all the work. The first year the Pioneers transacted a business of $3,500, increased their membership to seventy-four, and their capital to $900. The society expanded its stock, hired a manager, added a reading room, a library, and recreational facilities. In 1850 it purchased a mill to supply flour to itself and the other societies which sprang up around it. At the time of their Golden Jubilee
in 1894, the Pioneers had 12,000 members and a business of $1,500,000 a
year.

What was the formula which made possible such success—after so
many similar ventures had failed? The principles or guiding policies of
the co-operative movement, first combined by the Rochdale Pioneers, are
at least eleven in number. The first three are the most important; they
set off sharply the co-operative from the capitalist way of conducting
business.

1. Democratic control—one man, one vote. This means that each member
has a voice, and an equal voice, in the affairs of the association. The
vote of the member with one share counts the same as the vote of the mem-
ber with one hundred shares. Members vote as persons, not as stockholders.

2. Limited return on share capital. Unlike some of the previous co-
operative ventures, the Rochdale Pioneers issued stock as evidence of
individual ownership of the society's capital and paid interest for the
use of the capital. But they limited the payment for capital to no more
than the usual rate of interest on money—in their case, five per cent.

3. Payment of patronage dividends. After paying all expenses, setting
aside reserves, and paying for the use of capital, the Pioneers refunded
to themselves all remaining profits in proportion to their purchases.

4. Open membership. Partners in a capitalist business, paying their
profits to stockholders, try to limit their number as much as possible
so each will get a larger share. Partners in a co-operative business,

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For this material I have drawn on Ellis Cowling, Co-operatives
in America (New York: Coward-McCann, Incorporated, 1938), and Harry W.
Laidler, A. History of Socialist Thought (New York: Thomas Y. Crowell
Company, 1927).
dividing their earnings among themselves according to patronage, strive to increase their number, for the more partners there are, the greater the volume, the greater the profits, and the more each will receive.

5. Membership through patronage. Nonmembers may become members and stockholders, if they wish, merely by patronizing the society. The nonmember's share of all patronage dividends accumulates until it pays for a share of stock.

6. Sales at current market prices. This policy the Pioneers adopted to avoid arousing the opposition of private merchants or starting a price war. It enabled the society to meet unexpected expenses in a normal way.

7. Sales for cash only. This principle is based on the belief that the co-operator who takes goods from the shelf of his store without providing for their replacement is unfair to the other members.

8. Political and religious neutrality. The co-operative which takes sides on political or religious questions thereby limits its growth and service.

9. Fair treatment of labor. Co-operatives have won many friends by their fair treatment of labor. In some European countries the co-operatives and the labor unions are closely associated.

10. Education. Nearly all successful societies set aside part of their earnings each year for education of members and nonmembers in the theory and principles of co-operation.

11. Adequate reserves. The Pioneers adopted at the beginning the policy of setting aside adequate reserves for depreciation, expansion, and unforeseen difficulties. They restricted themselves to small patronage dividends in order to make their society strong.

Based on these proved principles, co-operative societies soon sprang up all over England. Since the weavers of Rochdale showed the way
nearly a hundred years ago, hardly a year has passed which has not seen
the addition of another association. In 1863 local co-operatives in
England formed the Co-operative Wholesale Society. This organization has
grown until today it is the largest food-distributing business in the
world. It has gone into manufacturing; now makes its own boots, shoes,
soap, flour, textiles, canned goods, furniture, and aluminumware; in all,
it owns 150 manufacturing enterprises. In 1935 the British co-operative
bank had assets of $500,000,000 and the Co-operative Insurance Society
had more than 5,000,000 policies in effect.

Toward the end of the nineteenth century, Continental European
nations became interested. Co-operative societies sprang up in every
country. President Roosevelt's committee appointed to investigate co-
operatives in Europe reported that in the Scandinavian states from twenty
to fifty per cent of the population belong to either a buying or a market-
ing co-operative.¹ In these nations—which boast the highest standards
of living in Europe—co-operatives play a very important role in the nation-
al economy.

As the movement spread, types of co-operatives developed which
varied from the original Rochdale pattern. In most cases the principles
were not changed, but the function or purpose for which they were organ-
ized changed. In Denmark and in the United States particularly, and in
some other places, co-operatives for marketing agricultural products de-
veloped. The Danish farmers have been most successful in using this type

¹ Jacob Baker et al., A Report of the Inquiry on Cooperative Enter-
of co-operative. They cater to the export market with a product of very high quality which brings them a good return.

Not long after the Rochdale Pioneers established their store, the Germans began experimenting with financial co-operatives. Since then people's banks, or credit unions, have grown rapidly in Germany and in the United States, and have been very successful in making loans to poor people—the kind of loans ordinary banks do not care to make. The theory of workingmen's industrial production co-operatives has been an important part of the thinking of certain social theorists. In practice, production co-operatives have had little success in most countries; although in France, where the government favors them, they have enjoyed some prosperity.¹

Another type of co-operative, a type which includes the subject of this study, is the agricultural purchasing association. Agricultural purchasing co-operatives are similar in many respects to city consumers' societies, but are sufficiently distinctive to deserve a separate classification. Farmers co-operate to purchase production goods to facilitate production and to increase the profits of production. Leaders point out that farmers are the only producers who are expected to buy at retail prices the supplies needed for production. Agricultural purchasing co-operatives are organized in order to secure the advantage of wholesale prices for farmers. At present, however, there is a strong tendency for this type of co-operative to expand by distributing consumption goods. Agricultural purchasing societies are important in the Scandinavian

¹ The Columbia Conserve Company in Indianapolis is an exception. It has been operating successfully for several years as a co-operative canning concern.
countries, Czechoslovakia, Switzerland, Great Britain, and the United States. No better example of the type could be found anywhere than in Indiana.

In contrast to the slow, steady, long-time development of cooperatives in Europe, the movement in America has frequently been characterized by quick growth followed by rapid collapse. The history of the utopian colonies organized by followers of Owen and Fourier is well known. Just a year after the Rochdale Pioneers established their store, the New England Workingmen's Association established a consumers co-operative store for the purpose "of bettering the condition of the working class." In twelve years this store grew to four hundred stores in ten states with total sales of three million dollars. Rochdale principles were not followed; the stores attempted to sell at the lowest possible price instead of at the market price. In 1858 unsettled business conditions upset calculations and caused many failures. Thereafter, the stores declined rapidly.

Following the Civil War, a long period of declining prices caused a great deal of hardship among the western farmers who were, in general, the debtor class. These farmers were therefore in a receptive mood when Oliver H. Kelley launched the Grange in 1868. Success first attended his efforts in Minnesota. Enough local granges were established to form a state grange early in 1869. Two months later, the state grange appointed a purchasing agent to buy supplies for grange members. The National Grange had not contemplated such action, but farmers were demanding this

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1 Quoted by Cowling, *op. cit.*, p. 80.
kind of service, and the rapid growth of the movement was largely a re-
sult of the fact that the organization soon became identified in the
farmer's mind with co-operative purchasing. Once established, the move-
ment spread like prairie fire. The number of new granges established in
1873 was 3,668 and in 1874 the number reached the astonishing figure of
12,941. Indiana was one of the strong grange states; the number of locals
was 2,000 at the beginning of 1875. There was an average of two for each
township.¹

Co-operative effort began with the locals and consisted at first
of plans to get special price concessions in return for all the patron-
age of grange members. Their efforts were reasonably successful; they
saved the members a considerable amount of money directly, and helped to
lower price levels generally. The Indiana Grange employed a state pur-
chasing agent to co-ordinate and supervise local activity. This agent
handled a business of $300,000 in 1875, and the next year, a still larger
amount. Bad management, however, resulted in the loss of several thousand
dollars, and the Indiana Grange discontinued the agency. Other states
had similar experiences. The failure of these commercial activities was
one of the major reasons for the decline of the Grange, beginning in 1875.

Unfortunately these efforts of the Grange were not conducted ac-
cording to Rochdale principles, nor did they employ efficient business
methods. This was partly a result of the fact that the National Grange
was caught off-guard in connection with these developments among the
local associations and was, in fact, somewhat opposed to it at first.

¹ Solon Justus Buck, The Granger Movement (Cambridge: Harvard
University Press, 1913).
When the national headquarters realized the importance of the buying activity to the organization, they began to give it serious study. Officers of the Grange consulted leaders of the co-operative movement in England and learned about the Rochdale principles and the successful development there. Beginning in 1876, the National Grange devoted much of its efforts to dissemination of knowledge of the Rochdale principles and to reconstruction of the various business activities. By that time it was too late; the decline of the order had already set in and not much could be accomplished immediately. The seed sown, however, bore fruit at a later time.

A new period of more long-lived co-operative effort started about 1890 in the Far West. Fruit growers in the region were suffering severely from bad marketing conditions. They were producing a perishable product which had to be shipped a long way to reach the big eastern markets. Carelessness, dishonesty, and inefficiency greatly reduced the return to which growers felt they were entitled. In 1895 they formed the Southern California Fruit Exchange, which ten years later became the California Fruit Growers' Exchange. This organization was very successful in improving the California citrus fruit growers' marketing conditions. It now sells from $80,000,000 to $100,000,000 worth of fruit a year. Other marketing co-operatives developed in California, Washington, and Oregon for the marketing of deciduous fruits, eggs, and nuts. The large apple growers' associations of Washington and Oregon are well known. The California Walnut Growers Association markets eighty-seven per cent of the state's output of walnuts.

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In all the grain-producing states the farmers' co-operative elevator has been highly developed. The principal impetus to this movement was during and following the World War, although a few organizations were established much earlier.¹ Most of these elevators did not operate on Rochdale principles. Stockholders, rather than the patrons, usually controlled their affairs. They paid patronage dividends, but sometimes only to stockholders. The decade from 1920 to 1930 was high tide for this movement; since then there has been a slow decline.

The Farmers' Union was organized in 1902 in Texas; it grew rapidly in southern states, and during the war became especially strong in the West. From the beginning, the organization advocated co-operative purchasing, but no important developments occurred in this field until the leaders adopted the principles of the Rochdale plan in 1919. Since then there has been a steady increase in the number of farmers' union co-operatives which now cover the states of Nebraska, Kansas, Oklahoma, Iowa, the Dakotas, and Minnesota. Two large regional wholesale organizations—one at Omaha and one at Saint Paul—do a thriving business supplying the hundreds of successful local co-operative stores in these states.²

¹ The incorporation of one "Farmers Elevator Company" as early as 1877 was noted in the records of the Secretary of State of Indiana.

CHAPTER II

THE BEGINNING OF THE FARM BUREAU MOVEMENT

At the beginning of the twentieth century a new movement began to make itself felt in American agriculture. It was a movement to help the farmer solve his economic problem by applying newly developed scientific methods to this time-honored industry. During the preceding twenty-five years the scientific study of agriculture had made rapid progress. Congress laid the foundation in 1862 with the Morrill Act establishing the land-grant colleges for the study of agriculture and the mechanical arts. In 1887 the Hatch Act was passed establishing a national system of agricultural experiment stations where trained scientists could devote their full time to research in agriculture. This led to the accumulation of a considerable body of knowledge which was taught in the agricultural schools but which was practiced by few farmers.

Agricultural leaders began to feel the necessity of doing something to bridge the gap between the advanced methods of the experiment stations and the agricultural schools and the less efficient practices of the vast majority of farmers. Since the farmers did not themselves flock to the schools to acquire the information, it was decided that the new knowledge must be taken to them.

One of the earliest forms of agricultural extension was the farmers' institute. Typical institutes lasted two days, were conducted by professors from the land-grant college, and were attended by the farmers in the neighborhood. But the institutes were necessarily limited in scope and were supplanted by a movement which had its origin in the South. This was the county agent plan.
In 1903 the boll weevil had just begun its invasion of the Texas cotton fields. Whole areas were being ruined by this new and terrible menace. Dr. Seaman A. Knapp, an agent of the Department of Agriculture, was sent to aid in the fight against the invader. Unable to persuade the Texas farmers by lecture or pamphlet to change their methods, Dr. Knapp determined to teach by actual demonstration. Early in 1903, at Terrell, he persuaded W. C. Porter to plant and cultivate seventy acres exactly according to his directions. At the end of the year Mr. Porter found to his surprise that those seventy acres had made him seven hundred dollars net profit. ¹ With this story of success Dr. Knapp and his associates were able the next year to get many more demonstration plots. Since these methods had proved successful, the farmers themselves began to demand the services of the experts of the Department of Agriculture. Smith County, Texas, in 1906 agreed to pay part of the salary of an agent, if he would work in that county alone; and thus it became the first county in the United States to have a county agricultural demonstration agent.

The movement spread quickly to other counties and to other states in the South and then advanced northward. Beginning in 1911 county agents appeared almost as if by magic all over the North and West. During the fiscal year 1911-1912, five county agents were employed in the North and West, and the next year one hundred and thirteen. ² This rapid advance of the county agent plan can be explained in part by the existence of a wide-

² True, op. cit., p. 100.
spread conviction that education was the thing the farmer needed. In the forefront of the movement were the progressive farmers in each community. However, the towns were interested also. Business men felt that if the rural areas could be made more prosperous, then the towns would also benefit. Chambers of commerce, booster clubs, and other associations of business men took the initiative and sometimes paid part of the salaries of the agents. A large mail-order house made an offer of one thousand dollars to any county that would employ an agent.¹

Wherever agents were appointed, they found that their own effectiveness could be greatly increased if they could work with an association of farmers in the county. In some cases organizations already existed which could be used. If there were no existing associations, the agents proceeded to organize them. In the South these were usually called county councils of agriculture; in the North they were frequently called better farming associations or, a little later, farm bureaus. Where there was already a strong farmers' organization it usually took the lead in the agitation to secure an agent for that county. The county agent and the association worked together.

Indiana was one of the leaders in these developments. By 1912 there were active associations in several counties. Most of these were called better farming associations, but in LaPorte county, which has the distinction of having the first county agent in the state, the farmers organized the LaPorte County Crop and Soil Improvement Association. This association entered into a contract with L. E. Clore, famous "Corn King," under which he was employed "in the capacity of Agricultural Advisor for

the county of LaPorte," beginning in October, 1912. In the words of the agreement:

His duties shall consist in general as advisor to any farmer in the county requiring his services; organizing farmers' clubs; conducting corn clubs and other agricultural contests; to arrange for exhibitions of agricultural products, to give practical demonstrations and instructions in crop rotation, (sic) soil building, farm management, live stock, dairying, horticultural work, etc., in various parts of the country under ordinary conditions; to make especial effort to control and suppress all contagious diseases of live stock; to cooperate with the superintendent of county and city schools in teaching the rudiments of agriculture.

Mr. Clore's salary was paid largely by private subscription of farmers and business men. Within six months three other counties had agents, and the state legislature passed an act providing public funds to help pay their salaries and placing them under the direction of the extension division of Purdue University. With public financial aid the number of agents increased rapidly to twenty-seven on June 30, 1914. At this time Indiana employed more county agents than any other northern state.

The relationship between the agent and the farm bureau was always very close. In those counties which already had farm bureaus, the agents considered it their first duty to aid the associations by organizing local units in each township which had none, and by strengthening the township groups which already existed. In return the farm bureau frequently contributed to the agent's salary and was always in the forefront to fight his battles. When a county suffered an epidemic of hog cholera, the members of the farm bureau aided in the enforcement of the agent's

1 Quoted from the contract, among the personal papers of Mr. L. B. Clore, Franklin, Indiana.

2 Acts of 1913, Chapter 24. 3 True, op. cit., p. 100.
quarantine regulations. In the campaign against wheat rust the farm bureau members scoured the county destroying the barberry bush which spread the disease. At the township meeting of the farm bureau the agent found his most effective opportunity to explain new ideas and scientific methods. The quasi-public nature of the farm bureau was so generally recognized that in some states public money for the support of agents was given to the farm bureaus rather than directly to the agents.¹

In 1914 Congress made the first appropriation of federal money for the support of the movement. The Smith-Lever Act, passed in that year, provided for a county agent system to be administered co-operatively by the Department of Agriculture and the extension divisions of the land-grant colleges. Provision was made that the federal money be matched by state appropriations.²

The same year saw the beginning of another great influence which was to affect the farm bureau and county agent movement. The war in Europe, beginning in August, at first had a depressing influence on business, but this was soon reversed by the powerful stimulus of augmented demand for American exports. At first mild, this effect increased as the war continued and disrupted European production of grain and other foods. By April, 1917, when America entered the war, the need of the allies for more food was serious indeed. Facing this situation, the American government granted large credits and called on the farmer to increase his production

¹Ibid., pp. 82 ff.
²Ibid., pp. 100 ff.; Fourth Annual Report of Purdue University, Department of Agricultural Extension, for year ending June 30, 1915 (Lafayette, 1915), pp. 7 ff.
and help feed our hungry allies. "Food will win the war" was the slogan made to resound on every farm.¹

American agriculture was faced with the necessity of increasing production, and that in the face of a diminished labor supply. The only way it could meet this emergency was by becoming more efficient. For this purpose there was already at hand the county agricultural agent movement, which needed only to be extended.

In August, 1917, Congress passed the Emergency Food Production Act, one of the important provisions of which was increased funds to extend the county agent plan.² Agents were employed in counties which previously had been without them and assistant agents were installed in many others. As part of the patriotic campaign to increase food production, farmers everywhere were impelled to seek the services of their county agricultural agent. The number of agents in the northern states increased from 240 in 1914³ to 1,288 in 1919.⁴ In Indiana the number was 27 in 1914⁵ and 76 in 1919.⁶

The war emergency made it even more necessary that the agent have the organized support of farmers to make his work effective. War taught the value of organization and of co-operative effort. The farmer, long

¹Kile, op. cit., p. 100. ²True, op. cit., pp. 134 ff.
³Ibid., p. 100
⁵Third Annual Report of Purdue University, Department of Agricultural Extension, for year ending June 30, 1914 (Lafayette, 1914), pp. 4, 30.
⁶Eighth Annual Report of Purdue University, Department of Agricultural Extension, for year ending June 30, 1919 (Lafayette, 1919), p. 21.
considered to be too much of an individualist to organize well, caught the new spirit with enthusiasm. Wherever county agents came, farm bureaus, by one name or another, were organized. They increased both in number and in strength. The foothold gained by the county agent plan was not lost by the ending of the war. Farmers found that they had learned to depend on these new institutions.

Demand for the farmer's product continued to be good and the psychology of prosperity and increased production was in the air. The farmer's only serious grievance was the high prices which he was compelled to pay for the things which he bought. This was a perturbation which was frequently discussed in farm bureau meetings, and it was not long until plans were being laid to remedy the condition.

Co-operative purchasing of farm supplies was the farmer's answer. Getting together in their farm bureau meetings, farmers pooled their orders for fertilizer or other supplies. The substantial size of the resulting one big order frequently brought them gratifying price reductions. The pool might be operated by the county agent himself, or it might be operated by the officers of the farm bureau. Although never sanctioned by the Department of Agriculture, this practice became widespread, especially in the East and Middle West. Supplies commonly purchased in this way included fertilizer, feed, binder twine, coal, and salt.

Local merchants and business men who lost orders as a result of this practice were soon heard from in vigorous protest. They complained

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that, by paying the county agents' salaries, the government was subsidizing a commercial organization which was in direct competition with them. Agents were instructed not to have any official connection with the commercial activities of the farm bureau, but most of them were in favor of the movement and indirectly continued to aid it. The acrimonious debate continued, for the relationship between the county agent and the farm bureau was much too close at this time for one to do anything without affecting the other.

