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COOPERATIVES

TODAY AND TOMORROW

by Martin A. Abrahamsen
The Farmer Cooperative Service conducts research studies and service activities of assistance to farmers in connection with cooperatives engaged in marketing farm products, purchasing farm supplies, and supplying business services. The work of the Service relates to problems of management, organization, policies, merchandising, product quality, costs, efficiency, financing, and membership.

The Service publishes the results of such studies, confers and advises with officials of farmer cooperatives; and works with educational agencies, cooperatives, and others in the dissemination of information relating to cooperative principles and practices.

JUNE 1966
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This publication first examines the status of cooperatives today. It then seeks to identify important trends that help to explain how these associations reached their present position. This approach also provides the basis for developing guidelines to pinpoint some important future developments that appear to be in the making.

Cooperatives Today

The status of cooperatives is here considered from the standpoint of: (1) Net volume of business, number, and membership; (2) type and importance of service cooperatives; (3) relative importance of cooperative business; (4) trend in net value of cooperative business; (5) proportion of business through cooperatives; (6) cooperative discontinuances and formations; and (7) relative growth trends.

Net Volume of Business, Number, and Membership

Farmer Cooperative Service studies indicate that as of 1963-64 (the last year for which we have available data), 8,800 marketing, purchasing, and related service cooperatives operated in the United States. These cooperatives reported net volume of business amounting to $14.4 billion and membership of 7.1 million (figure 1).
Those cooperatives whose main business is marketing accounted for an estimated 78 percent of the total net volume of business, 61 percent of the number of cooperatives, and 51 percent of the number of individual memberships in 1963-64.

Cooperatives providing farm supplies and related farm services represented the remainder and accounted for 22 percent, 39 percent, and 49 percent of these items, respectively.

The year 1950-51 was the first one for which Farmer Cooperative Service kept national cooperative statistics on the same basis as at present. In that year, the 10,100 cooperatives marketing farm products and providing farm supplies and services had a total net volume of business of $8.1 billion and 7.1 million memberships.

In 1950-51 marketing cooperatives accounted for 78 percent, 65 percent, and 58 percent for these respective items. Purchasing and related farm service cooperatives accounted for 22 percent, 35 percent, and 42 percent for these items during the same year.

Since 1950-51, the actual number of cooperatives declined 12 percent. Net volume of business increased 76 percent, and membership was substantially the same.

To express this another way, since 1950-51 the number of cooperatives has decreased at a rate of about 1 percent a year; net volume of
business has increased at about 6 percent a year; and memberships have remained about constant (notwithstanding a substantial decrease in the number of farmers).

**Type and Importance of Service Cooperatives**

Any discussion of cooperatives would be incomplete if it did not consider important types of rural service associations. Figure 2 shows these various types with membership and percent of service cooperatives provide.

As of January 1, 1965, 738 Federal Land Banks were serving over 360,000 members and providing 20 percent of all long-time farm loans.

A total of 483 Production Credit Associations were serving over 500,000 memberships and providing about 13 percent of the production credit used by all farmers.

Twelve district Banks for Cooperatives and one Central Bank for Cooperatives furnish credit to local and regional cooperatives serving nearly 4 million farmers. In all, these loans account for about 60 percent of the credit used by these cooperatives.

Some 700 rural credit unions serve 260,000 members and supply 1 percent of rural non real estate credit.

As of January 1, 1965, about 900 rural electric cooperatives were providing electricity to nearly
5 million members. These accounted for 54 percent of the electrical needs of rural America. In addition, 212 rural telephone associations had nearly one-half million rural people as members and provided an estimated 45 percent of the telephones owned by farmers and other rural people.

Current figures show some 1,500 mutual fire insurance companies provide insurance for 3.5 million members. They do about 50 percent of the insurance business in farm and rural areas.

A total of 7,700 mutual irrigation companies, many informally organized, serve over 160,000 members and provide an estimated 35 percent of the irrigation needs of farmers in the United States.

In addition, a limited number of other types of service cooperatives include machinery-use associations, transportation cooperatives, grazing cooperatives, recreation associations, and health organizations.

Relative Importance of Cooperative Business

The relative importance of the major commodities marketed and the various farm supplies provided by cooperatives varied widely (figure 3).

