Farming

In 1959 the United States government sent a delegation of farm cooperative experts to India's International Agricultural Fair, hoping they would explain the American cooperative way to all within earshot. One of the delegates was Martin A. Abrahamsen, deputy administrator of the U.S. Farmer Cooperative Service and veteran of many farm co-op struggles. Although the cold war had not yet begun to thaw, the delegates from behind the Iron Curtain were surprisingly cordial to their American counterparts. "I guess they thought they had more in common with us than they actually did," Abrahamsen recalls.

One Iron Curtain delegate said to Abrahamsen, "We understand your cooperatives. They are socialistic, yes?"

"No," replied Abrahamsen, "they are capitalistic. Cooperatives make better capitalists out of farmers."

After several exchanges of that sort, the Iron Curtain delegates stopped asking questions. But Abrahamsen's response was more than cold war rhetoric; it reflected the near-unanimous belief among American farmers that strong, competitive co-ops, not Marxist communes, will lead them to the economic Promised Land.

Many small, independent farmers have already vanished from the land, of course, having sold their profitless acres to those new, omnivorous corporations, the minions of "agribusiness," which swallow farms the way sharks swallow herring. In 1972, only 800,000 farms produce 90 per cent of all our food and fiber. Since World War II, 30 million Americans have fled the soil.

Of the small farmers who survive, five out of every six families belong to at least one co-op, and a majority belong to three or more. In hundreds of rural towns the local co-op is the one economic bright spot on a prairie of desolation. Consider the Pigeon Falls Co-op Creamery in southeastern Wisconsin.

Founded in 1882, it has somehow managed to weather good times and bad. It now produces about 20,000 pounds of cheese each day on behalf of 215 farmer-members, and it employs 25 people; in Pigeon Falls (population: 200) this makes it a financial colossus. The co-op is proud of its independence: For 90 years it has resisted mergers with other cooperatives. But according to its president, Arnold Hanson, members "are thinking of joining other milk co-ops in the state." The wonder is that they are only thinking about it. Given the shaky position of small farmers, a local co-op would have to be incredibly stiff-necked not to ally itself with some larger organization.

Yet this raises anew some old ideological questions about the nature of cooperatism. Should a co-op try to become big and powerful, and risk losing touch both with its members and its original purpose? Or should it remain small and personal, and risk losing everything? The history of rural electric cooperatives—a bittersweet success story—typifies the dilemma.

Rural Electrification

One of the many blessings farmers clamored for 50 years ago was electricity. An experiment with 10 farms near Red Wing, Minnesota, had demonstrated that farmers with electricity could cut operating costs and save months of labor. But few farmers had electricity, because private utilities demanded exorbitant rates and installation fees from residents of sparsely settled areas. As a spokesman for the industry patiently explained, "The primary interest of the electric utility in rural electrification is revenue. Social responsibility is a factor . . . but electric utilities are not eleemosynary institutions. . . ."

The situation was an ideal set-up for cooperatives: on the one hand, a desperate need; on the other, a recalcitrant industry. The only thing missing was money, soon to be supplied by the Federal Rural Electrification Administration (REA), in the form of low-interest loans to cooperatives and other rural groups that were ready to organize electric distribution systems.

The REA was largely the creation of Franklin Roosevelt, who took more than a passing interest in the exorbitant rates utilities were charging rural residents. As he was later to tell an audience of his Georgia neighbors, "There was only one discordant note in that first stay of mine at Warm Springs. When the first-of-the-month bill came in for electric light for my little cottage, I found that the charge was 18 cents a kilowatt-hour—about four times what I pay at Hyde Park, New York. That started my long study of . . . getting electricity into farm houses. . . . So it can be said that a little cottage at Warm Springs, Georgia, was the birthplace of the Rural Electrification Administration."

Debate in the House

The rural electrification bill, sponsored in 1936 by Senator George Norris of Nebraska and Congressman Sam Rayburn of Texas, was hotly debated. Its chief defender in the House proved to be Mississippi's John Rankin, a man remembered more for his racism than his populism. When Connecticut's Representative Schuyler Merritt rose to defend the "progress" private utilities had made in rural America, Rankin took him on.

RANKIN: The gentleman says electric service is quite new. Of course it is no more new in this country than in Europe.