Soon the farmers thought of other purposes for which an organization such as the farm bureau might be used. There were political demands, for example, the adjustment of the tax system. In most of the states, including Indiana, the tax system had been designed at a time when agriculture was dominant and nearly all wealth was in the form of land. Consequently the land tax was made the basic tax. With industrial development the wealth of the cities had increased enormously, yet much of this new form of property escaped from bearing its share of the burden. The services and hence the costs of the government were also increasing during this period and this greatly increased the tax load. Farmers began to use their farm bureaus to give effective expression to their opinions on tax matters. In many cases they were successful in their efforts involving township or county taxes, but they had little influence on state taxes; for as yet they were not organized on a state-wide basis.

In activity such as this, the county agent—a public official—could not participate. Gradually it became established in the public

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mind that the farm bureau was an organization separate from and independent of the county agent. They continued to co-operate closely, but the farm bureau was looking forward to a broadening field of operations.

By the beginning of the year 1919 there were enough county organizations in Indiana, usually called better farming associations, to enable leaders in the movement to plan a state organization. In January of that year, officers of the better farming association were invited to Purdue University to attend the annual conference of county agents. A committee of four was appointed to make arrangements for organization. This committee issued a call for a meeting on March 25, 1919, and sent invitations to county organizations and to agricultural leaders. The meeting was held in the Claypool Hotel in Indianapolis and was called to order with about four hundred leading farmers and county agents present.

Lewis Taylor, a Warrick county farmer and, subsequently, president of the Indiana Farm Bureau, was elected chairman. D. O. Thompson, secretary of the Illinois Agricultural Association, and later president of the American Farm Bureau Federation, explained the organization of the farm bureau in Illinois which was already three years old. Mr. Thompson advised the Indiana farmers to avoid setting up their organization on a penny-pinching basis. The importance of the farm bureau's program required that it be financed adequately.

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1Eighth Annual Report of Purdue University, Department of Agricultural Extension, for year ending June 30, 1919 (Lafayette: 1919), p. 14; Hoosier Farmer, July, 1921, p. 3; July, 1923, p. 3; July 1, 1927, pp. 4 ff. Hereafter references to the Hoosier Farmer, official organ of the Indiana Farm Bureau, will be abbreviated to HF.

2HF, June, 1919, pp. 3 ff.
Dean Skinner of Purdue University contributed a warning note, saying that after post-war adjustments were made, favorable prices of agricultural products then current were not likely to continue. Other speakers emphasized recent tax legislation, adjustment of freight rates, the need for better roads, and the stabilization of prices for agricultural products. They expressed strong opposition to the daylight saving law.

As a name for the new organization, the group decided on Indiana Federation of Farmers' Associations. It was a league of local associations, varying in title and in type of organization—a fact which was reflected in the designation chosen.

Officers elected were John G. Brown, president, and Lewis Taylor, secretary. The state was divided into ten districts, in each of which a director was elected by the county associations to serve on a board.

In order to express their sentiments and make clear the purpose of the new organization, a declaration of principles was adopted:

Whereas, The progress and prosperity of a free people, the solidarity and stability of its institutions depend upon the good will and cooperation among all the people, and

Whereas, Our industrial relations and activities are divided into three general classes, producers, distributors or middle men and consumers, and

Whereas, We believe that these relations are normal in the adjustment of business and society, and when even-handed justice is meted out among these classes, they are of mutual good will and mutual prosperity, and

Whereas, The wrongs we suffer from retail men are small and may be corrected, leaving a reasonable profit on our products with the retailers, for which we are perfectly willing under just treatment, and

Whereas, It is known and admitted by all informed people that the farmers or bread producers have suffered more from exploitation of
their products by freebooter methods and organized selfishness than any other class, and

Whereas, We hold organized greed responsible for the fluctuations and instability in the markets of food products, the sudden break which robs many producers and consumers not only of justice in prices, but impoverishing and driving into bankruptcy every year thousands of food producers and honest middle men.

Therefore, be it resolved,
First, That we regard the middle man or retailer as an essential factor in business transactions between producers and consumers, and so long as he keeps his prices so close to wholesale prices as to leave only a reasonable margin, we will patronize him, we will encourage him.

Second, That when we come to what is known as "seasonable" products, which are handled in gross at certain seasons of the year, we believe it possible to use the retail man in buying such products as fertilizers, binder twine, tankage, fence material, coal, cottonseed meal, etc., as the medium between the gross producer and consumer, using him as we would use one of our own producers, allowing him such per cent for handling as a reasonable compensation for his services, and that we recommend this experiment where cooperative buying is entered into. This principle may be applied also in shipping and selling.

Third, That organized greed in food products knows no law. It is a freebooter and gambling speculator which we regard as unfair and lawless. We therefore call for legislation from the United States Congress on the principle of supply and demand, of producing and handling, going to the consumer with a view of two things: (a) To eliminate the gambling element in food products. (b) To the stabilizing of prices of food products.

Fourth, That this Federation of Farmers' Associations will act as a bureau of information and helpfulness, though the officers of the township and county units, when asked for such information, upon all matters pertaining to the protection of the farmer and the promotion of the interests of the farmer.¹

The federation gave serious consideration to the problem of strengthening the county units. Many were very weak in organization. They had an indefinite membership and were very inadequately financed. To secure greater uniformity and to strengthen the county units, a model constitution

¹ Ibid., p. 5.
and set of by-laws were formulated and counties were urged to adopt them. This constitution provided for a "farmers' association," a voluntary, unincorporated membership association based on township units and financed by a five-dollar a year membership fee.

Most of the counties immediately reorganized; those that already had better farming associations conducted vigorous membership campaigns and greatly increased their strength and resources. Counties which had no organizations began to create them with the aid of the state office. Much was expected of the new Federation, and popular enthusiasm ran strongly in its favor. Within seven months the association could claim seventy-five county units with a total of forty thousand members.

The state Federation soon found plenty of work to do. Shortly after its organization, Indiana wheat farmers were threatened with a quarantine of their product. A new disease called the Australian take-all appeared in the northern counties, and the United States Department of Agriculture considered quarantining Indiana wheat. But, with the aid of the state entomologist and of extension authorities from Purdue University, the Federation was able to convince the Department of Agriculture that the disease could be controlled without that drastic action. Again, in several counties the state tax board raised the property assessment valuation above that which had been set by local authorities; but the Federation was success-

1Ibid., pp. 5 f.
2HF, June, 1919, pp. 23 ff.; August, 1919, pp. 23 ff.; September, 1919, pp. 15 f.
ful in defeating this move. Many farmers complained of conditions at the Indianapolis stockyards. After loading his stock into cars for shipment, the farmer lost control of his product, and frequently suffered loss due to excessive delay and improper care. The Federation met this situation by employing a livestock marketing agent, who represented the farmers at the stockyards and who was successful in securing considerable improvement in conditions there.

The first step in the direction of co-operative buying was taken soon after the Federation was organized. It approached several cordage companies with a proposal that they sell binder twine at a reduced price. One company accepted, and an agreement was made through which the association did not itself buy the twine, but passed the information on to farmers as to where the low price was obtainable. The company sold through regular channels, and the twine was available to members of the Farmers' Association and to nonmembers alike. The Farmers' Association claimed to have saved Indiana farmers $100,000 directly, by means of the lower price which they paid for the recommended twine. Even greater economy was effected indirectly, because other companies reduced their prices to meet the competition. Since the benefit was shared by all, members and nonmembers alike, it offered no particular inducement to nonmembers to join. It was, therefore, decided that similar propositions in the future should be made available only to members.

1 HF, February, 1920, p. 3.  
2 HF, May, 1920, p. 9; October, 1920, p. 11.  
3 HF, June 1919, p. 11; February, 1920, p. 3; October, 1920, p. 11.
During the period of the early twenties prices of farm supplies were high and margins were wide. The prospect of saving through co-operative buying was a tempting bait which induced many farmers to join. At the same time there was an attitude of caution among the leaders. They decided to go no farther than to extend somewhat the practice of pooling orders. These tactics were already being employed by many of the counties. Officers of township associations gathered the farmers' orders and passed them on to the county headquarters. Pooling these, the county association gave an order for a number of carloads, which might be sent to the state federation. From the state federation the orders went to the manufacturer, who shipped directly to the counties. Commodities handled in this way were twine, fertilizer, coal, and sugar. However, volume of this business passing through the Federation office in 1919 and 1920 was small; it was in the nature of a cautious experiment, preparing the way for future development.

Larger in the aggregate was the business done by some of the counties in which independent co-operative buying developed rapidly. In addition to fertilizer, twine, coal, and sugar, these counties pooled orders for seed, fencing material, salt, lime, and automobile tires. A business of a good many thousand dollars a year developed in some instances, and the associations had special business secretaries to look after it. The farmer paid the wholesale price, plus freight, and either came to the railroad station to get his goods or paid a small fee to cover cost of delivery. On twine

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and fertilizer substantial savings were made, while in the case of sugar and anthracite coal the advantage lay partly in securing an adequate supply of a scarce commodity. To allay the opposition of local merchants, the county units sometimes adopted the policy of placing the order with a local dealer, who was allowed a small fee as a handling charge. This was much less than his ordinary margin. Orders were sometimes placed through local co-operative elevators; but in a majority of cases the association, acting directly, placed the order with a manufacturer or his agent in its own name.
The demand in 1920 for more commercial activity on the part of the Indiana Federation of Farmers' Associations was vigorous and persistent. Farmers felt that, helpful as local efforts might be, state-wide organization would be far more effective. Leaders were conscious of the critical circumstances which the farmer faced. Aware of the fact that war-inflated prices would have to come down, they foresaw the danger that the prices received by unorganized agriculture would go down while the prices paid organized industry would remain high. They were determined that the farmer's relative position should not be impaired. To meet this situation they looked to co-operative purchasing to force a reduction in the prices of the supplies they bought, and to co-operative marketing to raise the prices of the products they sold.

At the same time there was an attitude of caution on the part of some of the members of the board of the federation. They were aware of the dangers involved and of the disasters which had finally overwhelmed other farmers' organizations unwarily entering this field. To meet this demand, and at the same time to protect the association, the board determined to establish a separate organization for the commercial activities of the farm bureau. Thus if there were a failure, the whole structure would not be brought down.

The Indiana Federation was concerned to some extent with several kinds of commercial activity; in addition to co-operative buying, there was

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1 HF, December, 1920, p. 24; February, 1921, pp. 12, 30.
co-operative marketing of livestock, of grain, of wool, and of dairy products. But in 1920 buying was the activity most nearly ready to organize independently on a state-wide basis. In addition to the Indiana Federation, there were other farmers' associations which could be drawn in to assist in the enterprise. The Grain Dealers Association of Indiana was a state organization of 230 co-operative elevator companies. Practically all of these local elevators, in addition to their principal activity of marketing the farmers' grain, distributed a few staple farm supplies. They were interested in a better source from which to secure their commodities. Although not a strong organization in Indiana, the Grange, true to a long tradition, was interested in co-operative purchasing. The stores which once had flourished under its sponsorship had failed, but the Grange was nevertheless ready to participate in a new co-operative venture.

In addition there were other groups, and leaders hoped that a little later they could draw all of them together to form a united farmers' co-operative purchasing association. After considerable preliminary discussion, representatives of the three associations held a meeting in the offices of the Indiana Federation on December 13, 1920. The new organization came into being that day. Giving it the name Federated Marketing Service, the organizers revealed their hope that eventually it might grow into a great united farmers' service organization participated in by many agricultural associations and doing both purchasing and marketing of many things for farmers.

1 *HF*, January, 1921, p. 22.

Control was shared equally by creating a so-called board of directors of nine men—three from the Grange, three from the Grain Dealers, and three representing the Federation of Farmers' Associations. Although called a board of directors, these nine men were actually not directors, for the organization was not incorporated. In reality the organization was a partnership and the "directors" were legally partners. Officers elected were: J. E. Leavitt, president; F. W. Boyle, representing the Grange, vice-president; J. F. Minch, of the Grain Dealers, secretary; and E. G. McCullom, also of the Grain Dealers, general manager. The organization opened an office at 327 Board of Trade Building, Indianapolis, and announced that it was ready to receive pooled orders. Although planned for all kinds of marketing and buying activities, the Service, having very limited operating funds at its disposal, was compelled to confine itself to functions which required little capital. Buying met this requirement better than marketing.

Officers of the Marketing Service worked out a scheme for the pooling of orders and urged the counties to adopt it. They asked each county to set up a marketing committee of three to handle all orders for the county. It was suggested that this committee consist of the chairman of the county farmers' association, the manager of the local elevator company, if run on the co-operative plan, and some other officer of the farmers' association or grange. This committee was then to choose township or community marketing committees for each community in the county. The community committees promoted the work locally, working mostly through township meetings of the farmers' association and through individual con-

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1 Loc. cit. 2 HF, March, 1921, p. 24.
tact; they received the farmers' orders and sent them on to the county committee. The county committee pooled the orders for the entire county and was expected to buy, through the Federated Marketing Service, in car-load lots. The county committee also made arrangements for the distribution of the goods after it was received. Where there was a local elevator run on the co-operative plan, distribution might be made through this organization; where this could not be done, other arrangements had to be made. Sometimes local private dealers were paid to distribute the goods; frequently it was distributed directly from the car-door. A few counties were much more active in co-operative work than the others. They had marketing agents or business secretaries employed by the farmers' association to look after the pooling of orders, distribution of goods, and any other activities in which the farm bureaus might be interested.

Since the Marketing Service had almost no capital, it could not buy in anticipation of demand and keep a stock of goods on hand for sale when any of the counties should need it. Instead, a system was worked out whereby the Service bought when ordered to do so by the county; it acted as an agent which bought not for itself but for the county. Ordinarily the Service assumed no financial obligation since title passed directly from manufacturer to the county pool. The advantage of buying through the Marketing Service over direct buying by each county was in its much greater bargaining power. The Service was in a position to direct many orders to

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1 There were at least twelve such counties in 1922. Cf., "Minutes of the Meetings of the Board of Directors and of the Executive Committee of the Federated Marketing Service," July 24, 1922. Hereafter references to this source will be abbreviated to "Minutes."

2 HF, April, 1921, p. 8.
one manufacturer. Since these orders were large in the aggregate and were all strictly cash, they were a tempting bait which could be used to secure price concessions.

Some manufacturers looked askance on this organized effort of farmers to buy their supplies at reduced prices. They had large and expensive distributing systems covering the state and these would necessarily be disrupted by the methods of the Marketing Service. Especially they resented the price cutting tactics which were an unsettling element in a field which, in some instances, had been pretty well stabilized. The whole idea of farmers' buying their own goods was new, unsound, and disturbing. Consequently the Marketing Service had some difficulty in finding manufacturers who would deal with it. The fertilizer manufacturers particularly presented an almost solid wall of opposition.¹

The Rochdale principle of selling at the market price and paying a patronage dividend was not adopted. Instead, the price which the farmer paid was the cost price of the goods, plus the cost of transportation; the cost of distribution in the county, if any; and a small fee which went to the Marketing Service. In most cases this was a substantial saving over the price normally charged by local merchants. Of course some of the services rendered by ordinary dealers were absent; buying from the Marketing Service had its disadvantages. For example: (1) needs had to be anticipated and goods ordered well ahead of time; (2) credit was never given; all goods had to be paid for on or before delivery; (3) instead of their being delivered conveniently to the door, the farmer frequently had

¹This information is gathered largely from conversations with men who were then active in the organization and is substantiated by the report of the Federal Trade Commission. Cf. infra, p. 38.
to go in wagon or truck to get his own goods; (4) little choice could be exercised in the matter of individual preference for particular brands. The farmer buying through the Federated Marketing Service did not, therefore, get the same thing as his neighbor who bought through private dealers. But the real question was whether or not these services were worth what was charged for them. Many members of the Farmers' Association thought that they were not.

The first important activity of the Marketing Service early in the spring of 1921 was the buying of fertilizer. Fertilizer manufacturers, attempting to nip the movement in the bud, agreed to boycott the Marketing Service.¹ The Service was, for a time, hard pressed; because manufacturers declined even to quote it, or withdrew their quotations after making them. But there was one concern in the South, the Southern Agricultural Chemical Company, which was quite willing to sell to co-operatives. This concern had been set up by the Lewisohn interests, principally for the purpose of providing a means of disposal of a huge surplus of sulphuric acid, a by-product of the smelting of copper. Since it had just started in business and did not have an established system of distribution, it welcomed the opportunity to sell to the co-operative, which it did in Indiana and in other states of the Middle West.² Prices first listed by the regular companies were high. A mixture of muriate of potash and sixteen per cent acid phosphate, for example, was $49.50 per ton. But the Service was able to buy the two ingredients separately and get them delivered to the farm

¹ Cf. infra, p. 38.

² The story of this company has been frequently repeated in farm bureau literature. Cf., HF, November 15, 1927, pp. 18 f.
for home mixing at a total cash cost of only $25.00. The prices first announced by regular companies were soon called in and reduced. During the season, prices fluctuated considerably. Old-line companies even cut their own prices below those of the Marketing Service. Sixteen per cent acid phosphate, for example, was sold by a few companies as low as $15.00 per ton although the Marketing Service price was $20.00 per ton. Many members of the Farmers' Association concluded that these reductions were made only because of the activity of their own organization.

During the spring of 1921 more than six thousand tons of fertilizer were purchased through the Marketing Service. That was its most important commodity. The next largest selling item was coal. In the summer the farm bureaus in the Middle West set up the Co-operative Coal Marketing Service which bought coal for all the farm organizations. The Marketing Service directed its coal orders through this organization and was able to effect substantial savings.

Arrangements were made with a cordage company to distribute that company's twine at a saving, as compared to the prevailing price. A very good volume was secured on this commodity, which seemed to be well adapted to the pool method of buying. When the war ended, the government found itself with a supply of harness on its hands which it no longer needed and wanted to dispose of as quickly as possible. The Marketing Service gave Indiana farmers an opportunity to buy this at a very advantageous price.

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1 HF, May, 1921, p. 3.  
2 Loc. cit.  
3 Loc. cit.  
4 HF, July, 1921, p. 10; September, 1921, p. 14.  
5 HF, August, 1921, p. 13.  
6 HF, May, 1921, p. 3.
Fertilizer, coal, and twine were the three large items during the Service's first year of existence. In addition, feed and fencing material and possibly other items were handled, but only in small quantities.¹

A summary of achievements drawn up at the end of the first year of the Federated Marketing Service, should perhaps list first, the fact that a new type of institution had been established in Indiana. Organized and operated by actual farmers who left their farms for that purpose, it was somewhat of a challenge to usual ways of doing things. It had shown that it could put goods into the farmers' hands at lower cost than other forms of business had been doing. The first year increased many farmers' belief that in the Federated Marketing Service they had an organization which would improve their position and would be a weapon in their hands with which they could secure a greater degree of economic justice.

On the other hand, the operations of the first year revealed certain deficiencies, for example, the poor quality of the fertilizer secured from the Southern Agricultural Chemical Company. That company's product was good chemically but it was very hard and lumpy.² A second factor was the weakness which was revealed in the organizational structure. In spite of a hopeful beginning, the Indiana Federation of Farmers' Associations and the Grain Dealers Association did not get along well together. This was due to the fact that the Marketing Service and the local elevators of the Grain Dealers were in a sense competitors. Although the Service encouraged the distribution of its goods through the elevators, this was by

¹HF, August, 1921, p. 13.