Dairy products account for 31 percent of the net value of farm products marketed by cooperatives; grain, including soybeans and soybean
products, 22 percent; livestock and livestock products, 13 percent; fruits and vegetables, 10 percent; cotton and cotton products, 7 percent; sugar products, 5 percent; poultry, 4 percent; tobacco, 3 percent; and others, 5 percent.

The relative importance of farm production supplies distributed by cooperatives is: Feed, 37 percent; petroleum products, 23 percent; fertilizer, 16 percent; seed, 4 percent; machinery, 3 percent; and other, 17 percent.

Trends in Net Value of Cooperative Business

Let us now compare trends in the actual net value of cooperative business from 1950-51 to 1963-64. To do this we used 3-year averages as shown in figure 4. In this way we could even out fluctuations that might abnormally distort individual items if yearly data were used.

Sugar, cotton and cotton products, and fruits and vegetables have shown the greatest increase in net value for the period. Increases for these products were: 224 percent, 99 percent, and 84 percent respectively. Dairy products also showed a substantial increase, amounting to 61 percent for the period. In the case of livestock change was slight. Included in the "other" classification is wool and mohair which experienced a 35 percent decline in net value of marketing through cooperatives during the period. For all products marketed the increase was 53 percent.
The net value of all farm supplies purchased increased 44 percent for the period. Fertilizer and petroleum products increased 131 percent and 55 percent, respectively. Feed and seed, in contrast, increased at a somewhat slower rate than the average for all farm supplies. Farm machinery showed very little change, increasing only 4 percent.

**Proportion of Business Through Cooperatives**

Questions frequently arise as to the proportion of marketing and purchasing business done by cooperatives. No figures are available on the total amounts marketing cooperatives return to farmers. Therefore, we could not compare this directly to total cash receipts farmers receive for their marketings.

In addition, some of the net value of cooperative business reported represents income for performing various market functions such as processing, transportation, storage, and related items.

On the basis of available information, however, we estimate that at one stage or the other in the marketing process about 25 percent of all farm products move through cooperatives. This ranges from highs of 90 percent for cranberries and 70 percent for Florida and Arizona citrus to lows of 5 percent for broilers and tobacco.

The proportion for other important products cooperatives market is shown in figure 5.

The proportion of farm supplies cooperatives provide ranges from highs estimated at 26 and 25 percent, respectively, for fertilizer and petroleum products to a low of 2 percent for farm machinery. For such important items as feed and seed, the proportion is 17 and 21 percent, respectively. When all production supplies are included cooperatives provide about 15 percent of the total used by farmers.
Discontinuances by type of associations were as follows:

<table>
<thead>
<tr>
<th>Type</th>
<th>Number</th>
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</thead>
<tbody>
<tr>
<td>Marketing</td>
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</tr>
<tr>
<td>Dairy</td>
<td>680</td>
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<tr>
<td>Fruit and vegetable</td>
<td>325</td>
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<tr>
<td>Grain</td>
<td>266</td>
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<tr>
<td>Livestock</td>
<td>163</td>
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<tr>
<td>Cotton and products</td>
<td>105</td>
</tr>
<tr>
<td>Poultry</td>
<td>99</td>
</tr>
<tr>
<td>Special crops</td>
<td>35</td>
</tr>
<tr>
<td>Wool and mohair</td>
<td>34</td>
</tr>
<tr>
<td>Other</td>
<td>53</td>
</tr>
<tr>
<td>Total</td>
<td>1,760</td>
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</tbody>
</table>

Purchasing (farm supplies) 527

Total—all associations 2,287
During this same time over 1,200 associations were organized. By types they were:

<table>
<thead>
<tr>
<th>Type</th>
<th>Number</th>
</tr>
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<tbody>
<tr>
<td>Marketing</td>
<td></td>
</tr>
<tr>
<td>Fruit and vegetable</td>
<td>237</td>
</tr>
<tr>
<td>Dairy</td>
<td>204</td>
</tr>
<tr>
<td>Cotton and products</td>
<td>109</td>
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<tr>
<td>Grain</td>
<td>108</td>
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<tr>
<td>Livestock</td>
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<tr>
<td>Poultry</td>
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<tr>
<td>Special crops</td>
<td>28</td>
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<td>Wool and mohair</td>
<td>33</td>
</tr>
<tr>
<td>Other</td>
<td>47</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>923</strong></td>
</tr>
</tbody>
</table>

| Purchasing (farm supplies) | 328 |

| **Total--all associations** | **1,251** |

These comparisons indicate nearly two discontinuances for each new cooperative formed. Among those reported as discontinuances are a number that were reorganized or that merged with other cooperatives. The rest are no longer engaged in any business operations. These developments reflect the same basic adjustments to changing economic conditions that are contributing to mergers among all major types of business.