MERRITT: If you compare [Europe] with the Eastern states or California, I think the results are as satisfactory here as they are there.

RANKIN: I wonder if the gentleman knows that in New Zealand two-thirds of their farms are electrified, [and] in the United States about 10 per cent are. . . .

MERRITT: In New Zealand they deal with enormous tracts of land. . . . Also, New Zealand is a socialistic state.

RANKIN: I wonder if the gentleman knows that in France and Germany 90 per cent of their farms are electrified. Those are not socialistic states.

MERRITT: No, they are not socialistic, but they are imperialistic.

RANKIN: I wonder if the gentleman knows that Holland and Switzerland are practically 100 per cent electrified.

MERRITT: But they are no larger than our New England.

RANKIN: I understand that there is no state in New England that has even 25 per cent of its rural farms electrified.

MERRITT: I do not care to give this gentleman more time.

Private Pressure

Creation of the REA led farmers everywhere to start cooperatives and apply for loans. Initial results were discouraging. The farmers didn't know anything about the electricity business, and the private utilities were countering with a "prevent" defense: They were putting up "spite lines" in the new co-ops' territories, hoping to siphon off enough customers to kill the co-ops. Senator George D. Aiken of Vermont, an early and staunch supporter of electric cooperatives, has recorded the particulars of one such confrontation in his home state:

"A small community of 70 families had tried in vain to persuade the local power company to give them service. Finally, a cooperative was formed to serve this detached area. . . . Suddenly a crew from the local power company appeared and began to set *their* poles on the right of way that had been cleared by the co-op. . . . Only the prompt issuance of an injunction kept the power company from getting more than seven of the 70 potential members of the co-op."

Still, the new cooperatives were tough competitors. At meetings, they registered their defiance in songs like this "Battle Hymn of Progress":

We have set transmission towers
On their march across the land,
Soon to place electric power's
Strength at every farm's command;
We have shown the world what happens
When the farmer takes a hand,
For in union we are strong! . . .

Since 1936 the REA has lent funds to nearly 1,000 rural electric co-ops serving about 7 million families. Most of these co-ops *distribute* power but do not generate it; they buy their power wholesale from private and public utilities. Where the utilities refuse to sell, or demand an outrageous rate, the co-ops generally have reacted by building their own plants and transmission lines, and by creating networks that serve larger regions more efficiently. Electric co-ops, in short, are growing bigger all the time.

The private power industry, as might be expected, is fighting them every step of the way. Periodically, especially during Republican administrations, the industry's lobby succeeds in reducing the flow of REA 2-per-cent loans to co-ops in need of generators; and it is constantly putting pressure on state regulatory commissions to keep the co-ops in check. (Not that the commissions, whose members often shuttle between industry and government, need much arm-twisting.)

At issue now, among other things, is the matter of who will sell power to the many new industries and suburban developments occupying formerly agricultural areas. If the co-ops win, suburbanites in many places may get a taste of cooperatism. But it promises to be a long battle.

A case in point is the Hoosier Energy cooperative of southern Indiana, actually a conglomerate of 17 local co-ops. It spent 22 years seeking permission and capital from state and Federal agencies to build its own generating plant. Each time it applied for an REA loan, the state s five private power companies cried "Socialism!", compelling the REA to back off.

Hoosier Energy finally did get the loan, and it completed construction of a generating plant in 1968. Then the State Supreme Court astonished everyone by issuing a ruling that would have made it possible for one of the co-op's staunchest enemies, Public Service of Indiana, to take over the plant. If the court's logic was weak, its objective was undeniable. It was true, said the court, that Indiana had a 1935 law on the books permitting cooperatives to build and operate their own generating plants, but that law was invalid: It had "lapsed" because the co-ops had not previously built such a plant. Ergo: The new plant must be auctioned off to a private operator.

The REA, with a $75 million investment to protect, stepped in, and named Hoosier Energy as operating agent. It was a standoff that couldn't last, because by law the REA is allowed to be caretaker for only five years. After that, the State Supreme Court decision would go into effect.