²Apparently due to the inexperience of the manufacturer, the fact that the large farm bureau orders were unexpected and found the manufacturer unprepared, and the long haul from the South which allowed the material to hydrate.
no means always done, and even when it was, the elevators were left with a very much smaller margin of profit than would have accrued to them if a like quantity of goods had been distributed in the normal way. The interest of the Grain Dealers was to some extent at variance with the very purpose of the Marketing Service. In addition to this, the Farmers' Association was much the more aggressive of the two organizations; most of the local work was centered around its county and township units. Among the nine partners representing three organizations, jealousy and ill will displaced the spirit of co-operation and mutual confidence. Such a situation was not conducive to efficient operation, and before the end of 1921 it was evident that some kind of reorganization was necessary. No more than any other could the association stand as "a house divided against itself."

The members of the board of directors also became aware of the fact that as associates conducting an unincorporated business enterprise they were legally partners and that the law would hold them, as such, unlimitedly liable. They were therefore anxious, especially in the atmosphere of suspicion then prevalent, to relieve themselves of this liability by incorporating the company. As early as October, 1921, a resolution was passed favoring this step. But incorporation alone would not resolve the struggle between the Federation and the Grain Dealers and it was several months before an understanding could be reached.

Since the Farmers' Association was the more aggressive and more interested of the two organizations, and especially since the local work was done chiefly by its members, the Grain Dealers consented to withdraw

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1 HF, April, 1922, p. 27.
and turn its interests over to the others. Written terms of settlement dissolving the partnership were agreed to and signed at the end of March, and preparations made to reorganize on the basis of the lessons learned in a year of operation.  

Representatives of the Farmers' Association and the Grange filed articles of incorporation with the Secretary of State on April 1, 1922, under the Indiana corporation for profit law. The new charter provided for the issuance of capital stock up to ten thousand dollars; and for a board of directors of six men, three from the Farmers' Association and three from the Grange. John G. Brown, president of the Federation, was elected president of the Service, and L. F. Shuttleworth was chosen general manager. The Federated Marketing Service, Incorporated, was an interesting mixture of an ordinary profit corporation and a pure co-operative. As to control, it was organized like a profit corporation. Instead of the Rochdale principle of one member one vote, it allowed one share one vote. It issued twenty-six shares—one to each of the members of the board of directors, and ten each to the Farmers' Association and to the state Grange. Thus the patrons had no direct control, although the fact that control was in the hands of the Farmers' Association and the Grange did seem to assure that it would be conducted in the farmers' interest. Insofar as the patrons were members of one or the other of the parent associations, they could indirectly control it. On the other hand, the organization was almost purely co-operative in its distribution of earnings;

1 "Minutes," March 27, 1922.

2 The articles and by-laws are in the "Minutes," March 28, 1922.
for the by-laws provided that after paying a six per cent dividend on the outstanding stock, the earnings be divided among the patrons in proportion to their purchases. Patronage dividends were payable in cash, or, in case the board wished to increase the operating capital, in interest-bearing certificates of indebtedness. Thus the by-laws envisioned the Rochdale co-operative principle of selling at the market price and paying patronage dividends rather than the practice followed by the Service up until this time of selling at a low first price. This new policy was not consistently followed at first, for it was more difficult; it required better bookkeeping and better local organization than were at first available; but experience had convinced the board that it was the better method. Toward the end of the year 1922 the officers announced that henceforth all business was to be on a patronage dividend basis.¹

The most important commodity of the Marketing Service in 1922 was binder twine. A contract was made with the Indiana State Prison at Michigan City to secure twine from the mill at that institution at an extremely low price.² The prison mill was not operated for profit, and it had such low labor costs that it could and did dispose of its supply for less than other manufacturers had been getting. When the Marketing Service announced its price for twine, other concerns reduced their prices, sometimes as much as five cents on the pound; but the Service's price was still two cents lower than any other.³ Word of this fact spread over the state.

Thousands of farmers who had never before had anything to do with co-operative buying joined their neighbors in local pools and bought their twine

¹HF, August, 1922, p. 19. ²HF, November, 1921, p. 15.
³HF, July, 1922, p. 27.
from the Marketing Service. Of an estimated total of six million pounds of twine used, the Service sold some two million pounds—one third of all the twine sold in the state that year. This was by far the largest volume of business which the Service had ever handled. Unfortunately part of this prison-made twine turned out to be irregular in quality; the prison apparently did not have an adequate system of inspection so that some of the twine had thick places or lumps in it. There were many complaints to the Service, and the Service in turn complained to the state. It had bought the twine as guaranteed, but it could get no refund without a special appropriation of the state legislature. Since such an appropriation could not be secured, the Service refunded the purchase price from its own funds in some cases, thus cutting into its small resources.

The other important commodity handled in 1922 was fertilizer. The large companies continued in their policy of opposition to the farmers' co-operatives; but a few smaller concerns were willing to deal with them. The Marketing Service secured most of its supply from the Southern Agricultural Chemical Company, although it obtained some from other companies, including one in Indianapolis. Prices first announced by old line companies for the spring season were practically as high as in former years, but under the impact of co-operative competition these prices were soon lowered.

Fortunately for our record, Congress in 1922 ordered the Federal Trade Commission to make an investigation of the fertilizer industry, particularly with regard to prices. The report of that body is an illum-
inating; and vivid document. It is a story which does much to explain the rise and prosperity of agricultural co-operative buying associations throughout the Middle-West. To summarize briefly, the Commission found that the two largest companies were the American Agricultural Chemical Company, selling principally in the Northern states, and the Virginia-Carolina Chemical Company in the Southern states. The American Agricultural Chemical Company owned 105 subsidiary concerns and the Virginia-Carolina Company twenty-eight. Together they produced and sold one third of all the fertilizer in the United States. The seven largest companies sold sixty-five per cent of the total. This concentration, however, did not mean that there were few concerns in the field; rather there were a large number, many of them very small. Prices were customarily arrived at by the following method:

The American Agricultural Chemical Co. has been for several years the most important factor in northern territory and publishes its list of prices several weeks before the beginning of the selling season. This list of prices is generally adopted by other companies selling in this territory including the Virginia-Carolina Chemical Co., which in 1922 sold 24 per cent of its product in northern States. In southern territory the list prices of the Virginia-Carolina Chemical Co. are followed generally by all of the companies, including the American Agricultural Chemical Co., which in 1922 sold 40 per cent of its tonnage in Southern States. This appears to have been the custom for several years. The smaller companies, in order to get business, usually have to shade these prices somewhat.

Local agents were not independent dealers able to determine the price at which they resold fertilizer, but agents of the companies compelled to sell at the prices which the companies determined. For several years prior to 1920, fertilizer prices had been fairly well stabilized; but with the advent


2 Ibid., p. 8.
of the co-operatives the picture began to change. The established companies were, of course, well satisfied with the status quo and looked with aversion on anything which tended to change it. Early in 1921 the manufacturers met in Cincinnati and agreed not to sell to farmers' organizations, but this was undoubtedly in restraint of trade and was not carried out.\(^1\)

The other concerns were very angry with the Southern Agricultural Chemical Company because it sold to the co-operatives, as the following letter reprinted in the Federal Trade Commission report shows:

Cincinnati, Ohio, September 14, 1921.

Mr. Horace Bowker.
Vice President American Agricultural Chemical Co.,
New York City.

Dear Mr. Bowker: Southern Agricultural Chemical Co. Beg to advise that this concern is causing some trouble in this territory.

The Federated Marketing Service of Indiana, and the Farm Bureau of Columbus, Ohio, were down and out, and, so to speak, their ideas were licked until the above concern came into the field and changed the picture. They have delivered thousands of tons in the State of Indiana to the Federated Marketing Service, and in the State of Ohio they are delivering quite freely. They have just delivered 800 tons of acid phosphate to the Pickaway County Farm Bureau. We have had a lovely tonnage at this point, but will lose it now. Baltimore has not done any harm, so to speak. The above concern is not only hurting us in Ohio and Indiana, but they are playing hob in the State of Tennessee. It now looks as if we would have the same fight on our hands another year.

Yours very truly,

C. G. Prescott,
Local Manager.\(^2\)

In 1921 a number of small companies considered a plan of merging to form one very large company. They estimated that forty concerns might consolidate giving the resulting organization an output of a million and

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\(^1\) Ibid., p. 7.
\(^2\) Ibid., p. 50.
a half tons, fifty per cent greater than either of the two largest com-
panies. These small companies held several meetings, advanced their plans,
showed considerable enthusiasm, but for some reason the merger never took
place.

Price lists were issued as usual by all the companies in the spring
of 1921, but they were not maintained. Price cutting started immediately.
Both the large companies and the small ones were involved. Competition
among the members of the "Big Six" was keen. Numerous very interesting
letters illustrating this competition are given in the Commission's report.
Two of them follow:

Cincinnati, Ohio, March 18, 1921.

Mr. Horace Bowker,
Vice President, The American Agricultural Chemical Co.,
New York City.

Dear Sir: To give you some idea of the conditions here in the
West, will give you a wire that we to-day received from our agent
at Brook, Ind.:

"A firm here is selling 10-4 goods at $25 cash. Can sell 50
tons 10-5 at $27. Wire."

We immediately wired back and asked the name of the concern
selling at this price and we received reply as follows:

"Smith Agricultural Chemical Co., Indianapolis, Ind. If you
accept, wire answer."

We wired him that we would not accept his order at any such
reduction in price.

Read Phosphate Co.: Confirming my telephone message to
Mr. Grahn a few moments ago, I am inclosing herewith copy of the
original letter that the Read people have sent out and opposite
their prices you will note ours. It is a general reduction of
their prices you will note ours. It is a general reduction of
practically $10 on every grade, for our price is in 200-pound bags,
and their price is in 100-pound bags. This does not look to me
as if anyone was going to be good. I went to the expense of cal-
ing you on this matter, for I felt that we were in position to-
day to perhaps do something with this.

This price is also in the hands of our agency, the Farmers
Supply Co., Dayton, Tenn. We have had this agency on our books
a long while and they have from 200 to 300 tons of business every
spring.
Calumet Fertilizer Co.: This company is also quoting $25 on 10-4 goods.

Yours very truly,

C. G. Prescott, Local Manager.

Once the manufacturers got together and agreed to adhere to the list price, but the agreement did not last very long; in fact, prices went lower after the meeting than before.

Nashville, Tenn., March 23, 1921.

Mr. A. C. Read,
President Read Phosphate Co., Savannah, Ga.

Dear Sir: Thank you for your letter of the 21st inclosing copy of your letter to Mr. Welch. I am in close touch with Ellis and Hoglan, and I have been following Mr. Welch's advice as to working Ohio. However, by doing this we have gotten no business in the State, as our prices in Ohio have been from one to three dollars per ton higher than competitive prices.

In my anxiety to try and stop price cutting I have been too conservative or have let some of my competitors take business in order that they might see that we were backing away trying to improve general conditions. I am watching them closely now, and I am not letting any more of our crooked competitors take business that ought to come to us. While they think that they have been mighty slick and have sewed up a lot of club business, I am rather inclined to think what they have done will not stick.

The whole gang got together in Cincinnati only a week ago and expressed a desire to stop cutting each others' throats. In less than 24 hours practically all of them were making lower prices than they were making before. We certainly have a dirty lot of competitors, but we can not help it. I am inclosing you Crady's latest Post-O-Gram. He has been getting these out twice a week, lowering the price each time. He not only mails it to his customers but ours and all other competitors' customers. He is one of many that ought to be reduced in rank and not given the authority to make prices.

Yours very truly,

J. S. Campbell, Vice President

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1 Ibid., p. 67.  
2 Ibid., pp. 68 f.
Surveying the price situation as a whole, the Commission found that before the end of the spring season of 1921 all the large companies were selling at about twenty-five per cent less than their first announced prices. In the spring of 1922 list prices were not quite ten per cent less than the lists of the year before; but reductions were soon made and continued until all companies were selling for thirty-three and one-third per cent off. In some cases even larger discounts were given for cash orders.¹

In bringing about this competitive condition the Commission concluded that the farmers' co-operative associations were one of the factors of decisive importance. In this connection the Acting Chairman, in the introduction to the report which was directed to Congress, had the following to say: "Attention is also directed to the benefits which have resulted to the farmer through co-operative buying of fertilizer, which has been the most important factor in lowering the price of this important product."²

By way of conclusion, the following generalizations may be induced from the findings of the Commission:

1. Before 1920 the fertilizer industry was a typical monopoly industry. Monopoly was not achieved by concentration of ownership or control, for the seven largest concerns controlled only sixty-five per cent of the output, and there were many small companies. But the essence of monopoly which is a price level maintained high by agreement was nevertheless achieved. During this period competition for business at the common price was keen—but to cut prices was against the rules of the game.

¹Ibid., p. 8,
²Ibid., p. 9.
2. Wide profit margins encouraged uneconomical methods of production and a wasteful system of distribution. The large companies maintained armies of agents in the field. Each agent could sell only a relatively small amount because there were so many of them; but each received a large commission on what he distributed. Many small concerns were uneconomical and inefficient because they were so small. They were able to exist because of artificially sustained prices.

3. When the agricultural co-operatives first became a significant factor in 1921, they helped precipitate a radical change. Small fertilizer companies operating in counties which happened to have especially active farm bureaus were the first to be affected and were the first to cut prices. This of course affected the large concerns adversely, and they reduced prices in order to hold their business. Once started, price-cutting spread quickly and soon brought a general price reduction of about forty per cent. The farm bureaus, although not large at this time, had an effect out of proportion to their size. They caused the private concerns to compete among themselves and restored competition in the fertilizer industry.¹

The reduction in the price of fertilizer effected in 1921 and 1922 has proved to be permanent; in fact, as a result of real competition, the price has from that day tended to move steadily downward. Since 1922 the companies have made many economies in methods of production and distribution. Inefficient concerns have been driven from the field; those re-

¹Price reductions from the high war level were, of course, in order in the 1921 depression along with most other prices, but this reduction probably could have been effected by the industry without abolishing its practice of price-by-agreement if it had not been for the added competition of the co-operatives.
### TABLE 1

**THE PRICE OF FERTILIZER IN MIDDLE WESTERN STATES**

**Price per ton of 2-12-2**

<table>
<thead>
<tr>
<th>Year</th>
<th>Price</th>
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</thead>
<tbody>
<tr>
<td>1910</td>
<td>21.98</td>
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<td>1917</td>
<td>29.10</td>
</tr>
<tr>
<td>1918</td>
<td>42.56</td>
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<tr>
<td>1919</td>
<td>49.93</td>
</tr>
<tr>
<td>1920</td>
<td>41.15</td>
</tr>
<tr>
<td>1921</td>
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<tr>
<td>1938</td>
<td>20.48</td>
</tr>
<tr>
<td>1939</td>
<td>20.09</td>
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Data from Herbert Willett, *Fertilizer Prices and Price Indexes* (Washington: The National Fertilizer Association, 1938). The figures for 1938 and 1939 are from a letter from Mr. Willett.
### TABLE 2

**COMPARISON BETWEEN PRICES OF FERTILIZER, PRICES OF FARM MACHINERY, AND PRICES OF ALL COMMODITIES USED ON FARMS**

1910-1914 = 100

<table>
<thead>
<tr>
<th>Year</th>
<th>Fertilizer</th>
<th>Farm Machinery</th>
<th>All Commodities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1915</td>
<td>112</td>
<td>100</td>
<td>105</td>
</tr>
<tr>
<td>1916</td>
<td>120</td>
<td>107</td>
<td>124</td>
</tr>
<tr>
<td>1917</td>
<td>137</td>
<td>126</td>
<td>149</td>
</tr>
<tr>
<td>1918</td>
<td>170</td>
<td>165</td>
<td>176</td>
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<td>1919</td>
<td>182</td>
<td>161</td>
<td>202</td>
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<td>1920</td>
<td>186</td>
<td>167</td>
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<td>1921</td>
<td>156</td>
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<tr>
<td>1938</td>
<td>100</td>
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<td>122</td>
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<tr>
<td>1939</td>
<td>100</td>
<td>157</td>
<td>121</td>
</tr>
</tbody>
</table>

### TABLE 3

SALES OF FERTILIZER BY THE FARM BUREAU COMPARED WITH TOTAL SALES IN INDIANA

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Indiana (In Tons)</th>
<th>Farm Bureau (In Tons)</th>
<th>Per Cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1923</td>
<td>198 581</td>
<td>11 550*</td>
<td>6</td>
</tr>
<tr>
<td>1924</td>
<td>192 417</td>
<td>14 034</td>
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<td>1925</td>
<td>226 143</td>
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<td>1926</td>
<td>228 280</td>
<td>23 783</td>
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<tr>
<td>1927</td>
<td>240 498</td>
<td>32 909</td>
<td>14</td>
</tr>
<tr>
<td>1928</td>
<td>221 082</td>
<td>56 522</td>
<td>17</td>
</tr>
<tr>
<td>1929</td>
<td>250 201</td>
<td>43 755</td>
<td>17</td>
</tr>
<tr>
<td>1930</td>
<td>224 055</td>
<td>40 094</td>
<td>18</td>
</tr>
<tr>
<td>1931</td>
<td>166 005</td>
<td>29 375</td>
<td>18</td>
</tr>
<tr>
<td>1932</td>
<td>80 384</td>
<td>16 191</td>
<td>20</td>
</tr>
<tr>
<td>1933</td>
<td>99 755</td>
<td>17 908</td>
<td>18</td>
</tr>
<tr>
<td>1934</td>
<td>152 824</td>
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<td>1935</td>
<td>194 944</td>
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<td>245 537</td>
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<td>226 887</td>
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<td>1938</td>
<td>220 967</td>
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<td>201 420</td>
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<td>15</td>
</tr>
<tr>
<td>1940</td>
<td>255 059</td>
<td>38 121</td>
<td>15</td>
</tr>
</tbody>
</table>

*Slightly inflated because 44% acid phosphate is represented in terms of 16% acid phosphate.

Data for total sales in Indiana 1922-1936 are from Herbert Willett, Fertilizer Consumption in the United States (Washington: The National Fertilizer Association, 1937). Data for Indiana sales 1937-1939 are from the Fertilizer Review, March-April, 1940.

Data for farm bureau sales are from the office of the Indiana Farm Bureau Cooperative Association.

Farm bureau volume for 1922 was probably around 10,000 tons, but accurate data is not available. No trustworthy figure for 1921 can be given.
mainly complain that they are unable to make reasonable earnings.¹ Fertilizer is now an example of a business from which all the pure profit has been squeezed, according to spokesmen of the industry. Even the cooperatives operate on an extremely small margin and make little profit.

The end of the year 1922 saw the conclusion of two years of collaboration between the Federation and the Grange in the control of the Marketing Service's affairs. The association was bound to come to an end, for it had become a very unequal partnership. In Indiana the Grange had long since passed its period of great organizational activity and strength; the Farmers' Association, on the other hand, was young, enterprising, and interested in economic activity, and was far larger and stronger than the Grange. Besides, nearly all the local activity was centered around the township and county units of the Federation. On January 5, 1923, the Grange, turning its ten shares of stock over to the Farmers' Association, left that organization in sole control.² A new board of directors and new officers were elected at the same time. Four of the six members of the new board were directors or officers also of the Farmers' Association; and William H. Settle, elected president of the Marketing Service, was also the president of the association.