Within the past year, nearly 300 cooperatives, in addition to those previously reported, have
been organized under provisions of the Economic Opportunity Act. Title III-A of this Act makes funds available to Farmers Home Administration for loans to cooperatives serving low-income groups. A large proportion of these funds is used by cooperatives to purchase harvesting machinery such as cotton pickers, combines, and similar items for joint use by members, the low-income farmers who are unable to purchase such machinery individually.

Relative Growth Trends

Let us next compare the growth of cooperatives with other types of business. Our records show that from 1950-51 to 1963-64 the net value of farm products marketed and supplies purchased through cooperatives increased at a faster rate than the total business reported for these items.

During this period, indexes for marketings by cooperatives increased 77 percent (figure 7). This compares with a 31 percent increase for the cash receipts of all farm products. For production supply cooperatives, the index of net volume increased about 68 percent from 1957 to 1965 (figure 8). This compares with a 40 percent increase in the index for all farm production supplies purchased.

In general all types of cooperative business except livestock, wool and mohair, and feeds
increased faster than similar business of firms other than cooperatives during this period.

Thus it is evident that cooperatives have made significant progress in the United States since World War II. They have become an increasingly important and accepted part of the business economy.

Cooperatives Tomorrow

I believe many important future developments that will confront cooperatives tomorrow already are making their appearance on the horizon.

Adjustments to change in agriculture, changes in the world food and political situation, and the continuous advance of technology will have a bearing on possible future cooperative success. Cooperatives will need to give increased attention to these developments if they are to effectively meet the challenge of change.

Let us now examine possible future developments.

Greater Emphasis on Meeting Member Needs

Cooperative leadership must continually be alert to member needs. It is important for this
leadership to realize that the only reason for the existence of cooperatives is their ability to meet these needs more effectively than other types of business organizations.

The commercial farmer, for example, looks on his cooperatives as his off-the-farm marketing, purchasing, and business services agents. He expects them to adjust their operations to the impacts of such forces as larger but fewer farms, the need for greater financial resources, and a wide range of technical advancements that influence product handling, processing, and distribution methods.

For example, the use of computers not only will enable the cooperative to readily formulate feeds and fertilizers at the lowest possible cost of a given quality for members but also will provide opportunities for a wide range of personal services including record-keeping, income tax computations, and farm management assistance.

The impacts of change also are bringing diversification and integration of business operations. The commercial farmer is interested in having the cooperative serve all the needs of his various business enterprises.

This often means providing purchasing, marketing, and related business services for his increasingly specialized operations. He will have greater needs for "across the board" integrated services to achieve for himself the benefits that come from increased control of his operations. This raises the very practical question of how far cooperatives should go in providing community service centers.

Moreover, the very nature of cooperative membership is changing. Barriers between the country and city are disappearing. With the continual growth of suburbanization, cooperative members will reflect at one and the same time both producer and consumer interests. The cooperative technique has application to both groups. Consequently non-farm rural people as well as commercial farmers are becoming increasingly interested in a growing number of services that can be provided by cooperatives.
Non-farm rural people, for instance, have an interest in such services as credit, insurance, and recreation. There is reason to believe that many of them will turn to cooperatives, either established or new, in their efforts to obtain such services.

In many areas, large numbers of low-income people are located side by side with commercial agriculture. In the future more cooperatives may want to examine the possibilities of providing a wide range of additional services such as joint use of farm machinery, establishing grazing associations, and setting up credit unions.

**Gear Structure and Organization to Change**

As cooperatives move in the direction of integration and diversification, we can anticipate substantial changes in organizational structure.

As of now, this question is unresolved: Will these changes call for new types of cooperatives or will they mean that existing ones will expand functions to meet these changes? I believe there is too much academic discussion of an "either-or" approach to this problem. Obviously we will have some of each. The trend in developments will be influenced by the conditions prevailing with respect to each given situation.