Within two years the co-op signed a heartbreaking contract with Public Service of Indiana and Southern Indiana Gas and Electric. The contract gives Hoosier the right to operate its generating plant. (Never mind the state court! We know who's in charge.) In return, Hoosier and its seven member-co-ops are barred from selling power to "any other electrical distribution system," including municipal utilities. Furthermore, the contract gives the two private utilities exclusive rights to buy Hoosier's excess energy. David A. Hamil, the REA administrator, promptly called the agreement "a real milestone for rural electrification." In fact, it was a triumph in corporate greed.

Clearly, one begs the question by inquiring about the size of cooperatives. If power (in Lord Acton's sense) corrupts, weakness seems none too useful either. Every farm cooperative has had to learn this lesson. There are fewer farm cooperatives each year, but those that remain tend to grow larger, if not in membership then in the amount of business they do.

Co-op Conglomerates

In 1922, the peak year in terms of numbers for farm co-ops, nearly 15,000 purchasing and marketing groups grossed under $3 billion; last year, 7,000 cooperatives grossed more than $17 billion. There have been myriad mergers similar to those taking place in other industries, and many of the still-extant independent cooperatives now belong to regional federations that undertake much of the necessary purchasing and marketing on their behalf.

These federations are often slick, sophisticated enterprises—a far cry from the primitive Granges essayed a century ago by people who in many instances could neither read nor write. Gold Kist, Inc. (formerly the Cotton Producers Association) sells supplies to 150,000 members in Georgia, Alabama and elsewhere in the South. Its 1970 gross income from sales of such products as feed, fertilizer and pesticides came to $87 million. To wholesale and consumer markets that year Gold Kist sold eggs, pecans, peanuts, broilers, and other products that brought in nearly $200 million. In addition, Gold Kist owns a loan company, part of an insurance company and at least one foreign subsidiary. In 1969 it returned almost $5 million to co-op members in the form of patronage refunds—i.e., the money farmers had saved by buying supplies and selling produce through the federation.

Gold Kist is not unique. No less than a dozen other cooperative conglomerates have balance sheets to rival theirs, and five are listed among *Fortune*'s "Top 500." One of these is Farmland Industries, a remarkable federation of 2,000 local co-ops operating in 15 states across middle America. Like many other successful businesses, Farmland owes some of its growth to its enemies, in this case the petroleum industry.

Farmland began, according to Kenneth S. Davis, a writer and part-time Boswell to the cooperative movement, "as little more than a hopeful gleam in the eye of its president, Howard A. Cowden, a big man with . . . a sense of mission and a genius for large-scale organization." With the increasingly widespread use of tractors and other farm machinery, Cowden saw the need for a petroleum purchasing co-op. In 1929 he talked six local associations in Kansas into putting up $500 each to start the enterprise, called Union Oil Cooperative. (In 1935 the name was changed to the Consumers Cooperative Association, and in 1966 it became Farmland Industries.)

The new organization began buying and shipping tank cars of gasoline and tractor fuel directly to its own storage tanks and thence to members. By the end of the first year the number of member associations had grown from 6 to 22, and each had already received a small rebate in proportion to its purchases. By 1938 the co-op was distributing refined petroleum fuels at the rate of 54 million gallons a year. It was also beginning to worry profit-making competitors in the oil industry. Soon, refineries began canceling contracts with the federation, threatening, in effect, to cut off its supply of petroleum products. Cowden's response was to spin off a subsidiary, the Cooperative Refinery Association, financed by the sale of $10 shares to cooperating farmers. The new co-op opened a gasoline refinery on New Year's Day, 1940.

Shortly thereafter it began to drill its own oil wells and to install its own pipelines. At each juncture its growth was inadvertently stimulated by the petroleum industry, whose periodic boycotts and embargoes kept forcing the cooperative into new areas of development. Eventually, Farmland owned and operated wells, pipelines, refineries, storage tanks, and trucks—guaranteeing the flow of petroleum products to its members.

In 1947 the industry played its trump card. It instituted a court action challenging the federation's right to manufacture supplies for farmers and sell off such by-products as heavy oil and asphalt to nonfarmers. But the Kansas Supreme Court, in a landmark decision, unanimously upheld the coop. As a Farmland official later observed, "This case pretty well eliminated any question as to the right of a farmer cooperative to integrate vertically its operations"—in other words, not merely to sell supplies to its members, but to manufacture them as well.