Commodities handled in 1923 were the same as the year before. The board apparently felt it would be a better policy to confine its activities

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¹"The earnings record of the fertilizer industry is an unsatisfactory one, indicating that prices have not been maintained at levels which result in fair profit margins ... . This poor earnings record can be attributed largely to the competitive situation." Herbert Willett, Fertilizer Prices and Price Indexes (Washington: The National Fertilizer Association, 1938), p. 2.

²"Minutes," January 5, 1923.
to a few established lines rather than to dissipate its resources on many items handled in small quantities with little prospect of profit, and the possibility of loss. The Service selected fertilizer, coal, twine, and feed, and restricted its transactions to them.\(^1\) Fertilizer led all other products. Although consumption in the state was less than usual, due to the depression which was particularly severe in agriculture, the Marketing Service not only held its own, but increased its fertilizer tonnage somewhat. It handled more than a quarter of a million dollars worth\(^2\) and at the end of the year the board declared patronage dividends ranging from 54 cents to $2.07 per ton, depending on the analysis and the company from which the fertilizer was purchased.\(^3\) The largest dividends were paid on fertilizer secured from the Tennessee Copper and Chemical Corporation\(^4\) because that company made the best terms. Prices to the farmer were about the same as the average for the year before, but were less subject to fluctuation. The fertilizer manufacturers had learned their lesson and were accepting the fact that their business would have to be conducted on the basis of a lower level of retail prices.

On the strength of promises of improvement in quality over that of the previous year, the Marketing Service again distributed Hoosier twine

\(^1\)"Minutes," July 24, 1922.

\(^2\)"Minutes," November 16, 1923. In all cases of volume per year, before 1926, the department's fiscal year from November 1 to October 31 is meant. Beginning in 1926 the calendar year is to be understood.

\(^3\)\textit{HF}, December, 1923, p. 23.

\(^4\)Successor to the Southern Agricultural Chemical Company.
made at the Michigan City Prison. Unfortunately, although there probably was some improvement, it was still below the standard of good private brands. More than a million and a quarter pounds were sold—which, in terms of value, would be something over one hundred and fifty thousand dollars worth—a decrease of about one third as compared to the previous year. The price was a little higher because the last year's transactions had caused the prison a loss of several thousand dollars. However, the price of Hoosier twine was still below that of other brands.

Coal to warm the farmer's home and to use in threshing his grain was the item handled in third greatest volume. To insure the quality of this commodity, a representative of the farmers was maintained at the mines in Kentucky and Virginia to inspect each carload sent to county or township farmers' associations. More than sixteen thousand tons of coal were ordered in this way through the Marketing Service in 1923.

Feed, the fourth item, was not yet handled on a large scale; only slightly more than one thousand tons were sold, but the foundation was being laid for expansion in the next year.

Total operations for the year ended favorably, leaving the Service with a net profit of more than nine thousand dollars. Considering the volume of business, probably over a half million dollars, handled mostly on a commission basis, and compared to capital stock outstanding of only

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1 HF, April, 1923, pp. 29, 32.  2 "Minutes," November 16, 1923.

3 HF, April, 1923, pp. 29, 32.  4 "Minutes," November 16, 1923.

5 Loc. cit.  6 Loc. cit.
two thousand six hundred dollars, this year's operations can certainly be regarded as extraordinarily successful. The Service distributed the entire amount of the earnings to the farmers who had purchased fertilizer through it, giving them a refund of close to one dollar per ton.¹

During this year the Marketing Service changed its name. First the Farmers' Association adopted a new name. The name Indiana Federation of Farmers' Associations was long and cumbersome and it carried little distinction. The popular term, farm bureau, the name of the national federation, was adopted for the Indiana association early in 1923. The appellation Federated Marketing Service was out of date; first, because it was no longer a federation since the withdrawal of the Grain Dealers and the Grange; second, it did not engage in marketing. Although when first organized, plans were made for both purchasing and marketing, actual operations were confined to purchasing; and separate organizations had now been set up for marketing. In choosing a new name, the board desired to show its close relationship with the Farm Bureau; so on May 22, 1923, it resolved to adopt the name Indiana Farm Bureau Purchasing Department, Inc.²

Local organization of co-operative buying was a varied and changing sphere of activity. The first step was always simple pooling. Getting together and anticipating their needs for fertilizer or other supplies, farmers in a community would make up a composite order for a certain number of carloads. One of their number was then chosen to take care of the details of placing the order and to have charge of distribution when it arrived. During 1920, 1921, and 1922 these pool masters, as they were called, were farmers devoting only a small part of their time to the work.

¹"Minutes," November 18, 1924. ²"Minutes," May 22, 1923.
They received a small commission, typically fifty cents a ton on fertilizer, as compensation for no little time and devotion. Later as the practice of co-operative buying became more prevalent the job of the pool master became bigger. In several counties it assumed the proportions of a full time job and the county association employed a permanent purchasing agent or business secretary to take charge of the work. This man was usually a farmer working on a commission basis, but in a few instances he was paid a salary. In all cases pool buying was centered closely around the local farm bureau organization. It was the farm bureau members who did the buying, and it was at the farm bureau meetings that enthusiasm was aroused and the necessary organizational steps taken. However, not in every case did a pooled order go to the Farm Bureau Purchasing Department. Sometimes pools were organized to buy a commodity which the Purchasing Department did not handle; but even when it did handle the commodity, the pools rather frequently went to private firms. No doubt this reflected a certain lack of loyalty or lack of confidence on the part of farm bureau members in their state organization.

Most of these pooling operations were conducted on a car-door basis. The pool ordered one or more carloads which were put off on sidings. The pool master notified all the farmers, who came with trucks and wagons, paid for their goods, and hauled them away. This worked very well with full carloads, but fractional cars were a problem. Sometimes a neighboring county would fill out a load, but this was not always practical. Frequently farm bureau leaders knew that if they could just keep the remaining fraction of a car for a while it would be possible to dispose of it. In this way many local farm bureaus began to establish warehouses or stores. Ware-
house space might at first be rented only temporarily, and then on a permanent basis. From this, the next step taken by a number of counties was the establishment of a store with a full time attendant and a regular stock of goods. These operations were conducted directly by the township or county farm bureau association and were not ordinarily organized separately or incorporated.\(^1\) A purchasing agent or hired manager was placed in charge, under the general supervision of the farm bureau officials. Provision was always made for the payment of patronage dividends to farm bureau members in proportion to purchases.

The Purchasing Department, granting local units a discount of seven or eight per cent from the retail quotation, gave them the advantage of a wholesale price. The fund thus accumulated by the county farm bureau was used first to pay all the expenses of local distribution. The remainder was usually distributed as patronage dividends, but in a few cases was retained to build up capital for a store or warehouse. Likewise all patronage dividends declared by the Purchasing Department, instead of going directly to the patron, were turned over to the county farm bureau for distribution.

A good many of these local business ventures were short-lived. Started with very little capital and scant facilities, they never developed sufficiently to become well established, and were discontinued after a short time. But there were a number of counties in which the story was

\(^1\) The following are exceptions:
Bartholomew county, purchasing was one of the departments of a farm bureau creamery which was incorporated in 1923. (Personal letter from its general manager); Daviess county, incorporated in 1924 under Kentucky law with a board elected by the members. (Personal letter from its general manager); Rush county, incorporated in 1924. Cf. infra, p. 53.
quite different. These developed business organizations which were financed adequately to carry on operations on a relatively large scale. In some cases the farmers financed the organization by subscribing to limited liability bonds which could be used as collateral to obtain credit from the banks, and in some cases the capital was built up slowly out of earnings.

One such county, an outstanding example of success, was Rush county. It had an active farm bureau, and its members had been very successful in pooling their orders and buying from the Purchasing Department. Late in 1923, at the county convention, the members directed the officers to look into the feasibility of establishing a co-operative company for distribution of feed, fertilizer, fence, coal, and other supplies. A committee appointed to study the proposition reported favorably, and immediate preparation was made to launch the enterprise. To assure adequate financing from the start, noninterest bearing notes aggregating a total value of $20,400 were signed by 217 farmers and given to the organization. Banks, accepting these notes as collateral, loaned money for operations, and the Rush Service Bureau, Inc., started business in February, 1924. The organization was unusual among county stores in that it was incorporated. The board of the farm bureau controlled by appointing the board of the Service Bureau.

With an enthusiastic membership and efficient leaders, the organization was a success from the beginning. In the first year of operation, the Bureau's sales amounted to $125,000. It made a good profit, distri-
buted $5,500 among the members as patronage dividends, and left a reserve in the treasury. During the next four years business averaged $140,000 per year, and net profits were more than forty thousand dollars. Patronage refunds were made and enough reserves accumulated so that the organization could celebrate the burning of the original notes a little less than four years after its launching.¹

At the same time that these developments were taking place among the county farm bureaus, the state Purchasing Department decided to experiment with some stores operated under its own management. The first one of these stores was established at Indianapolis. Several of the surrounding counties were interested in the project and agreed to lend the department the money necessary to establish it. Space was leased opposite the entrance to the stockyards, and the Indianapolis distributing station began operations early in 1924.² Livestock farmers found it convenient to take a load of feed home with them after they had been to the stockyards. Most of the business was in feed; within a short time a carload a day was being sold through the station.³

The board of directors, encouraged by initial success, decided to extend the plan. To this end they announced a resolution of policy to serve as a guide in setting up such enterprises in the future:⁴ 1. No distributing unit shall be established until after the farm bureau members in the county concerned approve the action in a meeting called for that purpose.

¹HF, September 1, 1925, p. 3; January 15, 1928, p. 32.
²HF, April, 1924, p. 25. ³HF, June, 1924, p. 21.
⁴"Minutes," May 29, 1924.
2. The local farm bureau or its members must raise enough money to make a loan to the Purchasing Department which will be sufficient to establish the business. The manager of the Department shall make a careful investigation to determine the probable volume and shall not recommend the establishment of a unit unless the volume would justify it.

3. The Purchasing Department shall issue certificates of indebtedness to the county farm bureau for the loan.

4. It shall be an inviolate policy to conduct a strict cash retail business at such distributing points. The management will be in the hands of the Purchasing Department exclusively. In all cases the policy of buying for current needs only will be followed at these stores.

An invitation extended to the county farm bureaus to co-operate in establishing such stations was well received, and several of them prepared to accept the state Department's offer. On May 29 the manager reported to the board that the farm bureau members around Corydon, Indiana, had raised two thousand dollars for a store in their community. The step was approved, and the Purchasing Department's second retail branch was soon established there. Before the end of 1924 stores were operating at Fort Wayne, Aurora, and Milan. During the next year, they were established at Harrison (Ohio), Sullivan, Muncie, North Vernon, and Evansville, bringing the total to ten.

Business operations in the year 1924 were the most successful ever experienced by the Purchasing Department. There was a large increase in

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1 Loc. cit.  
2 HF, November, 1924, p. 23.  
3 Loc. cit.  
4 HF, December, 1924, p. 15.  
5 HF, April, 1925, p. 5.  
6 Loc. cit.  
7 "Minutes," February 2, 1926.  
8 Loc. cit.  
9 HF, October, 15, 1925, p. 3.
the sales of almost every commodity. Fertilizer continued to be the largest item, with total tonnage increasing almost fifty per cent over the year before, and value close to a half million dollars.¹ Most of this was secured from the Tennessee Copper and Chemical Corporation. The sale of feed increased five times over what it had been the year before.² In terms of value it was only slightly less than that of fertilizer. The reason for this big increase was partly the newly established retail stores which sold more feed than any other commodity, and partly the new feed pool put into operation that year.

The farm bureaus of twelve states combined to form a huge pool and contracted with a large manufacturer to supply them with "open formula" feeds. The co-operation of the land-grant colleges was secured, and in each state feed formulas were used which were suggested by the college authorities of that state. The plan provided that the farmer contract in the summer, when prices were low, for his entire winter's supply which would then be delivered to him as needed. This program assured the manufacturer a large definite volume and a low cost of distribution; it assured the farmer the best formulas at a fair price.³

Twine sales in 1924 decreased almost half, due in part to the disappointment experienced with some of the twine sold the year before,⁴ and in part to the fact that the mill at Michigan City burned, destroying the Department's usual source of cheap supply.⁵ The volume of coal sales in-

¹ HF, July 1, 1927, p. 11.  ² Loc. cit.
⁴ HF, July, 1924, p. 23; July 1, 1927, p. 11.  ⁵ HF, April, 1924, p. 20.
creased about fifty per cent, to more than $100,000. Salt and a few other items were handled on a small scale.\(^1\) Total volume of sales was over a million dollars\(^2\)-- twice that of the year before--and a net profit of forty thousand dollars was made,\(^3\) which was four times that of the previous year. Fertilizer was the commodity which was handled on the largest margin of profit and which brought the Department most of its earnings. Patronage dividends were therefore paid on it alone, $37,500 were distributed in this way in 1924.\(^4\)

In 1925 the Department, duplicating the remarkable success of the year before, again doubled its volume of business.\(^5\) As before, fertilizer held first place, reaching a volume of three-quarters of a million dollars. Feed sales were almost as large; those of coal and twine lagged, although each increased over the sales of the previous year.\(^6\)

In addition to the four established lines, a new department was instituted for handling seed. Farmers frequently complained of the quality of the seed which they secured from ordinary dealers. Sometimes the seed contained a considerable admixture of weed seed which was practically indistinguishable when it was purchased. In the case of alfalfa and clover, the origin of the seed was frequently such that it did not grow well in Indiana soil and climate. The state legislature had passed a pure seed law, but it was ineffective and did not give the protection which was needed. Red clover seed, imported from southern Europe, was especially bad and was frequently sold as northwestern domestic seed. This practice was not

\(^1\) *HF*, July 1, 1927, p. 11. \(^2\) *Loc. cit.*

\(^3\) *Minutes,* November 18, 1924. \(^4\) *HF*, January, 1925, p. 22.

\(^5\) *HF*, December 1, 1925, p. 13. \(^6\) *Loc. cit.*
stopped until a federal law, which the farm bureaus helped secure, was enacted requiring that all imported seed be stained to make it readily distinguishable.\footnote{HF, May 15, 1926, p. 7.} To secure better seed several state farm bureaus in the North and East organized in Chicago in 1924 the Federated Seed Service, the purpose of which was briefly stated to be to "insure the distribution of seeds of known origin, variety, and quality to its members."\footnote{HF, January, 1925, p. 13.} Mr. Shuttleworth, the general manager of the Purchasing Department, was made president of this organization. In 1925 Manager Shuttleworth and President Settle went to Utah and Idaho, a region which produces excellent alfalfa and clover seed well adapted for use in Indiana. Arrangements were made directly with the growers' organizations for the purchase of some of this seed.\footnote{HF, September 1, 1925, pp. 4 ff.}

In one important respect the method adopted for the handling of seed represented a departure from previous policy. Until this time the Department had always followed the rule of buying only on order, or for immediate delivery. This procedure required little operating capital and involved little risk. The Department did not have to anticipate future demand or worry about fluctuations in the price. On the other hand, the policy of buying direct from the grower required that the seed be purchased long before it was sold. Because it had saved very little of its earnings for reserves, the Department was compelled to borrow in order to finance these purchases.\footnote{"Minutes," November 16, 1925.}

In the same year the Purchasing Department for the first time became interested in the sale of petroleum products, a new field which was to
assume rapidly increasing importance. An unusual contract for oil and grease was entered into with the Standard Oil Company of Indiana. Although under this contract the Department did not itself handle the products, the company agreed to pay, through it, a patronage dividend to farm bureau members. The company continued, as it had before, to deliver to the farmer's home. With each purchase farm bureau members were given a receipt marked "Farm Bureau Contract." At the end of a six month period the member sent his receipts to the Purchasing Department. The company then paid (to the Purchasing Department, for distribution) a patronage dividend which was equal to the difference between the price actually paid and the price which would have been paid if all these purchases had been one large order. In other words the farmer got his oil and grease at a quantity discount, just as a large dealer did. The saving effected by this contract on the products involved was very substantial because of the wide margin of profit which characterized their distribution.

The next year, 1926, was a critical one for the Purchasing Department. It saw the sudden development of a minor financial crisis, and witnessed the crystallization of sentiment, based on six years' experience, in favor of a new and drastic reorganization.

First of all there was a change in the management. Mr. Shuttleworth, who had been general manager for four years, submitted his resignation, to take effect February 1. To fill the vacancy the board selected one of its

1FF, November 1, 1925, pp. 8 f.

2A patronage dividend on oil of four cents per quart was paid in 1926. Cf., "Minutes," October 13, 1926.

3"Minutes," February 2, 1926.
own members, Mr. I. H. Hull, a farmer from LaPorte county. Mr. Hull had been very active in farm bureau work, having served as chairman of his county organization from the beginning, and as a director of the state Farm Bureau since 1921. In addition, he had served two years in the Indiana state legislature.\(^1\) Mr. Hull brought intelligence, imagination, and a contagious enthusiasm to the office. His ability as a leader was proved by the way he solved the problems which arose soon after he became manager.

Early in 1926 the Purchasing Department found itself with a deficit—the first since its organization in 1920. The Department had a contract, with a milling company, which was based on the expectancy of a definite volume of feed sales. Due to the failure of the ten retail stores to sell as much as expected, the Department purchased much less than the contract called for from the milling company. A clause in the contract required the Department to compensate the company for the loss which it suffered as a result.

The loss on the feed contract was small; much more serious were the losses from other sources. Late in 1924 Mr. J. P. Lackey, sales manager of the wheat pool operated by the Indiana Wheat Grower’s Association, prevailed on the board of the Purchasing Department to buy and store a large quantity of wheat and oats. This was carried out in the confident belief that the price was certain to go up; but as a matter of fact, the opposite occurred. Sure that if it held out long enough it would not have to take a loss, the Department carried the holdings at cost, and did not take the loss when the books were closed at the end of October, 1925. But early in 1926 the management, discouraged by the turn of affairs, took advantage

\(^1\) HF, February 15, 1926, p. 10.
of a slight rise in price and disposed of the entire holding.

From the beginning in 1920 the most difficult and most persistent problem of the Department was the local organization of its activities. Many experiments had been carried out, some successful and some unsuccessful. Simple pooling had proved its worth and was indisputably economical, but it hardly lent itself to the large-scale business into which the Purchasing Department was developing. The directing of pooled orders through the agency of local elevators or private dealers, though at first strongly advocated, was never practiced extensively, partly because of the non-co-operation of the dealers. Purchasing agents employed by township or county farm bureaus were reasonably successful; the board urged their use by counties as late as 1926, but they did not entirely match the Department's rapidly growing requirements.

Least successful of all proved to be the state Department's own retail stores; for they lost money from the time of their establishment until they were closed. They never developed the volume of business which was necessary for economical operation. These stores required a concentrated group of farmer patrons living within the trading area of each store rather than the extensive, thinly scattered interest which sufficed for other methods. At first members of the board hoped that if the stores were maintained long enough they would develop sufficiently to become profitable. Early in 1926, however, it was evident that they would never be successful, so the board ordered them closed 1 although it meant the taking of another loss. 2

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1 "Minutes," February 2, 1926; April 15, 1926.