The extent to which existing cooperatives are already serving a given territory and the willingness of management to plan operations to include an expanding range of community services will influence the direction taken. Likewise the nature of the services desired and the degree to which they may or may not complement existing cooperatives also will be important in determining the direction of future developments.

We must realize, too, that these developments will occur on a two-way street. Interest in using cooperatives as a tool to help improve the position of low-income people - farm and non-farm - will increase. At the same time, it seems reasonable to expect that large-scale, commercial farmers will insist that cooperatives provide
the kind of services their growing operations require for the most efficient production and sale of their products.

How a cooperative operates in the future then will be greatly influenced by such conditions as the impacts of technology particularly on production methods, ways of handling products, and what economists often call "economies of scale"—additional savings that can be realized from the operation of larger business enterprises. These savings may be realized in production, processing, manufacturing, and distribution.

Improving Management

Cooperatives are unique in that members at one and the same time help finance operations, control activities through basic management decisions, and benefit from accomplishments. Members have broad responsibility in determining the directions of their cooperative's development and in establishing the ground rules with respect to the methods of organization and operation. As cooperatives become larger, the problems of maintaining member control and direction will become increasingly important.

This contributes to both strength and weakness among cooperatives. To the extent that members are well informed and assume responsibilities, they can pretty much chart the type of organization they desire and assure that it will operate in accord with their interests.

In the future this will place increased responsibility on the various elements of the cooperative's management team--members, board, and hired employees. The directors, for example, will need to be able to interpret members' views and interests in the economic conditions under which their cooperative will operate.

In the future, therefore, the criteria for electing a cooperative director will depend more and more on his grasp of the economic and social forces, both national and international, that will
shape the destinies of the cooperative business ventures for which he has responsibility.

This will mean a more responsive management for cooperatives tomorrow—a management that has a realistic understanding of cooperative objectives.

The alert directors in the future will not permit managers to establish personal relations by which they decide whether or not farm products are marketed through or production supplies are obtained from their regional cooperatives. Competing, in effect, with your own organization by doing business with its competitors is a practice that no responsible director should permit.

Improving management also requires placing more emphasis on the development of comprehensive training and informational programs not only for members and directors but for all groups of employees.

The successful cooperative in the future will be one that recognizes the importance of not only selecting qualified directors and employees but continually training and, if necessary, retraining them. It will be one that emphasizes the need for maintaining competent personnel and it will be one that in all respects will be a pacesetter in the business community in the use and incorporation of all techniques of modern management.

More Recognition of Planning and Research

Too many cooperatives have been inclined to rest on their past performances. However, all that cooperatives have ahead is the future. At best, as cooperative leaders look to tomorrow, this future may be somewhat uncertain. It even may be "a never, never land" that by temperament and ability some are ill prepared to explore.

The realistic cooperative will recognize the need to plan, budget, and forecast. This means obtaining and interpreting pertinent facts for
decision making. It also means looking at the overall economy as it relates not only to agriculture as a whole but also to the specific services within agriculture that the cooperative has marked out for itself to perform.

To do the best possible job of planning requires an examination and an understanding of the relationship between agriculture and the rest of the economy as well as an appraisal of the domestic forces that are making their influence felt. For a long time, for instance, we have been conditioned by the specter of overproduction. This may change drastically in the years ahead.

In actual practice, cooperatives want to know what the impacts of these various changes will mean to the market possibilities for the various farm products they handle and to the costs of production supplies and needed business services. This puts a premium on the need for research with emphasis on the interpretation and the implications of findings.

In the future, cooperatives will require the most accurate appraisal possible as to what is ahead, both on a short-time and long-time basis, if they are to make realistic management decisions.

While cooperatives are increasing their use of research both of an economic and a technical nature, they have a long way to go to achieve a pacesetting position in this respect. Both Federal and State agencies can provide them with much basic information and carry on broad studies that have industry wide application.

Cooperatives, however, need more research on what these facts mean to them. Research can be increasingly helpful in at least two ways: (1) By providing information that has special application to the problem of the specific cooperatives they represent, and (2) by maintaining liaison relations with established research agencies.
Strengthening Cooperative Understanding

Cooperatives have contacts with many different publics. In the case of agricultural cooperatives, among the publics whose attitudes are important are: (1) Their own members; (2) members of other cooperatives with whom they need to have established communications; (3) farmers who are not members of any cooperative; and (4) the general public, including businessmen, educators, lawmakers, and church groups.