Farmland Industries has been "integrating" both vertically and horizontally ever since. Today, besides oil wells and refineries, it owns fertilizer plants, feed mills, factories that produce paint and batteries, a network of warehouses, a fleet of trucks, and two hog slaughtering plants. Its meat sales are the largest of any cooperative in America. In addition, it shares ownership with the Dow Chemical Company in a Missouri agricultural chemicals plant. Farmland has assets approaching $400 million, grosses more than $650 million a year, and provides aid and comfort to 400,000 individual members through their local co-ops. It is a major triumph in economic cooperatism.

Farmland Convention

A few months ago I attended Farmland's 43rd annual convention, held in Kansas City's huge municipal auditorium. My first morning I felt I was in the presence of a saving remnant: The farmers kept reminding each other they were alone in a hostile world, sole survivors and keepers of the sacred flame. "Good morning, farmers," boomed the emcee. "It's good to see so many farmers here."

The main speaker that morning was Edward T. Breathitt, former governor of Kentucky and co-chairman of the new Coalition for Rural America. Breathitt said he was working to "preserve the family farm," because "the best values are rooted in rural America." He went on: "One thing is certain. The great American dream resides uneasily in the suburbs of our great cities, while the news media and the policy workers have all but forgotten the hard-working people in rural America."

"Now let me ask you to do me a favor right here and now," Breathitt said. "Stand with me here and let's show *our* appreciation to the hard-working men and women who have the courage to stick it out in American agriculture today. Let's stand here and give them an ovation." Everybody stood up; there was polite applause.

Later, a young man who represented the Future Farmers of America delivered a rousing oration on the importance of leadership. Leadership, he said, didn't come from books; it wasn't born in a person and it wasn't God-given. No, leadership came from "average people."

"You are those people," the young man shouted. "We young people need you now more than ever before."

If there was in the proceedings a note of self-congratulation, one could hardly blame the farmers. The system had done its worst, yet here they were, alive and well in Kansas City. In 43 years they had collected more than $300 million in savings from their cooperative—not bad in a disappearing industry.

By the time I left the convention, though, I had the impression that the mood in Kansas City was not the mood that had inspired cooperation, nor, indeed, the mood that would *expand* cooperatism. It seemed too self-centered, too enraptured with its own success, to be of much help to newer, younger cooperative impulses. The small farmer who, thanks to his big cooperative, had "stuck it out in agriculture" cared little about bringing the benefits of cooperatism to either his rural neighbor or his urban customer. Rather, he had followed the conventional course of reform movements, from prophets to profits, from ideals to merely "deals." Others have made similar observations.

Generation Gap

"It is not too difficult for a young person today to determine the direction and intent of . . . cooperative institutions," writes Raymond Arvio, a young man who works for cooperatives in New York City. "Co-ops are proud they are on *Fortune* magazine's top lists; they revel that they can afford top-priced singers and comedians to attend their annual meetings; others take quiet but obvious pride that their meetings are held in the finest coliseums and hotels of their town."

Arvio's lament appeared in the Cooperative League's magazine, and he is plainly speaking for his generation of cooperators. They perceive or imagine a decadence among their elders, a shift in emphasis from spreading the wealth and the gospel of cooperatism to consolidating one's gains and hoarding one's treasures. Some of this is true. Many large farm cooperatives have been less than enthusiastic about assisting their poorer rural compatriots—mostly blacks and Chicanos—in *their* cooperative struggles. In fact, several white co-ops in the South have pointedly refused to sell fertilizer to their black counterparts; and on the West Coast some of the larger cooperative growers associations, like Sunkist, have been charged with creating intolerable conditions for Mexican-American farmworkers.

Moreover, some co-ops have made a shambles of the Rochdale principles: They have closed their doors to new members, failed to keep older members duly informed and, in a few flagrant instances, have even scrapped the one-man, one-vote rule, preferring to parcel out voting power on the basis of each member's selling performance. Briefly put, most farm cooperatives nowadays neither crusade nor proselytize; they mind their own business, and their business is simply . . . business.

The evolution of the Welch grape juice cooperative tells much of the story. It started as a private company in 1869, when Charles Welch, who lived in upstate New York, introduced pasteurized grape juice to the public (and to churches, for use in place of sacramental wine). The business prospered for several generations; but after the Crash of 1929 it began a slow decline, and by the mid-'40s a large block of Welch Company stock was up for grabs.