2 The total loss on the feed contract, the grain trading, and the operation of the stores was $26,000. Cf., "Annual Auditor's Report of the Indiana Farm Bureau Purchasing Department," for the years 1926, 1927. Hereafter references to this source will be abbreviated to "Auditor's Report."
The Purchasing Department was still without an answer to its most important problem—a better plan of local organization. There were many conferences and many earnest discussions among those who had the welfare of the organization at heart. Opinion was unanimous that the greatest problem was one of increasing the local interest. Gradually sentiment crystallized in the belief that the best way to do that was by making control and ownership local. The Department needed most of all the pride of ownership and the sense of responsibility toward their own business which this change would give to farmers and local farm bureau leaders. On these points there was unanimity of opinion, but the exact scheme was not at first worked out.

The stores operated by several of the county farm bureaus came nearest to the proposed plan, and some of them were highly successful; but they fell short in several respects. For one thing, ownership and control were not directly in the hands of farmer patrons, but in those of the county farm bureau organization. Most of them were stunted because of inadequate capital, and that was very likely to be the case so long as they were operated as departments of the county farm bureaus. The general policy of the farm bureau as established at the beginning was to discourage the operation of business ventures by its units, especially large-scale ventures, although it encouraged separate incorporation of these activities. A good many of these organizations were not very loyal to the Purchasing Department, for they frequently purchased supplies from other sources.

Confronted with such problems, those interested in the organization found a strong appeal in the story of the Rochdale co-operative pioneers. The Rochdale principles of democratic control and ownership of their own business by the patrons coincided with what experience had taught them was
needed by the Purchasing Department. The Hoosier Farmer began to publish
the history of the Toad Lane store and to report the remarkable development
of co-operatives in urban districts in England and among the farmers in
Denmark. Gradually the vision of a new structure assumed concrete form.
Taking the British Co-operative Wholesale Society as their model, leaders
planned to convert the Purchasing Department into a wholesale agency owned
and controlled by the local co-operative societies which bought through it.
In each county they planned to build a county co-operative association owned
and controlled by the farmers who patronized it.¹ It was a plan which might
have seemed unreal and visionary, but the successes of the past six years
gave them confidence, and they were soon taking steps to make it a reality.

Such a plan, calling for a larger and a permanent organization, needed
much more capital than had heretofore sufficed the Department; so the board
established as a policy the setting aside of twenty-five per cent of the net
profits, which would otherwise have been used to pay patronage dividends, as
a reserve and as operating capital.² As evidence of this fund, certificates
of indebtedness were issued in the name of the county association, these
certificates at a later date to be converted into the common capital stock
of the Purchasing Department to be issued to the association.

Officers of the Department spent the remainder of the year 1926
developing and completing the plans for the reorganization, and making up
the loss which the Department had suffered during the first of the year. In
the last respect they were successful, for when the books were closed they

¹Hoosier Farmer, July 15, 1926, p. 10; September 1, 1926, p. 10; September 15,
1926, p. 6.

had transacted a business of over two million dollars and had made a profit of $133,600. All commodities except feed increased in volume of sales over the previous year. The total amount of the net profit was distributed as patronage refunds; except that, as distinguished from former practice, part was returned in cash and part in the form of certificates of interest or common stock.

The end of the year 1926 closes a chapter in the history of cooperative purchasing by farmers in Indiana. These six years may be regarded as a period of successful experimentation. Successful because in this brief space of time an organization was developed which had in the final year a volume of business of over two million dollars and which returned to its patrons a total of a quarter of a million dollars in refunds. Successful also because there is good reason to believe that it was an important factor in lowering the prices of fertilizer and possible the prices of other farm supplies. And finally successful because in this period was gained the knowledge and the experience which made possibly the building of a new and more significant structure.

1HF, July 1, 1927, p. 11; "Auditor's Report," 1926, 1927. These figures are for a fourteen month period. The loss of $26,000 is included.

2HF, July 1, 1927, p. 11.
CHAPTER IV

THE INDIANA FARM BUREAU COOPERATIVE ASSOCIATION FROM 1927 TO 1940

In 1925 the Farm Bureau successfully sponsored a Co-operative Marketing Act in the Indiana state legislature, the purpose of which was to provide a better means for the incorporation of agricultural co-operatives than did the existing corporations for profit laws. This had been intended for the benefit of marketing co-operatives, and at the time its sponsors had given no thought to the Purchasing Department. Nevertheless its provisions were broad, and it seemed better adapted to the needs of the purchasing organization than the old laws under which the Department had been operating.

One of the frequently emphasized advantages of this Act was the protection which it afforded. It prescribed stiff penalties for those who misrepresented the financial condition or the management so as to injure the co-operative associations organized under it. Another advantage was that leaders felt that organization under this act would better enable the association to qualify under federal law for exemptions accorded to agricultural co-operatives. Federal statutes excused co-operatives from paying certain taxes and provided that they not be construed to be in violation of the anti-trust laws.

The Purchasing Department filed its new articles of incorporation with the Secretary of State of Indiana on February 1, 1927. The new charter provided for many important changes. It increased the total amount of authorized capital stock from $10,000 to $150,000. Of this, $100,000 was to be

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1 Acts of 1925, Chapter 20.

2 Again increased to $1,500,000 on March 4, 1930.
common stock and $50,000, nonvoting preferred stock. Despite a tenfold increase in the amount of business transacted, the Department had, since its incorporation in 1922, issued no more stock. At the beginning of 1927 it had outstanding only twenty-six shares worth $2,600. The new plan, of course, called for a much wider distribution of ownership and a much larger issue of stock.

In accordance with the proposal to turn control over to the county units, the Department devised a new method of electing the members of the board of directors. The Indiana Farm Bureau Federation had divided the state into ten districts and had provided for the election of one director from each of these districts. The Purchasing Department adopted the same general plan. The county purchasing associations in each of the ten farm bureau districts were asked to nominate one person for the board at the annual stockholders' meeting. The articles provided that this person be a producer of agricultural products, and he was expected to be a resident of the district which nominated him. In addition, the Indiana Farm Bureau Federation had the privilege of nominating one director-at-large. The stockholders, at their annual meeting in March of each year, elected the nominees to the board by their combined votes. In case any nominee failed of election, the stockholders from the district which selected him were obliged to name another nominee to be voted on by the entire body. The new arrangement did not mean the end of the close relationship between the Farm Bureau and the Purchasing Department. Those who were active in the one organization were interested also in the other. As actually constituted in 1927, seven of the eleven members of the Purchasing Department board were members of the board or held other official positions in the Indiana Farm Bureau. The president of the
Farm Bureau, nominated director-at-large to represent that organization, was elected president of the Department.

By the provisions of the Co-operative Marketing Act, the stockholders of any corporation organized under it must be either producers of agricultural products (i.e., farmers) or associations of such producers incorporated under the same act. This requirement was in harmony with the plans of the Department. The by-laws therefore provided that county associations, in order to hold the stock of the Department, must be organized and incorporated under the provisions of this act. Under the law, directors were also required to be stockholders; so provision was made to issue one or two shares to each director. For a short time, after the Farm Bureau relinquished its twenty shares, the members of the board were the only stockholders of the corporation; but it was not long until counties qualified themselves and took the controlling stock.¹

Rochdale co-operative principles were written into the charter of the Department. The by-laws set forth that each stockholder, regardless of the amount of stock held, should have one vote only. One section required that dividend payments on common and preferred stock not exceed six per cent, and provided that rebates or dividends be paid in proportion to purchases, rather than on stock. Sales for cash only was the rule of the Department; the only exception conceded was that in case the board should declare the granting of credit to be the custom of the trade, the directors could prescribe rules under which limited credit might be granted. The by-laws specifically provided for the creation of an educational fund and for the setting

¹ Since 1928 members of the board have not voted as stockholders.
aside of a certain part of the earnings for this purpose each year. The only co-operative principle not a part of the plan was the rule of open membership. Under the law, only farmers or farmers' associations could be members.

The Purchasing Department next faced the gigantic problem of getting local purchasing associations organized in each county. This was the most difficult thing which it had undertaken. To secure the co-operation of local leaders and to help plan the distribution of stock accumulated in the names of the counties, the Department called a meeting of county managers and chairmen. This meeting enthusiastically approved the plan to turn the Department over to local control.¹

By the early part of 1927, forty-one counties had accumulated credit entitling them to one or more shares of stock, but it could not be issued to them until they had incorporated under the Co-operative Marketing Act.² The Department issued certificates of interest as a temporary expedient and urged the counties to incorporate as soon as possible. For the counties the new plan represented a huge step forward from their typical method of pooling orders and taking supplies from the car-door. As compared to the old method of operation, incorporation meant the organization of a farmers' business association on a much more nearly permanent basis, with stability, dignity, and far better financial arrangements.

To assist the counties, the state office drew up a model set of articles of incorporation and by laws.³ These provided for a "County Farm Bureau Co-operative Association" modeled closely after the state Depart-

¹ NF, February 15, 1927, p. 5. ² Loc. cit. ³ "Minutes," March 1, 1927.
ment, with the exception that its stockholders were to be farmers rather than county co-operatives. This model, adopted without change by nearly all the counties, provided for the same co-operative principles as those of the state association. To assure the most democratic procedure possible, the by-laws guaranteed the principle of one man, one vote; and provided for other democratic rules. In the election of members of the county board of directors, the by-laws required that a nominating committee selected beforehand nominate twice as many names as there were vacancies to be filled and required, in addition, that the floor be thrown open for nominations. This arrangement encouraged members to exercise their own democratic will rather than to use their votes merely to ratify the choice of their more aggressive leaders.

The new plan was well received by farmers and by leaders of county farm bureaus. They had for some time felt the need of a change, but they did not know exactly what they wanted. Now local people voiced their enthusiastic approval of a plan which promised democratic control and which emphasized the importance of local organization.

The state Department sent M. J. Briggs into the field to get the counties organized. Mr. Briggs held meetings all over the state and talked to local leaders everywhere, proving himself a missionary of exceptional ability. The first association organized was in Decatur County, incorporated February 9, 1927. Others followed very quickly; on May 20, 1927, Mr. Briggs reported to the board that ten more were incorporated; and five months later there were twenty-three. By the time of the first annual stockholders‘ meet-

1 From records in the office of the Secretary of State of Indiana.
ing, held in March, 1928, thirty-three county associations were incorporated and were holding the stock of the Purchasing Department.

The greatest difficulty experienced by the new organizations was the securing of adequate financial resources. Most of them wanted to operate warehouses or stores, and for this, a minimum of six or seven thousand dollars was required. About one half of the incorporated associations were able to raise this sum of money. The members of the farm bureau frequently signed a limited liability bond; opposite his signature each member specified an amount, perhaps one hundred dollars, for which he was willing to be held liable. When the total sum approached twice the amount needed, the bond was given to a local bank which then advanced the money necessary to start operations.

The association rented a warehouse or storeroom which was located in nearly every instance on a railroad siding. Warehouse facilities first secured were usually small and were obtained for a low rental. The board of directors engaged a general manager and perhaps two or three other employees. The problem of finding a competent manager was frequently a difficult one. Every association wanted a man with business experience in handling farm supplies, a man familiar with co-operative principles, and a man willing to work for a small salary. Men with all these qualities were almost impossible to find. The problem of competent management was a serious one which was not solved until after the associations had been operating for several years and had trained men in their service.

Feed and fertilizer were the most important commodities handled by the county stores. Fertilizer was handled on a larger margin of profit, but

1 "Minutes," (Stockholders' meeting), March 6, 1928.
feed was an important necessity demanded by many farmers who did not buy fertilizer. The farm bureau, using formulas recommended by Purdue University for its feed, emphasized strongly the factor of quality.

About half of the associations were able to start in business with a warehouse; the others were not able to raise the necessary money and were compelled to operate on a car-door basis. Some of these counties started their corporate existence almost completely without financial resources. In every case, they had one full time paid employee—a general manager; but frequently they had no more. To start with, paying even one man was a problem. Some of the counties borrowed from local banks the money necessary to start operations, with the members of the board of directors indorsing the note and making themselves personally liable. The managers of these associations acted as pool masters for the county. In this way, they could handle a fairly large business and could accumulate capital to build up the strength of the organization. But trouble with the car-door method often developed because a car was not emptied on time, or because a small quantity of goods was left over and had to be stored temporarily or otherwise disposed of. Consequently the tendency was to change to a warehouse basis of operation as soon as possible. Some farmers opposed the change on the ground that it would raise the costs of the association unduly and put its operations on a parity with that of private dealers; but in spite of this the advantages of warehouse operation were so great that the associations adopted it as soon as possible. Even after a warehouse was put in operation, however, some car-door business was carried on. Sometimes they charged two prices—a low price to the farmer who came and got his goods directly from the car and a higher price for goods taken from the warehouse.
Most of the associations made a profit from the beginning. Some at first paid out nearly all of their earnings in cash patronage dividends, in the belief that that was the best way to increase their volume of business. However, the pressing need of the associations for more capital, combined with the urging of the state Department, caused most of them to adopt the policy of paying patronage dividends in common stock. This policy, consistently followed by most county associations (some have never paid a dollar in cash patronage dividends), has built up the capital of the counties until today many of them are in a very strong position.

When the Purchasing Department took stock at the end of its first year of operation under the new plan, it found that it had transacted the largest volume of business in its existence. Total volume was over two million dollars.\(^1\) Of this, more than half was in fertilizers; other commodities, in order of decreasing importance, were feed, coal, seed, twine, oil, fence, tires, and batteries. Net profits at the end of the year were over \$120,000,\(^2\) which was probably a little more than the year before, although exact comparison is difficult because the audit of the Department in 1926 was for a fourteen month period. All of the earnings were distributed as patronage dividends; three-fourths was returned to the counties as cash, and one-fifth as common stock.\(^3\) At the end of the year the net worth of the Department was twice what it was at the beginning.\(^4\)

Competition in the fertilizer field was especially keen in 1927. In an attempt to get more business, manufacturers offered farmers discounts

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\(^1\) HP, March 15, 1928, p. 29.  
\(^3\) Loc. cit.  
\(^4\) "Minutes," November 17, 1927.  
from their advertised prices. To counteract this more or less secret price cutting, the Purchasing Department persuaded the Tennessee Corporation to grant a two per cent reduction in price; this enabled the Department to return an extra large dividend to the purchasers of farm bureau fertilizer. 1

Also during 1927 the company which was supplying the Department with feed began to cause trouble. This company had been selling to the Department for several years, but it now attempted to go around the state organization and sell directly to the county farm bureau units. It quoted to these units prices which were below the prices at which it sold to the state Department. At one time it shipped in fulfillment of the Department's order a large quantity of mouldy feed; and, according to reports, circulated the rumor that it was purposely cheapening the quality of the feed which it sold through the Purchasing Department. 2 These tactics seemed deliberately designed to break up the co-operative purchasing movement, so the Department canceled its contract and sought a better source from which to purchase its feed. An Indianapolis milling company made an apparently attractive offer which the Department accepted. But this company, too, very soon attempted to go around the Department and deal directly with the county associations. It was slow in filling orders, gave poor service through the Purchasing Department, and then offered some of the counties lower prices if they would deal directly. 3 A few county associations accepted the mill's offer, thinking in this way to save the state Department's commission; but most of them remained loyal, for they believed that in the long run the state organization which they now owned would protect their interests.

1 "Minutes," June 6, 1927.  
2 "Minutes," March 1, 1927; April 5, 1927.  
3 "Minutes," October 10, 1927; November 17, 1927.
The farm bureaus of Michigan and Ohio had a contract with a Chicago mill which had been in effect for several years. They now urged the Indiana organization to establish connections with this mill, which had given them very satisfactory service; and they pointed out the advantages of the resultant large volume buying if all the farm bureaus should give their business to one concern. Toward the end of the year the Purchasing Department signed a new feed contract with this concern—the third in a year.

The year 1928 was a good one for the Purchasing Department. Total volume of sales increased thirty-eight per cent—i.e., to almost three million dollars.\(^1\) Fertilizer sales increased twenty per cent; feed sales more than doubled; and the sales of oil and grease were tripled. Net earnings, however, remained at about the same level as those of the year before. This was partly because of a loss occasioned by the seed division, which had to carry over a rather heavy inventory from the year before; and partly because of the invaluable assistance which the Department had given to the county associations, both to the new ones just being organized and to the old ones with their many problems.

The most important new development of 1928 was the beginning of the movement of county associations to install bulk tank stations for the distribution of petroleum products. A bulk tank station consists of two or more large tanks, located on a railroad siding, with accessory pumps and equipment for the storing of gasoline and kerosene. From this station a number of tank trucks deliver to the farmers' homes. The county association usually made arrangements for a driver or service man to provide his own truck, and the association furnished the tank to mount on it. The cost

\(^1\) "Minutes," (Stockholders' meeting), March 4, 1929.
of an installation such as this was not high; and with the farmers' increasing consumption of petroleum products, it seemed to present a real opportunity for the farm bureau to expand its service.

During the year 1928 three counties installed such stations, and early the next year nine more put them into operation. The state department and the other county farm bureaus watched the progress of these counties with great interest. Their hopes were well-founded, for bulk tank stations proved to be the most profitable ventures which the farm bureau had ever undertaken. With the beginning of the year 1930 other counties accepted the go-ahead signal and began to install stations. Counties which were already organized added them to their service; and new counties incorporated, with the operation of bulk stations as the principal activity. At the end of the year 1930, forty-two were in operation; and the next year twenty more were established. These stations were extraordinarily successful; every one of them made money, and many paid for themselves in the first twelve or eighteen months of operation. This remarkable profitability was due to the wide spread between the tank-car price of petroleum products and the price of those products delivered to the farmers' home.

The county associations took advantage of this opportunity to increase their capital. Many were able to accumulate enough profit from the distrib-

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1 Between two and three thousand dollars for a small station. Cf., "Minutes," December 2, 1929.

2 HF, May 15, 1929, p. 8; November 15, 1929, p. 6.

3 HF, March 15, 1931, p. 3.

4 "Minutes," (Stockholders' meeting), March 1 and 2, 1932.

5 HF, September 1, 1930, p. 4; August 15, 1930, p. 16; August 15, 1931, p. 12.
bution of petroleum products and other supplies to meet their entire need for capital. They paid their loans from the banks, and with appropriate ceremonies burned the limited liability bonds which secured the loans. More capital meant expanding operations, improved facilities, and better service; these brought the enthusiasm which is a result of success and which leads to more success. The number of counties which were properly incorporated and which held the stock of the Department increased steadily, from thirty at the end of 1927 to fifty in 1928, sixty-one in 1929, and seventy-seven at the end of 1930.¹

The development of leadership kept pace with advancements in other directions. The new plan, in which the success of each county association depended solely on its own strength or weakness, was conducive to the development of strong, aggressive local leadership. In every successful county there were developing leaders—managers and members of the board—who were efficient and enthusiastic; they were believers in the co-operative creed who were able to communicate their faith to others. Much credit is also due the service men or truck drivers who delivered petroleum products and sometimes other supplies to the farmer's home. These men came into closer contact with the farmer than did anyone else in the organization. They were a group of missionaries who daily preached the farm bureau creed to every farmer they met.

With growing prestige and financial strength came improved physical facilities. Counties which had been operating on the car-door basis acquired the use of warehouses. At the end of 1929 the Hoosier Farmer reported

that sixty-two of the associations had such facilities. Those counties which had been operating warehouses expanded into larger quarters, and some took over the facilities of local elevators. All over the state, farmers' elevators were struggling for existence; although there was little profit in their operation, the service which they rendered was of value to the farmers in the county. Some of the county associations took them over in order to keep them operating.