The knowledge that these publics have of cooperative activities will range from understanding to misunderstanding and even hostility.

Cooperatives have the continuing responsibility to tell the story of their objectives, operations, and accomplishments. If the general public had an understanding of these points, propaganda campaigns against cooperatives that are based on misinformation and designed to create mistrust would lose much of their effectiveness.

Cooperatives, however, must deal with the realistic facts that for an indefinite period in the future they will encounter economic illiteracy not only in farm and rural groups but also in urban groups. This will call for increased emphasis on developing constructive educational programs by cooperatives.

To help cooperatives develop such programs, Farmer Cooperative Service, in cooperation with the Kansas Cooperative Council, Topeka, and Kansas State University, Manhattan, has underway a study of attitudes toward cooperatives.

Preliminary findings indicate that Kansas urban people, while recognizing the benefits of cooperatives to members, have a poor grasp of the public issues that relate to cooperatives. Kansas farmers understand the nature and operations of cooperatives quite well. They do not, however, fully appreciate their place in the agricultural economy.
Recognizing Growing International Obligations

The days of so-called splendid isolation are over. The success of cooperatives may be determined less by what happens in our local county seats and in Washington than by what happens in London, New Delhi, Peking, Moscow, and Rio de Janeiro.

Cooperatives have long been recognized by our Government as well as other nations for the substantial contributions they can make to the development of foreign countries.

In the Department of Agriculture, some 400 participants yearly meet with the staff of Farmer Cooperative Service to discuss various aspects of cooperation and its application to the countries they represent. The International Agricultural Development Service of the U.S. Department of Agriculture has responsibility for providing technical assistance on problems of agriculture in developing countries. As a part of this program, Farmer Cooperative Service has three cooperative technicians in Brazil and one in Paraguay. It has also provided short-time help in appraising possibilities for cooperative organizations in a number of countries in South America and Africa. Conscious of its obligations, the University of Wisconsin, through a contract with the Agency for International Development, has developed an International Cooperative Training Center at Madison. Here cooperative leaders from foreign countries come for a specified period of training in cooperation. This includes both classroom and field training.

Major national and regional cooperatives also are emphasizing "people to people" assistance through cooperative activities. Such organizations as The Cooperative League of the U.S.A., Chicago, Ill.; National Farmers Union, Denver, Colo.; National Rural Electric Cooperative Association, Washington, D.C.; and International Cooperative Development Association, Washington, D.C., have active programs to assist foreign countries in establishment and operation of cooperatives.
The cooperative technique is recognized as important in the establishment of democratic process as well as an effective tool for the development of national leaders. Finally, social and economic benefits of cooperatives are recognized as very substantial by the Governments of many of these countries.

More Attention to Government Policy

The philosophies of cooperative leaders have varied widely with respect to relations of Government. At times rugged individualists have asked little more than to be let alone. They have stated in effect that if left to their own devices, cooperatives could deal quite effectively with the wide range of problems confronting farm and other people.

Such a view, however, has proved decidedly unrealistic in terms of present day conditions. First of all, more and more cooperative leaders are recognizing that Government is a creation of people. They also recognize it as an entity they not only carry on business with but also as a governing body that, through legislative, judicial, and executive action, may significantly encourage or impede opportunities for success or failure of cooperatives.

Cooperative leaders are increasingly gaining a better understanding of the very complex and interrelated nature of the economy in which they operate. They are coming to realize the tremendous impacts of technical developments that have, for instance, significantly changed commercial agriculture in a generation. These developments also reflect the nature of our economic and social institutions and the influence that actions of one segment can have on other segments of our society.

It has become increasingly clear, therefore, that forces of Government are important and that cooperatives have a legitimate interest in shaping the direction of agricultural policy. This interest may vary all the way from methods of dealing...
with surplus products to encouraging the production of others or from improving production and distribution of quality farm products and production supplies to protecting the interest of users and the general public.

Moreover, as Government action is directed to broad social obligations which may include assistance to low-income people, increased emphasis is placed on education and equal opportunities for citizens.