It was bought by Jacob M. Kaplan, an energetic entrepreneur from New York City who already owned a grape juice processing plant in Brocton, N.Y., near the Welch headquarters. Kaplan rebuilt the business, stressing aggressive promotion and consistent high quality, and he helped the hard-pressed grape-growers to increase their vineyard yields. Sales and profits zoomed.

Kaplan's Co-op

But Kaplan the pragmatic businessman was also something of a dreamer; he envisioned a cooperative in which grape-growers could further prosper by sharing their savings. In the late '50s, under a pay-as-you-go arrangement, Kaplan turned over the business to his 5,000 grape-growers in New York and six other states. (There was a Welch processing plant in each of the states.) He agreed to remain president without salary while the growers paid him 10 per cent of their annual net proceeds toward the agreed-upon purchase price. Once that sum was reached, Kaplan bowed out, and the Welch Grape Juice Company became a full-fledged co-op.

In the 10 years since then, the cooperative has broken all sales and earnings records. Without doubt it is a huge business success. Yet Kaplan, who now devotes much of his time to running his family foundation in Manhattan, continues to brood over the experiment. He sees the grape-growers becoming narrow and complacent; he is concerned that they do not admit new members to their co-op.

Instead of training and encouraging young people in the cooperative way, complains Kaplan, "they've kept it all for themselves." He fears nearly all agricultural cooperatives are Welching: "They lack vitality and imagination. They are just drifting."

Kaplan's main complaint with successful farm co-ops is their unwillingness to experiment and expand. He keeps urging co-ops to buy food-processing plants, to market their own brand-name products, even to buy retail supermarket chains.

Loans from the CCC

Recently he sent a provocative proposal to Secretary of Agriculture Earl L. Butz. In it he suggested that the Agriculture Department grant cooperatives "substantial loans free of interest," to help co-ops "acquire profitable processing and marketing businesses." Kaplan's broad plan would convert Agriculture's subsidies, most of which now go to individual growers, into loans for cooperatives. These loans, he points out, could come from the Commodity Credit Corporation (CCC), a Federal agency which since 1934 has been guaranteeing to farmers a minimum price for their produce, through a program of short-term loans. Whenever the price of produce on the open market falls below that of the government's guarantee, the farmer keeps the loan and the government gets his harvest (as well as 3.5 per cent interest on the advance).

The CCC's chartered powers are extremely broad; it is probably true, therefore, that it could legally switch from its present short-term subsidy program—amounting this year to $14 billion in loans—to a long-term loan program aimed at cooperative growth. Certainly the development of farm-to-store cooperatives able to pay their own way would, in the long run, save taxpayers untold billions in farm subsidies. But when I discussed this proposal with CCC officials, they seemed bewildered. "We've never done that before," one of them said. And Butz's reply to Kaplan's letter was a polite but noncommittal "thank you."

Farm to Consumer

In any case, Kaplan's plan revives the old dream of establishing a vast, nationwide network that links farmers to consumers. Essentially, it is a dream of cutting out the middleman—the *bête noire* of farmers and consumers alike. The same vision prompted James Peter Warbasse in 1918 to organize a national cooperative wholesale society. (It lasted three years.) Warbasse also founded the Cooperative League of the U.S.A., an organization that continues to promote the notion of "a new cooperative, owned and controlled by farm and urban cooperatives." It is not entirely clear how this could be accomplished, or how within it farmer and consumer interests might be reconciled. But some of the nation's younger cooperators have taken the message to heart. A group in California, for instance, has shipped 8,000 pounds of dried fruits and nuts, bought directly from growers, to student co-ops and buying clubs in Minneapolis and Ann Arbor.

"We are already subverting the capitalists!" the students chortle in their new publication, *The Food Bird*. But as any farmer could tell them, co-ops do not subvert capitalists, they make them. That pedestrian lesson is now being learned anew by the urban consumer co-ops —the food stores, the health groups and the housing projects—all of whom had to accommodate cooperative ideology to business and political reality. As we shall see, however, worse things could have happened.


CO-OP BRAND
CO-OP