During the years 1929 and 1930 the state Department continued to make rapid progress. Total volume in 1929 was $3,856,842, an increase of 31 per cent over the year before; and in 1930 volume rose to $4,463,329. Net profits were $183,470 and $207,608, an average of 4.7 per cent of the sales. Patronage dividends totaling nearly $375,000 went back to the county co-operative associations in proportion to their purchases.

Fertilizer was the Purchasing Department's most important commodity--more important than all other commodities put together. In 1929 fertilizer brought the Department approximately seventy per cent of its gross income, while feed, the second most important commodity, brought the Department less than twenty per cent of its revenue. This was typical of the years up to 1930, but that year saw the beginning of an important shift. From 1930 the distribution of petroleum products increased rapidly in importance.

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1 December 15, 1929, p. 3.  
2 HF, March 15, 1931, p. 3.  
3 HF, March 15, 1930, p. 3.  
During this year the Department changed its name from Purchasing Department to Cooperative Association. The immediate stimulus for this change was the desire of the organization to secure for itself the advantages of the Agricultural Marketing Act and other federal legislation. This legislation, part of a "farm relief" program, extended certain immunities and privileges to agricultural co-operatives. It had been framed with marketing associations in mind and there was some question as to whether its provisions would extend to purchasing organization. One of the provisions of this legislation exempted agricultural co-operatives from paying federal income taxes, and the Purchasing Department was desirous of gaining this immunity for itself and for the county associations. The board therefore wanted to take the word purchasing out of its name and put the word cooperative in. The annual stockholders' meeting approved the change and adopted the name Indiana Farm Bureau Cooperative Association, Inc. The new name was consonant with the names of the county associations; which were called county farm bureau co-operative associations; but it expressed better the status of the organization which was no longer controlled by the Indiana Farm Bureau.

At about the same time, the association took a step forward by entering into the distribution of farm implements and tractors. A line of culti-packs and cream separators had been handled for some time; but now the association established a special department for farm machinery, and prepared to push the sale of a complete line of such equipment. Contracts were signed with a manufacturer of implements and with a large manufacturer

1 "Minutes," (Stockholders' meeting), March 4, 1930.
of tractors for the exclusive distribution of their products in Indiana. A few county associations arranged to carry stocks of the more commonly used implements; the rest ordered from the warehouse in Indianapolis when sales were made.

The most important development in 1930 was the establishment of the Cooperative Association's own blending plant for the compounding of lubricating oils. An oil blending plant is simply a place where "bright" and "neutral" stocks of oil are mixed in different proportions to make lubricating oil of different grades or viscosities. The process of blending is not very difficult; it requires only careful laboratory control. The Cooperative Association felt that it was being charged too much for the service by the large oil companies.

Before entering this field, officers gave it long and careful consideration. The association's business in petroleum products was increasing by leaps and bounds—volume in 1930 was two and one-half times that of 1929—so the association determined to go ahead with its first important venture in the field of production. Because it required larger quarters for this purpose, the association leased property on which it could both erect a blending plant and operate a large general warehouse.

The new plant, established at a cost of about $20,000 (which was a little more than had been expected), started blending on May 19, 1930.

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1 HF, April 15, 1930, p. 7.
2 This property, located at Kentucky Avenue and Henry Street in Indianapolis, was later purchased by the Cooperative Association, and became the center of many of its activities.
3 "Minutes," June 2, 1930.
4 HF, June 15, 1930, p. 2.
Considered from a business standpoint, this plant had an amazing success. Of all the ventures undertaken by the farm bureau, it was undoubtedly one of the most profitable. In 1931 it returned $32,000 to the Indiana Farm Bureau Cooperative as patronage dividends.¹

Acting in the belief that the greater the volume the greater the profit, the Indiana association interested the farm bureaus of Ohio and Michigan in the enterprise. These three associations organized a new corporation, called the Farm Bureau Oil Company, with themselves as stockholders and with Mr. Hull, general manager of the Cooperative Association, as president. The Indiana association sold the blending plant to the Farm Bureau Oil Company, which began operating it the first of December, 1930.²

The great depression, which started with the stock market crash late in 1929, necessarily had an important influence on the development of the Cooperative Association. The farmer's income, low enough in times of prosperity, was now reduced forty or fifty per cent as a result of the operation of certain economic forces. Industry, to a large extent, was able to adapt itself to the conditions of the depression by reducing its volume of production, dismissing many of its employees, reducing expenses, and maintaining prices near their former level. Agriculture was not able to make the same adjustments. The farmer, instead of reducing production, strove to compensate for lower prices by increasing his individual output. As a re-

¹Definite data on the operations of the blending plant in 1930 cannot be given because the only figures now available are for the entire oil department of the Cooperative Association which includes other activity. The data for 1931 is from the "Auditor's Report" of that year.

The victim of a price squeeze, the farmer necessarily curtailed his purchases of all kinds of farm supplies. Fencing, machinery, and buildings which needed replacement were merely patched up and made to last a while longer. Fertilizer frequently was not used at all; and instead of

buying feed for livestock, farmers now substituted grain and forage crops raised on their own farms. The farm bureau assisted in making this latter change; the county associations installed hammer mills and ground the farmer's grain, charging him only a nominal fee.

In the midst of radical economic adjustment on the part of its patrons, the Cooperative Association also had to make changes. In 1930 the effect of the depression was not yet strongly felt; and the association's volume increased, although the rate of increase, about thirteen per cent, was much less than heretofore. But the next year the full force of the depression was evident, and the association's volume decreased about thirty per cent. Net profits decreased even more, declining sixty-four per cent, to about seventy-eight thousand dollars. Sixty-six thousand dollars were distributed to the members as patronage dividends in that year. If this amount had been divided among the stockholders instead of among the member patrons, it would have meant a payment of $1,566 to preferred stockholders, or six per cent on $26,100 worth of stock. To common stockholders it would have meant the payment of $64,800, or a return of seventy-one per cent on $91,500 worth of common stock. The total earnings in 1931, expressed as a part of the net worth, were thirty-seven per cent.

The next year, 1932, saw a further decline in volume of sales. The association adjusted its costs, however, so that its net profits increased about ten per cent.

During these two years, fertilizer and feed were the commodities which declined most in volume. Ever since the organization of the Cooperative Association in 1920, fertilizer had been by far the most important

commodity handled. But now the distribution of petroleum products took first place. While other lines were decreasing, petroleum products continued to gain, displacing fertilizer as the most important commodity in 1932.

Competition in the fertilizer industry was severe. Even before the depression nearly all manufacturers were able to produce much more than they could sell. All manufacturers published a price list to which they professed to adhere, but the temptation for a salesman to clinch a difficult deal with a reduction from list price was great, and especially after the beginning of the depression these tactics were frequently employed. The Cooperative Association's contract with the Tennessee Corporation provided that the corporation's price to the association be the prevailing retail price of the other large distributors minus a certain discount. When other concerns made frequent discounts from list price, it was difficult to determine just what the prevailing price was, and difficult for the co-operative and the Tennessee Corporation to arrive at an understanding. The farm bureau always contended that large discounts had been freely granted amounting to a general price reduction, but the Tennessee Corporation minimized the extent of the reductions and tried to hold prices up. Late in 1931, however, the two organizations reached an agreement which was designed to put an end to all such difficulties. A contract was signed which provided that the profits of manufacture be divided fifty-fifty, half to go to the consumer and half to remain with the producer. The document, recognizing the vital economic function of consumption, was based on a new concept—that the rewards of industry should be divided equally between those who produced and those who consumed. It was designed to redress the overemphasis

1"Minutes," December 17, 1931.
on the function of production. Co-operators proclaimed that this type of contract presented a new approach to the whole problem of finding a way out of economic morass.

Co-operatives have always opposed the policy of buying and selling on credit. The Farm Bureau Cooperative, partly as a matter of policy, and partly as a result of necessity, for it was always short of capital--operated on a cash basis. It favored selling to the county associations by means of sight draft attached to order bill of lading and always advised the local associations in turn to sell only for cash. It was always a struggle to keep on this basis and with the coming of the depression the pressure to sell for credit became greater. In some communities local bank failures made normal financial arrangements impossible and the association was practically compelled to sell on open account. But no matter how carefully this was done, it seemed impossible to keep the accounts receivable within bounds. The county associations which operated on a credit basis in relation to their former patrons were the worst offenders, for their capital was soon used up, leaving them no money with which to pay the state association.

The board gave this problem frequent and serious consideration. Some members, looking to a basic solution, felt that credit unions organized in the counties might help solve the problem. The association determined to sponsor the idea in a few counties as an experiment. Four local co-operatives backed the movement and soon had credit unions organized in their counties. In most cases the headquarters of the credit union was in the office of the co-operative, and the co-operative's bookkeeper was its treasurer.

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Although started on a small scale, these organizations soon proved their worth. During the depression they were much safer than banks as places to deposit money. Farmers seeking small loans frequently found them more convenient than the banks. To the county co-operative association attempting to keep its business on a cash basis, the credit union was a boon. When a farmer asked to buy on credit at the co-operative store it was much easier for the manager to refuse credit if he could explain that although the store sold only for cash, special provision had been made to meet the farmer's need. A small loan from the credit union helped the farmer, helped the credit union, and helped the store.

Co-operating thus closely with the county co-operative stores, the credit unions were highly successful. Those already established grew steadily stronger while new ones were being established in other counties. Credit unions were functioning in twenty-one counties in 1933; in forty-four counties in 1940. The farm bureau credit union in Noble county was one of the first organized; after only nine months' operation it reported 179 members and $3,200 of share capital. Total expenses to date were $15.20. All but $370 of the organization's assets were in loans to fifty-four borrowers, fifteen of whom stated on their loan applications that they were borrowing from the credit union in order to retire loans from finance companies charging forty-two per cent.

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1 "Minutes," (Stockholders' Meeting). March 1 and 2, 1932.

2 HF, February 1, 1933, p. 20.

3 Data from the office of the Indiana Farm Bureau Cooperative Association.

4 "Minutes," (Stockholders' Meeting), March 1 and 2, 1932.
The farm bureau credit union in Wabash county was started in 1931 with thirteen members, and with $37.40 in assets.\(^1\) Growing steadily, this organization had 746 members and $100,000 in share capital in 1940. It claimed to be the largest rural credit union in the United States.\(^2\)

The decade of the 20's saw a big increase in the number and in the output of commercial hatcheries in the state. Before 1920 most farmers hatched their own chicks; only a small per cent of the total came from commercial hatcheries. By 1930 this had been radically changed; several hundred hatcheries supplied most of the chicks raised in the state.

Various poultry diseases were also on the increase. Partly because the raising of poultry, though almost universal on Indiana farms, was in most cases distinctly a sideline, the matter of proper disease control had not been given much consideration. The new hatcheries, which might have been very helpful in this regard, actually contributed to the spread of disease.\(^3\) In most cases the operators did not know a great deal about disease control; and even when they did, the necessary measures were expensive and competition was keen. Most buyers, putting no faith in dealers' claims to better quality, bought on a basis of price alone.

The Indiana State Livestock Sanitary Board at this time estimated that, on an average, the death rate for baby chicks was twenty-six per cent, and for mature flocks, about ten per cent.\(^4\) The two greatest killers were

\(^1\)"Minutes," (Stockholders' Meetings), March 1 and 2, 1938.

\(^2\)Data from the office of the Indiana Farm Bureau Cooperative Association.

\(^3\)Conversation with Dr. J. L. Axby, State Veterinarian.

\(^4\)Year Book of the State of Indiana, Report of the State Livestock Sanitary Board, 1932 (Indianapolis: 1933), p. 1047. The figures include deaths from disease and from accidents.
pullorum disease and paralysis. Pullorum, which kills more young chicks than any other disease, is a germ disease which may be transmitted, among other ways, through the egg. It is especially bad because a hen may have it in a dormant stage and produce eggs which are infected, and the disease may be spread from one chick to another immediately after hatching.1

The Livestock Sanitary Board formulated a plan to combat the disease. This plan was in the nature of a co-operative agreement between the hatchery, the flock owners supplying the hatchery with eggs, and the Livestock Sanitary Board. The only way pullorum disease can be detected in mature fowls is by a careful blood test. Under the plan, flock owners were required to have their birds individually tested at periodic intervals, and to remove from the flock all those with the disease. The Livestock Sanitary Board then classified flocks into three grades: grade A, showing no sign of pullorum on two successive tests; grade B, with only a little pullorum; and grade C, with a somewhat larger per cent of reactors. Under this plan, hatchery operators agreed to buy chicks only from tested flocks, and then only if the flock met at least the minimum standard of grade C. Both the flock owners and hatchery operators agreed to other strict sanitary rules—rules which were effective in preventing the spread of other chicken diseases as well as pullorum.

These measures were expensive both for the hatchery and the flock owner, and it is therefore little wonder that the first year—the hatching season of 1931-32—only six hatcheries, out of probably six hundred in the

1Leo Philip Doyle, Pullorum Disease, Purdue University Agricultural Extension Leaflet No. 153 (2nd ed. revised; Lafayette, 1933).
TABLE 5

PULLORUM DISEASE

Comparison of the Standing of Breeding Flocks Supplying Eggs for Farm Bureau Hatcheries with Flocks Supplying Eggs for All Other Hatcheries Co-operating with the Indiana State Livestock Sanitary Board in the Control of Pullorum Disease.

Season 1939-1940

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<tbody>
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<td>Farm Bureau Hatcheries</td>
<td>16</td>
<td>184</td>
<td>346</td>
<td>0</td>
<td>105,084</td>
<td>725</td>
</tr>
<tr>
<td>Other Hatcheries</td>
<td>35</td>
<td>5</td>
<td>559</td>
<td>181</td>
<td>153,179</td>
<td>4,380</td>
</tr>
<tr>
<td>Total</td>
<td>51</td>
<td>189</td>
<td>905</td>
<td>181</td>
<td>258,263</td>
<td>5,105</td>
</tr>
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Note: Fifty-one hatcheries out of a total of over six hundred in the state were co-operating with the Livestock Sanitary Board. Undoubtedly the incidence of the disease was much higher among non-co-operating hatcheries.

"A" flocks are those judged to be entirely free of pullorum, having passed two successive blood tests without revealing a single infected bird.

"B" flocks are those in which less than five per cent of the birds were found to be infected.

"C" flocks are those in which from five to ten per cent of the birds were found to be infected.

"Reactors" means those birds reacting to the blood test—i.e., those which had the disease.

Data is from the office of the Indiana State Livestock Sanitary Board, "Pullorum Disease Report, Season 1939-1940" (Typed).
state, agreed to operate according to the plan.¹

The farm bureau had been interested in hatcheries for some time; a few county associations were operating hatcheries, sometimes in partnership with private hatchery men.² The board of the state association now felt that it was time to do something. It authorized the establishment of a central farm bureau hatchery in Indianapolis, a joint venture of the state association and the surrounding county organizations, and agreed to cooperate with outlying counties in setting up hatcheries in partnership between the state and those county associations which were interested.³

In setting up these hatcheries the farm bureau emphasized, in addition to the control of pullorum disease, the control of other diseases of importance. Poultry paralysis was the most widespread. This disease is transmitted through the egg and may be spread by infected hens which do not show any symptoms. There is no blood test which can be used to find hens which are carriers. The Cooperative Association sent a man into the field who, in four months of search, found thirty flocks which appeared to be free from paralysis. A careful record was then kept of the chicks hatched from each of these flocks. Those flocks which had latent paralysis were thus revealed and eliminated from the program and only the flocks free from paralysis were used for future breeding purposes.⁴

The Cooperative Association established three breeding farms which did nothing but scientific breeding work to improve farm bureau chicks.

⁴Information from Mr. Thad Macy of the Indiana Farm Bureau Cooperative Association, Poultry Department.
Excellent results were achieved in connection with such hereditary factors as number of eggs laid, size and color of eggs, and uniformity of egg production throughout the year. The products of these farms sold at a high premium. They were used mostly to form the breeding flocks for the farm bureau hatcheries.

Large buyers of poultry and eggs always prefer a lot which is uniform. In buying a carload of chickens they will pay more if the chickens are all of one breed and age than if they are mixed; likewise they will pay more for large lots of eggs of uniform size and color. So the farm bureau hatcheries set out from the beginning to produce only three common breeds and to attempt to get farmers to standardize on these.1

The cost of operation of farm bureau hatcheries was higher than that of commercial hatcheries, and most of them operated for the first few years without making a profit; sometimes, at losses. Prices were somewhat higher than those at other hatcheries; because of this, many farmers turned away at first, but gradually they began to appreciate the benefits of the disease control program and were willing to pay the higher price. In fact, many farmers came to value the farm bureau hatcheries as one of the most important services of the Cooperative Association. In 1940 there were fifteen farm bureau hatcheries scattered over the state, and all but one were operating at a profit. Their incubators had a combined capacity of over one million eggs. The farm bureau refunded the purchase price of all the chicks, above two or three per cent (depending on grade), which were lost from disease in the first two weeks.

1 HF, February 1, 1933, p. 12.
Early in 1933 farmers' co-operatives in the Middle West decided to co-operate among themselves, to combine and increase their purchasing and bargaining power. They had already organized a number of regional associations, such as United Co-operatives which combined the purchasing power of the Indiana, Ohio, and Michigan farm bureaus. On February 23, five of these regional organizations, representing fourteen middle western states, organized National Co-operatives, Incorporated. Formed under Indiana law and with Mr. Hull as its president, this organization established its headquarters in Indianapolis. One of its first acts was to contract for fourteen thousand tank cars of gasoline and kerosene. Such enormous volume gave the organization great bargaining power. The contract for gasoline and kerosene provided that the profits of the refiner be divided fifty-fifty with National Co-operatives. Farmers' purchasing associations bought steel products, agricultural implements and machinery, tires, batteries, and other products through this organization.

Another event of considerable importance in 1933 had its origin in Congress. The Farm Credit Act of that year created the Bank for Cooperatives, a central bank in Washington, and twelve regional banks. One of the regional banks was established at Louisville, Kentucky, to serve the co-operative associations of Indiana, Ohio, Kentucky, and Tennessee. It was capitalized at five million dollars and was designed to make loans to genuine farmers' co-operatives at low rates of interest. The Louisville Bank for Cooperatives was co-operative in more than one sense. One of the rules of the bank was that in order to secure a loan, an association must buy stock in the bank to the extent of about five per cent of the loan.

1 HE, April, 1933, p. 24.
In this way the co-operatives, as stockholders, had a measure of control over the bank which served them. Shortly after the bank was organized, the Indiana Farm Bureau Cooperative Association secured its first substantial loan. Since then both the state association and the county co-operatives have secured many loans from the Louisville Bank. The amount of these loans has been considerable; and although most of them were paid back in only a few months, they have been very valuable.

Nineteen hundred thirty-three was another depression year for agriculture. In the early months of that year, with the "bank holiday," conditions were at their worst; but a slow recovery was made after that. The Cooperative Associations' volume of business increased slightly, as compared to the previous year. In 1934 it made a rather substantial recovery. Petroleum products led all others in value, although the margin of profit, which had been very wide when the farm bureau first entered this field, slowly decreased.

In 1935 an increase of more than thirty-five per cent brought the Cooperative Association's total volume back to $4,400,000, the level of 1930. Net profit, however, did not rise as fast as total volume. The profit of $114,000 in 1935 was only fifty-five per cent of the profit in 1930. Total volume of business increased in 1936 and in 1937, decreased in 1938, and increased again in 1939, when it stood at six million dollars.