Cooperative leaders are more and more coming to recognize that cooperatives, by working with and through Government, can be an important vehicle for improving the economic position of farmers and other rural people. Rather than waiting for things to happen and then fatalistically accepting the consequences of such action, cooperative leaders are observing that by positive action they can use the forces of their own Government to help shape their own destiny.

This point was well emphasized in the Cooperative Observance held by the Department of Agriculture in October 1964. The theme of this observance was Partners in Progress, and the mutuality of interest on the part of Government and cooperatives was well emphasized in the statement by Secretary of Agriculture Orville L. Freeman.

Among other things, he emphasized that cooperatives often help the Department with its basic programs:

"—Cooperatives add to the income of rural America—a real contribution to Department and community efforts to close the rural opportunity gap.

"—Members and officials provide a strong nucleus of agricultural leadership—serving on USDA advisory committees and offering practical guidance and counsel to it in other ways.

"—Cooperatives build new markets with new products and outlets and thus help in the drive to hold down agricultural surpluses.
"--They adopt its grading or quality programs to give consumers better products.

"--They help in administration of some USDA programs such as milk marketing orders and certain commodity loan programs.

"--They act as communications channels to carry news of improved farming practices and other research findings direct to rural members.

"--They pool their export efforts and experiences with USDA promotion campaigns to build better markets abroad for agricultural outputs.

"--They actively participate in USDA programs to help countries abroad improve their agriculture through sound cooperative developments."

Pacesetters in Fact as Well as in Theory

Cooperatives have long prided themselves on being pacesetters in the community. It is, of course, true that when we look at the operations of over 8,800 marketing and purchasing cooperatives as well as some 14,000 service associations, we can find ample evidence to support the view that cooperatives are followers as well as pacesetters.

Let me give you just a few illustrations, however, of the pacesetting contributions of cooperatives:

1. They pump some $400 million annually into the pockets of rural people through patronage refunds (this is an amount equal to 3 percent of the net income of farm people).

2. While difficult to measure, the indirect contributions of cooperatives through their
salutary effect on the marketplace may result in financial benefits that are equally as great as their patronage refund contributions.

3. Other specific examples of how cooperatives have benefited farmers include these:

   a. In California, for one example, fertilizer prices dropped about 25 percent as cooperatives became effective in the market.
   
      In the years ahead, cooperatives must demonstrate that they have the ability to be out in front in doing the job members expect. We have only to compare the performance of the top 10 to 20 percent of cooperatives today to conclude that there is "plenty of room at the top"—that by diligent effort many more can be pacesetters in the true sense of the word.

   b. We can call the role of similar accomplishments in the distribution of seed, fertilizer, and petroleum products as well as in the marketing of dairy products, grain, milk, and other farm products.

      Important as these pacesetting activities are, we must not lose sight of the fact that in many instances cooperative managers report that they must follow competition or that competition is so severe that they cannot provide some of the services members request.

      I suggest that such cooperatives are going to find it exceedingly difficult to justify their existence in the years ahead. These managers are in effect saying that either they are not showing the performance necessary to qualify as pacesetters or they are saying they have not adequately informed these members as to contributions they are making on their behalf.
"The cooperative is free enterprise at its Puritan best, and I want to admonish and encourage every single person within the range of my voice to help build these farm cooperatives so that the farmer can do a better job marketing his product, so that he can receive a better income from the marketing of his product, so that he can receive the many and varied services that he needs for his family farm operation and so that he has a place and mechanism through which he can consult with his neighbors and fellow producers. The cooperative is an integral part of the economic social structure of the United States of America."

As I look ahead, I see every indication that cooperative destiny largely will be determined by the initiative and imagination its leaders display in adjusting operations to the changing conditions that will confront cooperatives in the days ahead.

Cooperatives will continue to be an important institution in the American economy. This point was well made in an address by Vice President Hubert H. Humphrey before the Ohio Farm Bureau Federation in November of 1965. He said:
Other Publications Available


Martin A. Abrahamsen

Co-ops Have a Place in Rural Community Progress. Information 23.


Did You Know --. Information 49.

A copy of each of these publications may be obtained upon request while a supply is available from

Farmer Cooperative Service
U. S. Department of Agriculture
Washington, D. C. 20250