Farm Credit Administration, Agricultural Financing Through the Farm Credit Administration, Circular No. 5 (Washington: Government Printing Office, 1939).

"Minutes," (Stockholders' Meeting), March 3 and 4, 1936.

"Minutes," (Stockholders' Meeting), March 5 and 6, 1940.
profit in 1939 was $172,872, or 2.9 per cent of sales.\(^1\) If the association had distributed its 1939 earnings to stockholders, it would have been able, after paying six per cent to the holders of the preferred stock, to pay each common stockholder a dividend amounting to more than thirty per cent.

The Cooperative Association's rate of profit was much less after 1935 than it was before the depression. During the period 1925 to 1930, the average net profit was 4.9 per cent of sales; from 1935 to 1939 the average was 2.2 per cent. This reduction in the margin of profit was to some extent due to a change in price policy as a result of the change in the method of conducting business locally—from the car-door method to the incorporated local association with warehouse. But the most important reasons for this reduction of more than fifty per cent were the general lowering of prices by all concerns in the field and the lessening of the difference between manufacturer's price and retail price. This reduction of prices was a result of the depression and of competitive conditions. The association's earnings would have been much lower after 1932 if it had not shared in the profits of manufacture. Most important were the patronage dividends received from United Co-operatives and the association's share of the earnings of the Tennessee Corporation. From 1932 through 1939 the income from these sources amounted to about one half of the association's net profit.

Since 1926 the Cooperative Association had been paying part of its patronage dividends in common stock rather than in cash. In this way it slowly built up its operating capital and its net worth. In 1939 the net worth amounted to more than one million dollars. Of this amount only $185,000 (the amount of the preferred stock) represented actual investments

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\(^1\) "Auditor's Report," 1939.
of farmers in their organization. The rest was mostly common stock which had been issued in lieu of cash patronage dividends out of the earnings of the association. The total patronage dividends from 1927 to the end of 1939 amounted to $1,300,000, divided almost equally between cash and common stock.\(^1\)

By 1939 the number and variety of commodities handled by the association had greatly increased, as compared to the very limited number with which it had started in business. In addition to the old established lines of fertilizer, feed, seed, all kinds of petroleum products, tractors, implements, baby chicks, coal, and twine, the organization now handled brick, cement, lumber, roofing, paint, spray equipment, insecticides, harness, barn equipment, poultry supplies, tile, silos, fly spray, fencing, hammer mills, inoculants, serum, tires, batteries, flour, furnaces, electric pumps and other plumbing supplies, electric wiring and fixtures, refrigerators and all kinds of household electric appliances.

The state association also provided expert auditing service for its county stockholder units. Many of the county associations, when they started in business, did not keep an adequate accounting control of their operations and several got into trouble as a result. The state association therefore employed auditors to go from county to county auditing their books. An educational campaign emphasizing the importance of good bookkeeping records was so effective that nearly all the counties had an audit made by the state association at least once a year, and some counties as frequently as every three months.

\(^1\)"Minutes," (Stockholders' Meeting), March 5 and 6, 1940.
Credit has always been a problem with farm bureau co-operatives, both with the state association and the county co-operatives. A few county associations operated very successfully on a strictly cash basis; more of them operated on a more or less successfully limited credit basis. The state association constantly warned of the danger of overextension of credit, and in the last few years the tendency has been to reduce the amount of credit given; but a few counties continued to be handicapped because of capital tied up in accounts receivable, or because of considerable loss from this source. To encourage the use of cash the state association in 1937 devised a plan by which the counties might carry a cash deposit with the central association, and draw upon it in payment of all orders. On receipt of the invoice for each shipment, the county association would know to what extent its deposit was depleted, and how much to send to build it up again. The state association granted a two per cent discount (on a few commodities, a larger per cent) to county associations which used this plan. In 1939 somewhat less than half the associations took advantage of this offer. Nearly all of those associations which did not keep deposits made their payments within ten days in order to secure a one per cent discount.

Officers of the Cooperative Association estimated that the counties bought more than eighty per cent of their supplies from the state association and less than twenty per cent from private dealers. Most of the goods bought outside the state association were taken by a few counties, and the tendency was for this type of business to decline. A very large majority of the county co-operative associations were entirely loyal to their state organization and bought practically everything through it.
A detailed analysis of the business operations of the county farm
bureau co-operative associations is not a part of this study. Such an
analysis has already been made by the Farm Credit Administration.¹ However, a brief summary is necessary to reveal the entire picture of farm
bureau co-operative purchasing.

At the end of 1939 there were ninety-one local associations holding
some of the common stock of the Cooperative Association. Two of these were
in Kentucky; the rest in Indiana. Six of the Indiana associations did not
buy enough in 1939 to entitle them to a share of stock as their part of the
patronage dividends distributed by the state organization.² There were,
therefore, eighty-five active associations in 1939. Fifty thousand farmers—
thirty per cent of the number in the state—held the stock of these associ-
ations.³

A tabulation of seventy-eight county co-operative associations in
1939 showed that they had total assets of more than $3,600,000 and a total
net worth of more than $2,500,000, or average assets of $46,200 and an aver-
age net worth of $32,400.⁴ The total sales of these seventy-eight associ-

¹ Gerald M. Francis, Cooperative Purchasing by Indiana Farmers
Through Federated County Farm Bureau Associations, Farm Credit Administra-

² "Minutes," (Stockholders' Meeting), March 5 and 6, 1940.

³ The data on the number of stockholders is from the office of the
Indiana Farm Bureau Cooperative Association. The data on the total number
of farmers is from the U. S. Bureau of the Census, Fifteenth Census of the
United States; 1930. Occupational Statistics, Indiana (Washington:

⁴ Seventy-eight county associations had their records audited by
auditors of the state association and had copies of their financial state-
ments on file in the office of the Cooperative Association.
etions was almost $12,000,000, an average of more than $152,000 for each association. The gross margin on sales was 17.2 per cent, the net profit 3.16 per cent. Total net profits were $376,000, an average of $4,800. Expressed as a per cent of net worth, the net profit was 14.8. Seventy-eight county associations therefore had total volume of sales almost twice as great as that of the state association and had net worths and net profits which were more than twice as great. If all the business operations had been with member stockholders, it would have meant an average of $240 with each member.

Electricity has long been taken for granted in our cities, so much so that urban residents do not realize that most farmers have not enjoyed this convenience. Only 11.7 per cent of Indiana farmers were receiving central station electric service at the end of 1934. But by the first of July, 1939, the number had risen sharply to 36.7 per cent. This transformation in four and one half years was a result of the rural electrification program of the federal government, and the rapid progress in Indiana was due in large measure to the active participation of the Cooperative Association.

The first federal money available for rural electrification was part of the general fund of the Federal Emergency Relief Administration. On this basis the board of the Cooperative Association moved, in March, 1935,

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1Thirty-four associations performed marketing services as well as purchasing for their members. The figures given include both types of activity.

2The net profit figures of the county associations do not include the patronage refunds distributed by the state organization.

to form the Indiana Statewide Rural Electric Membership Corporation.\(^1\) Two months later President Roosevelt created the Rural Electrification Administration by executive order. The board of directors of Indiana Statewide REMC was identical with the board of the Cooperative Association. With the aid of a loan from the co-operatives, Statewide REMC proceeded to promote the movement locally and to supply legal and engineering assistance to county organizations. Despite the many perplexing legal and technical problems, this movement grew quickly. The first operating organization established in Indiana—and the first in the United States—was in Boone County.\(^2\) Boone County REMC was an organization of the Rochdale co-operative type. With the aid of a long-term loan from the Rural Electrification Administration it built electric lines and supplied its members with electricity at low rates. Two years after its organization, Boone County REMC had five hundred miles of line and was serving 1,600 farm families.\(^3\)

REMC projects were soon started in other counties. By 1939 there were forty co-operative power systems operating in Indiana and the number of farmers receiving electricity had tripled.\(^4\) Indiana was one of the foremost states in the Union in this important rural movement. On June 30, 1939, there were Rural Electrification Administration allotments in Indiana for fourteen thousand miles of lines and fifty thousand consumers. Only the state of Texas had more.\(^5\)

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\(^1\)"Minutes," March 26, 1935.

\(^2\)HF, December, 1935, p. 10


\(^5\)Ibid., pp. 350 f.
Before 1936 the Cooperative Association distributed a few tractors, but this program did not develop very fast because satisfactory arrangements could not be made with manufacturers. However, the Indiana Farm Bureau Cooperative was very much interested in this field, as were farmers' cooperatives in other states. The interest was caused by dissatisfaction with the practices of the tractor industry; gross margins in the industry were wide, prices were high, and many farmers felt that unfair means were used to maintain high prices. The accompanying table shows that prices in the industry were comparatively unresponsive to the economic changes which occurred between 1929 and 1938.

Farm leaders accused the industry not only of maintaining exorbitant prices, but also of manufacturing a poor product. Automotive engineers had made many improvements in motors for automobiles. By the use of small, light weight moving parts, extreme precision in fitting moving parts, and high compression design--using only high grade fuels--the motors put in automobiles were made powerful, economical, flexible, and long-lived. None of these principles was used in the manufacture of tractors. Leaders in the farmers' co-operative movement thought that they should be used.

National Co-operatives was the logical organization to undertake a large venture. After much careful planning, that organization made contracts for the assembling of a new co-operative tractor. Motors were purchased from one of the largest manufacturers of automobiles; other parts were secured from specialized manufacturers; and the tractor was assembled by a machine company according to specifications. The first of the new "Co-op" tractors were purchased by Indiana farmers early in 1936.¹ They

¹"Minutes," May 8, 1936.
# TABLE 6

## THE PRICES OF TRACTORS AND FARM MACHINERY

<table>
<thead>
<tr>
<th>YEAR</th>
<th>PRICES PAID BY FARMERS FOR FARM MACHINERY (Excluding Tractors)</th>
<th>WHOLESALE PRICES OF TRACTORS</th>
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<tbody>
<tr>
<td>1926</td>
<td>154</td>
<td>100.0</td>
</tr>
<tr>
<td>1927</td>
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<td>160</td>
<td>88.4</td>
</tr>
<tr>
<td>1939</td>
<td>157</td>
<td></td>
</tr>
</tbody>
</table>

Index numbers of prices paid by farmers is from the U. S. Department of Agriculture, Agricultural Statistics, 1940. (1910-1914 equal 100).

were distinctive not only because they were equipped with an automobile type of motor, but also because each tractor had an electric starter, headlights, brakes, and pneumatic tires. Their transmissions gave them five speeds forward and they were designed to pull a rubber-tired trailer on the highway at road speed. The farm bureau proudly asserted that in proportion to their power they were the most economical wheel-type tractors made.

The tractors were well received and a good many were sold. However, a dispute arose with the assembling company over the amount of profit that concern was to make; it finally resulted in the rupturing of relations. 1

At this point the Farm Security Administration offered to build and equip a factory to assemble co-operative tractors at its subsistence--homestead project at Arthurdale, West Virginia, and to turn it over to National Co-operatives to operate. 2 National Co-operatives accepted this attractive offer, but unfortunately the project did not turn out well. After two years, during which a very few tractors were made, the co-operative organizations turned their attention elsewhere. 3

The Indiana Farm Bureau Cooperative took the lead in the formation of a new corporation, National Farm Machinery Co-operative, organized for the purpose of making the co-operative tractor. 4 Farmers' co-operative associations in ten states and in four Canadian provinces bought stock in

1 "Minutes," October 20, 1936; April 1, 1938; May 18, 1938.

2 "Minutes," June 17, 1938.


4 "Minutes," April 19, 1940.
this organization, which quickly set about to build and equip a factory to
produce tractors before the end of 1940.

Another manufacturing venture of the Cooperative Association had
its beginning a long time before. In 1915 hog raisers in Indiana formed
an organization to manufacture their own protection against deadly hog
cholera. The Swine Breeders Pure Serum Company operated independently un-
til 1931, when the plant, at Thorntown, Indiana, was destroyed by fire. The
Indiana Farm Bureau, Incorporated, then took control of the organization.
Since the operation of the company entailed some small losses to the Farm
Bureau, the Cooperative Association agreed to assume the management early
in 1937. The association reached an agreement with the state Veterinary
Association by which the veterinarians were to be the sole distributors of
the output of the Serum Company. In this way the co-operation of the veter-
inarians was secured, and as a result the operations of the Serum Company
became increasingly successful.

Co-operative marketing of grain has had a long and somewhat checkered
history in Indiana. Local co-operative elevators have existed for a long
time in most communities, particularly in the northern half of the state.
However, many farmers felt the need for organization on a state-wide or even
a nation-wide basis. Therefore in the early twenties two organizations
were formed: the Indiana Wheat Growers' Association, commonly called the
"wheat pool"; and a national organization, United States Grain Growers, In-

1HF, August, 1940, p. 10. This factory is located at Shelbyville,
Indiana.

2HF, May 1, 1931, p. 6; August 15, 1931, p. 6.

3Minutes, January 8, 1937; February 12, 1937.
corporated, under the sponsorship of the American Farm Bureau Federation. Each of these organizations was short-lived.

A little later a new association called Indiana Grain Producers was established on the basis of the lessons learned from the former organizations. However, the Grain Producers experienced serious difficulties. It was not able to build a volume of business large enough to make its operations economically sound. It did not have the support of a sufficient number of farmers and local elevators. The high fees which the Producers paid for the rent of a large terminal elevator absorbed nearly all of the profit. Leaders of the Grain Producers came to the Cooperative Association with a request for help. They presented evidence to show that in the seven years of their operation they had paid in rental fees for the use of the terminal elevator in Indianapolis more than twice the value of the elevator. They asked the Cooperative Association to assist them in purchasing the elevator in order to reduce this burden. The management of the association gave this problem very careful consideration and finally reached an agreement with the Grain Producers. The Producers agreed to dissolve their old organization and establish a new one under the name Indiana Grain Co-operative, the new organization to have as its stockholders local co-operative elevators instead of farmers. The Cooperative Association agreed to purchase the terminal elevator and lease it to the Grain Co-operative on a privilege-of-purchase contract. The new arrangement assured the complete co-operation of the local elevators which became stockholders in the new

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1 "Minutes," (Stockholders' Meeting), March 7 and 8, 1939.

organization, particularly since the county units of the Cooperative Association now owned many of the elevators. With the elevators and the farm bureau back of it, co-operative marketing of grain was at last established on a sound basis. Its volume of business greatly increased, and Indiana Grain Co-operative immediately began to make money. In the first nineteen months of operation under the new plan it made ninety thousand dollars, almost half the cost of the terminal elevator facilities which it used.

Ever since the Cooperative Association reorganized on the Rochdale plan, it had been interested in the development of some kind of co-operative financial institution. This subject came up frequently in the meetings of the board of directors and was mentioned in nearly all the meetings of stockholders. At one time the association purchased the charter of a defunct bank at Vernon, Indiana, with the idea that it might be developed into a co-operative bank, but nothing ever came of this. When the federal government established the Bank for Cooperatives at Louisville, the need was partly met, but interest in the subject continued. Finally, in 1939, the association had the opportunity to buy a bank located at Beech Grove, Indiana. This was an established institution; the co-operatives simply bought all of the common stock. The state association bought part and the county co-operatives and farm bureau credit unions bought part. Officers of the state association predicted that this bank would grow slowly but that it would become an important asset to the farm bureau co-operative movement.

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1 "Minutes," (Stockholders' Meeting), March 5 and 6, 1940.

2 "Minutes," May 9, 1939; August 21, 1939.
For many years the Cooperative Association secured its fertilizer from the Tennessee Copper and Chemical Corporation. However, some difficulties developed in this relationship because of the increasing advantage of transport by truck as compared to transport by rail. The management of the association became convinced that the most economical arrangement would be a few relatively small fertilizer plants strategically located to deliver fertilizer anywhere in the state by truck. Therefore the association did not renew its contract with the Tennessee Corporation for 1940, but prepared instead to build its own fertilizer plants. The first one was built in Indianapolis to serve the central part of the state. It was completed in time for the spring season of 1940 and had a yearly capacity of forty thousand tons—about one sixth of the total amount used in the state. A plant to serve the southern part of the state was built a little later, near the Ohio-Indiana border, as a joint venture of the Indiana Farm Bureau Cooperative Association and the Farm Bureau Co-operative Association of Ohio. In the summer of 1940 plans were completed for a third plant, to be located in the Calumet region for the benefit of northern counties.

After the year 1932, petroleum products were the most important, in point of volume, of all the products handled by the Cooperative Association. Bulk tank stations were located in almost every county, while several hundred tank trucks delivered almost twenty million gallons of gasoline to farmers' homes. The first farm bureau bulk stations were exceedingly profitable; later operations were less so because their gross margins were

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1 "Minutes," May 9, 1939. 2 "Minutes," August 21, 1939.

considerably reduced. Likewise the gross margin of the blending plant making lubricating oil was reduced. Officers of the Cooperative Association believed that some of the large companies which owned both refining and distributing systems were tending to cut margins in distribution so that they made little profit there, but at the same time were making large profits on their refining.¹

The management of the association studied the problem of refining for more than a year and became convinced that they should, if possible, own a refinery. Then someone in Gibson county discovered oil. The next day manager Hull went there to see if there was enough oil to justify refinery operations.² When the evidence indicated that there was, the Cooperative Association prepared rapidly to build a refinery. Land was purchased at Mount Vernon on the Ohio river, so that crude oil could be barged up from Texas in case the Indiana field should prove insufficient.³ The work of construction was completed in April, 1940, and production started immediately. This refinery was expected to produce about ten million gallons of gasoline a year (about half the Cooperative Association's requirements) and, in addition, large quantities of kerosene, distillate, and fuel oil. It was not equipped to produce lubricating oil, although officers of the association stated that the equipment necessary to do this might be added later.

¹The Independent Petroleum Marketers Association tried to secure a congressional ban of this alleged practice, Cf., U. S. Congress, Senate, Hearings Before a Sub-committee on the Judiciary on S. 2879 and S. 2752, Bills to Divorce the Business of Production, Refining, and Transportation of Petroleum Products from that of Marketing Petroleum Products, Senate, 75th Congress, 3rd session (Washington: Government Printing Office, 1938). The Board of directors of the Cooperative Association approved these bills on April 1, 1938.

²"Minutes," (Stockholders' Meetings), March 5 and 6, 1940.

The Indiana Farm Bureau Cooperative Association developed out of a spirit of protest on the part of farmers. It was the same spirit which some years previously had expressed itself in the Grange, in Populism, and in the Nonpartisan League. The Populists had sought to better the farmer's position by gaining control of the government. After this attempt had failed, farmers turned to organizations which would lobby in their interest, and to economic action. The farm bureau in Indiana was only one part of this movement. Strong farm bureaus developed in all the middle western states, while west of the Mississippi the Farmers' Union and Farmers' Equity became strong. At this time southern farmers made a determined effort to create large-scale cotton marketing co-operatives; and the American Farm Bureau Federation, with other large regional farmers' organizations, planned to establish several nation-wide commodity marketing organizations. Back of the movement, in the minds of many, was the belief that with organization farmers would speak with a louder voice in the bargaining which determined the price of agricultural products. So about 1920, farmers in every state were organizing, and out of this ferment there developed the Indiana Farm Bureau and all its related marketing and purchasing associations.

At first some of the leaders expected much more of their marketing efforts than they did of their purchasing activity. Saving a few cents per pound on binder twine or a few dollars per ton on fertilizer did not seem very important in comparison with the much larger savings which they thought would result from co-operative marketing. Nevertheless the Indiana Farm
Bureau launched the Federated Marketing Service late in 1920 with a loan of a few thousand dollars from the parent organization. The first year it repaid nearly all the loan, distributed a patronage refund, and kept a reserve in the treasury for the next year's operations. From this point the organization grew. After the first three years it grew with remarkable rapidity, and soon came to far exceed the expectations of those who started it.

The method of the Marketing Service of distribution by means of pooled orders taken from the car-door made possible great savings. But the organization of the pools required foresight, careful planning ahead, and considerable effort. Many farmers would not make the effort even if the savings were great, particularly after the enthusiasm of the first few years wore off. Therefore in 1924 the association established a number of retail stores where convenient service was offered to local farmers. But these stores were a failure; they lost money and finally had to be closed. The association was then confronted with a dilemma; on the one hand, the car-door method of distribution put definite limits on further expansion; on the other, the local stores had proved a failure.

It was because of these circumstances that the association turned to the Rochdale principles in 1927. The most important changes made at that time were the creation of incorporated and democratically owned and controlled local associations; the change of the state association into a wholesale organization democratically owned and controlled; and the adoption of the policy of keeping part of the earnings to build up operating capital. The new county associations soon proved successful. Farmers liked the idea of local control. Before 1927 the association was almost constantly chang-
ing and adopting new schemes; since that date there have been practically
no changes, and no demands for changes. The organizational structure and
operating policies adopted in 1927 were almost perfectly adapted to the needs
of the association.

Not only the organizational structure but also the ideology of the
Rochdale consumer co-operative movement was emphasized. It is not correct
to say that it was adopted here, for this manner of thinking had been part
of the organization to some extent from the beginning. After 1927 it was
a much more important part. Indubitably the leaders of the organization
considered their association to be a part of the world-wide consumer co-
operative movement, and they felt that they had a part in bringing about
the desirable changes which they expected to come from that movement. They
conducted a campaign to indoctrinate the farmers of the state with this
thought.

Judged by the standards of businessmen, the most remarkable thing
about the co-operative organization is the profits which it has consistently
made. It started in business with only a small loan, which it rapidly paid
back. In nineteen years it paid close to a million dollars in cash patron-
age dividends, built up a net worth of a million dollars, and paid the usual
stock dividends. Before the depression there was not a single year in
which the association's net profit did not exceed its net worth. After the
depression, profits were at a lower rate but were still large.

The Cooperative Association has been very fortunate in its manage-
ment. The board of directors, the general manager, and the higher officials
have been aggressive, socially intelligent, devoted to their work, and able
in the details of business. Much of the credit for the success of the associ-
ation is due to them.
The association has always proclaimed as a principle that since it was owned by its patrons it could have no interest other than that of the patrons, even if the organization was somewhat hurt thereby. In support of this idea, spokesmen of the association point to the policy of the co-operative in regard to feed. Although it sells feed, it has encouraged and helped the farmers to feed his home-grown grains. Many of the county associations are equipped to grind this grain where the farmer cannot grind it himself. The state association promoted the use of supplement feeds—that is, feeds which are very rich in the food elements which are lacking in the farmer’s own grain. A small quantity of the supplement feed added to the grain makes a balanced ration. In this way farmers have reduced their feed costs, at the expense of the volume of sales of the Cooperative Association.

Another instance of the willingness of the association to undertake a good but profitless service is the chick hatcheries, which lost money at the beginning because of the expense of the disease-free program. The management continued the operation of the hatcheries because the hatcheries were important enough to justify the cost.

The work of the Indiana Statewide Rural Electric Membership Corporation was expensive, and the association put several thousand dollars into it without any assurance at first that the money would ever be repaid. The board of directors approved this loan because of the importance of the rural electrification program.

The effect of the activity of the Cooperative Association on general price levels is extremely difficult to measure. Its rapidly expanded volume was undoubtedly due to a considerable extent to the substantial patron-
age refunds which it paid. Very soon after its organization the volume of the association was large enough to make it a factor of importance in the prices of fertilizer and twine, and a little later, in the prices of other commodity lines. On theoretical grounds alone it seems probable that because of the Cooperative Association the prices of all concerns are lower.

At first the association sold farm supplies at lower prices than did other concerns. A little later it abandoned this policy, but it refunded patronage dividends, which, in the long run, must have had substantially the same effect as a direct cut in prices.

The data in Table 7 lends support to this conclusion in the case of fertilizer. Fertilizer prices in 1940 were lower in Indiana, Ohio, and Michigan, the three states where the largest amount of fertilizer is distributed co-operatively. In the states of Illinois, Wisconsin, Pennsylvania, Kentucky, Tennessee, and West Virginia some fertilizer is distributed co-operatively, but the amount is considerably less than in Indiana, Ohio, and Michigan. The price in the non-co-operative states averaged fourteen percent higher than the price in the co-operative states, but, except for the superphosphate (0-20-0), the difference between the states within each group is slight. ¹

One of the most important and significant tendencies of the Farm Bureau Cooperative was its expansion into the manufacture of the commodities which it distributed. The first venture into production was the extremely profitable blending of lubricating oil. The farm bureau hatcheries were

¹Tending to weaken this argument is the fact that in Illinois, a state which uses relatively little fertilizer, the per cent of co-operative distribution is high, although the amount in tons is low.
### TABLE 7

**Comparison of Prices of Fertilizer in Indiana and Surrounding States**

**Consumer's Time Price Per Ton**

For the Spring and Fall Seasons of 1940

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<thead>
<tr>
<th></th>
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<th>0-14-6</th>
<th>0-20-0</th>
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<td>Indiana</td>
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<td>Kentucky</td>
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<td>-</td>
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<td>Wisconsin</td>
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</tr>
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<tr>
<td>Tennessee</td>
<td>-</td>
<td>-</td>
<td>25.00</td>
<td>-</td>
<td>33.55</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

*Tennessee and West Virginia prices are for the fall season only. Wisconsin has no fall fertilizer season, the prices are for the spring season only. In all other cases prices are the average for the spring and fall seasons.*

In Pennsylvania and West Virginia the prices were higher in some counties lower in others. The prices given are median.

Dash (-) indicates that the analysis was not used or that the price could not be obtained.

The data was obtained from agricultural experiment stations in the respective states.
the second enterprise of this type. In 1937 the association undertook the manufacture of serum; in 1939 and 1940 it built fertilizer factories, a refinery, and a tractor assembly plant. This development was analogous to the expansion of consumers’ co-operatives in England and in the Scandinavian countries. In each case the motive was the belief that the co-operative could improve the quality or lower the cost by manufacturing its own goods. The ability of farmers’ purchasing co-operatives in the different states to work together greatly assisted this development. In many cases a manufacturing project was too large to be undertaken by one state, but a combination of states could easily undertake it. In 1939 and 1940 several such combinations were made and still more were projected.

At the time of the writing of this paper, the latter part of 1940, there is no sign that the Cooperative Association has reached the limit of its growth. On the contrary, the evidence points toward continued expansion and increasing influence. Not only in Indiana, but all over the United States, agricultural co-operative purchasing associations are expanding their operations and are increasing in importance.¹

Few co-operative leaders are so bold as to predict that all business will be conducted in the co-operative manner in the near future. But unless indexes fail and present trends are reversed, a larger proportion of business is likely to be co-operative business. If this be true then it is important to arrive at some tentative conclusions.

Although co-operatives are a type of economic organization fundamentally different from the capitalist type, they do not involve a sudden

or revolutionary change. Whereas other movements ask to have their schemes of reform accepted and put into effect all at once, co-operative leaders deprecate too rapid a growth. Slow growth enables the co-operative management and membership to learn by experience and to become educated to their responsibilities. Co-operatives grow and develop through reason guided by experience; other systems ask to be accepted on the basis of reason a priori.

Co-operatives can exist side by side with capitalist business without either one's driving the other out. The two types compete with each other on equal terms exactly as two capitalist businesses compete. The competition of the capitalist keeps the co-operative alert; for this reason it is welcomed by many leaders of the movement. When the Indiana Farm Bureau Cooperative first came into existence, it had considerable difficulty in its relations with private business. The fertilizer industry tried to boycott the association, and other businesses expressed opposition. However with time these conditions greatly improved. The association ceased to be the object of special fear. Businessmen came to accept the co-operative type of organization as a type almost as natural as their own.

Co-operatives can be very efficient—fully as efficient as capitalist business. There have been, of course, many failures among co-operatives, though co-operatives probably compare favorably with capitalist business in this respect. Most of the failures of co-operatives have been among the marketing associations. The Indiana Farm Bureau Cooperative was not extremely efficient before 1930 in spite of—and probably because of—the fact that it made such a large profit. But during the depression, declining margins and profits emphasized the importance of better practices.
Details of office organization and operations were constantly improved until they reached an admirable degree of efficiency. It has always been the policy of the association to keep at a minimum its expenditures for nonproductive factors such as advertising. In proportion to sales, its expenditures for promotion have been much less than in many similar capitalist businesses. The loyalty of the members, plus the patronage refunds distributed by the county associations, made large expenditures for sales promotion unnecessary.

Efficient co-operatives may serve a significant role as competition stimulators. Adam Smith emphasized the importance of competition and the detriment to the economic structure that monopoly in any degree would cause. However the trend toward monopoly is a natural tendency of capitalism. Too frequently a very real struggle for business tends to obscure the fact that effective monopoly has made prices higher than they should be according to Smith's analysis. Antitrust legislation is effective in preventing monopoly in its most obvious form, but is powerless against inflexible price structures—a more subtle manifestation of the same tendency. Many economic theorists consider this a key factor in the explanation of business cycles.

The story of the "trust-busting" activities of Scandinavian co-operatives has been told frequently. Best known is the factory built by the Swedish societies for the manufacture of electric light bulbs. This was built for the purpose of breaking the grip of a Continental cartel which had an absolute monopoly. Less spectacular, but not less important, is the effect of co-operatives in the lowering of inflexible price structures. Rochdale principles require that co-operative associations distribute at the prevailing price. If that price is too high, the associ-
ation will make large profits, pay large patronage dividends, increase its
capital, and take a larger and larger per cent of the business from other
distributors. The inevitable effect will be a reduction of the price.

Co-operation differs from capitalism in that it places major em-
phasis on consumption rather than on production. For a century and a half
capitalism has striven to increase production, and it has been amazingly
successful. In an economy of new frontiers—the West in the United States,
and the overseas colonies of European nations—the problem of distribution
did not present itself seriously. But now new frontiers are no longer a
significant factor. Any expansion which takes place in the future cannot
be on the basis of new markets; it must be in the development of old ones.
If we cannot now hope to expand on the basis of the market in China, we must
develop the policy of The Open Door at Home.¹

Many economists believe that the immediate cause of the depression
was the inability of the available purchasing power to consume the goods
produced—the failure of consumption. If there be any truth to this, we
had better in the future place more emphasis where the failure is, and less
emphasis where we are already outstandingly successful. Co-operation does
this with its principle of paying patronage dividends to consumers, as op-
posed to the capitalist principle of payment of profits as an award for
production. Co-operation proposes that consumers pay for goods only the
cost of production, including interest on capital, plus an amount for ex-
pansion when expansion is necessary.

¹ Charles A. Beard.
The social implications of co-operation are different from capitalism. Whereas the tendency in a capitalist society is toward concentration of wealth, the tendency of co-operation is egalitarian. This is because co-operatives distribute their stock much more widely and evenly than capitalist corporations and because earnings are distributed as patronage refunds, not as dividends to stockholders.

The organization of large groups of people in consumer co-operative societies will also mean a different legislative emphasis. Instead of legislation, such as tariffs, designed to protect producers, more emphasis is likely to be placed on consumer protection, such as pure food and drug laws, truth-in-advertising legislation, and invigorated efforts to suppress monopoly.

An important feature of consumer co-operatives is the high degree of mutual interest which characterizes the relationship of the members with one another and of one association with another. Industrial producers' co-operatives have failed chiefly because of conflict of individual interest, but among consumers' co-operatives this conflict is impossible, for the interest of each is identical with the interest of the group. No member can gain anything for himself by hurting another. The blending plant started by the Farm Bureau Cooperative was extremely profitable at first. If it had been operated according to the capitalist plan, the promoters would have kept the ownership and control confined to the smallest group possible in order to increase each one's share of the earnings. But under the co-operative plan, the Indiana co-operative asked other state associations to share the ownership and control, and the earnings. In doing this it was not self-sacrificing; it was following its own best interest.
The management acted in the belief that the more participants there were, the larger the volume would be, the more economically the plant could operate, the larger return the Indiana association would get. This is because ownership and consumption go hand in hand in co-operative enterprises.

One of the most conspicuous recent economic trends is the increased participation of government in economic matters. The tendency has been carried farthest in Russia and Germany, but it is strongly evident in all the other European nations. This trend is not at all a new thing; the same pattern dominated the mercantilist economy of Europe in the seventeenth and eighteenth centuries. In the United States the founders of the Re-Public determined to establish a nation which was free from this European vice. At that time the national bank and the tariff were the principle issues. Jefferson and Jackson in their days were successful champions of laissez faire liberalism. But during the Civil War business interests took advantage of the division of agriculture to secure a system of national banks, protective tariffs, subsidies for railroads, and other government favors. After 1861 the interventionist tide moved forward irresistibly. Even the farmers, who had destroyed two national banks, joined the prevailing trend; after the World War farm relief became a major issue. Since the depression which started in 1930, businessmen, city workers, and farmers have participated more conspicuously than ever before in the benefits of government intercession. When the banks could not function, the government moved to save them; when the railroads could not function, the government gave them a loan; when the farmers could no longer make a living, the government gave them a subsidy; and when the city workers could not find employment, the government gave him work on the WPA.
The founders of the Republic feared the concentration of power because they believed that it was inimical to democracy, but the trend in the United States has been toward concentration of power for the last eighty years. If it continues, either the founders were wrong in one of their fundamental conceptions, or the nation is headed toward critical times.

In every case the government steps in because some group of the people demands assistance in meeting a need which its members consider vital and which, acting as individuals, they are unable to secure. The co-operative movement provides a possible means whereby such needs can be effectively secured by group action which is consistent with the principles of the founders of the nation. Co-operation is a program of self-help which is independent of the government and which asks no favors of the government. It is a group plan able to deal with social problems which are too large for an individual acting alone, yet it is based on the idea of self-help and tends to strengthen individual initiative rather than weaken it.
APPENDIX

VOLUME, CAPITAL STOCK, AND NET PROFITS OF THE INDIANA FARM BUREAU COOPERATIVE ASSOCIATION

(In Dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>Volume</th>
<th>Capital Stock</th>
<th>Net Profits</th>
</tr>
</thead>
<tbody>
<tr>
<td>1923</td>
<td></td>
<td>2 600</td>
<td>9 247</td>
</tr>
<tr>
<td>1924</td>
<td></td>
<td>2 600</td>
<td>40 944</td>
</tr>
<tr>
<td>1925</td>
<td>1 877 851</td>
<td>2 600</td>
<td>70 486</td>
</tr>
<tr>
<td>1926</td>
<td>2 063 819</td>
<td>2 600</td>
<td>133 631</td>
</tr>
<tr>
<td>1927</td>
<td>2 120 567</td>
<td>13 700</td>
<td>120 189</td>
</tr>
<tr>
<td>1928</td>
<td>2 519 137</td>
<td>39 700</td>
<td>118 159</td>
</tr>
<tr>
<td>1929</td>
<td>3 856 842</td>
<td>41 600</td>
<td>183 469</td>
</tr>
<tr>
<td>1930</td>
<td>4 463 329</td>
<td>77 400</td>
<td>207 607</td>
</tr>
<tr>
<td>1931</td>
<td>3 013 537</td>
<td>117 600</td>
<td>77 618</td>
</tr>
<tr>
<td>1932</td>
<td>2 041 034</td>
<td>174 300</td>
<td>84 256</td>
</tr>
<tr>
<td>1933</td>
<td>2 224 065</td>
<td>215 300</td>
<td>77 477</td>
</tr>
<tr>
<td>1934</td>
<td>3 225 827</td>
<td>238 700</td>
<td>86 513</td>
</tr>
<tr>
<td>1935</td>
<td>4 397 095</td>
<td>337 700</td>
<td>117 703</td>
</tr>
<tr>
<td>1936</td>
<td>5 187 457</td>
<td>399 700</td>
<td>135 851</td>
</tr>
<tr>
<td>1937</td>
<td>6 664 623</td>
<td>484 200</td>
<td>174 486</td>
</tr>
<tr>
<td>1938</td>
<td>5 821 303</td>
<td>573 100</td>
<td>36 721</td>
</tr>
<tr>
<td>1939</td>
<td>5 958 000</td>
<td>728 000</td>
<td>172 972</td>
</tr>
</tbody>
</table>

The data from 1923 to 1925 is for the fiscal year ending on October 31. Data for 1926 is for a fourteen month period, after 1926 it is for the calendar year.

The amount of the capital stock and net profits is from the "Auditor's Report" except in the year 1923 when it is from the "Minutes". The data on volume is from the Hoosier Farmer and from the "Minutes" of the annual stockholder's meetings.
FARM BUREAU ORGANIZATIONS IN INDIANA

Indiana
Wool Growers
Association
---
Co-operative
Wool
Marketing

Producers
Commission
Association
---
Co-operative
Livestock
Marketing

Farm Bureau
Mutual
Insurance
Company
---
Co-operative
Automobile
Insurance

Hoosier
Farm Bureau
Life Insurance
Company
---
Co-operative
Life
Insurance

Mid-West
Producers
Creameries
---
Co-operative
Dairy Products
Marketing

The
Indiana
Farm Bureau
Inc.
---
A
Membership
Association

Rural
Electric
Membership
Association
---
Co-operative
Electricity

Farm Bureau
Co-operative
Credit Union
Association
---
Co-operative
Credit

Indiana
Grain
Co-operative
---
Co-operative
Grain
Marketing

Indiana
Farm Bureau
Cooperative
Association
---
Co-operative
Purchasing
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Contract between L. B. Clore and La Porte County Crop and Soil Improvement Association. Among Mr. Clore's personal papers, in Franklin, Indiana.

Letters: From Mr. Herbert Willett, economist of the National Fertilizer Association; from directors of agricultural experiment stations in middle western states; from managers of county farm bureau co-operative associations.


"Minutes of the Meetings of Stockholders," of the Federated Marketing Service, the Indiana Farm Bureau Purchasing Department, and the Indiana Farm Bureau Cooperative Association. (Hand written and typed). In the office of the Farm Bureau Cooperative Association.

"Minutes of the Meetings of the Board of Directors and of the Executive Committee," of the Federated Marketing Service, the Indiana Farm Bureau Purchasing Department, and the Indiana Farm Bureau Cooperative Association. (Hand written and typed). In the office of the Farm Bureau Cooperative Association.

Records in the offices of the Indiana Farm Bureau Cooperative Association.

Records in the office of the Secretary of State of Indiana, Corporation Department.

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The Hoosier Farmer. The official organ of the Indiana Farm Bureau, Inc. Published monthly from June, 1919 to June, 1925; semimonthly from July, 1925 to May, 1932; monthly since June, 1932.

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Indiana State Livestock Sanitary Board. Indiana Method for the Prevention, Control and Eradication of Pullorum Disease. Printed and distributed by the board.


Articles

