AGRICULTURAL COÖPERATION IN TOBACCO

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I once read a book on tea which left me with the general impression that for several hundred years tea had determined the history of mankind. It would be perhaps impossible to give quite as much significance to tobacco but it would not be questioned that to the "sovereine weede, divine tobacco" of Edmund Spenser, the "filthy weed" of the Women's Christian Temperance Union, or the "accursed thing" of Pope Urban VIII, must be attached a considerable historic importance.¹ Like chocolate and jazz it is an American product. Implements connected with the use of tobacco are found among aboriginal remains of North and South America and nowhere else. Tobacco was one of Columbus's discoveries and the first mention of it is by his companions, who introduced it to Spain and Portugal. Jean Nicot, agent in Portugal of the French king, brought tobacco seed to France and taught his

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The writer was Assistant Counsel of the War Finance Corporation in 1921 when most of the leading coöperative associations were organized. Nearly all these associations were financed in large part by the War Finance Corporation. The writer participated in the negotiations between the Corporation and many Associations, particularly those concerned with tobacco. His duties on more than one occasion took him to the tobacco areas. For the past few years he has been draftsman for the Committee on a Uniform Agricultural Coöperative Association Act for the National Conference of Commissioners on Uniform State Laws. For the past two years he has been director of an agricultural research project under the auspices of the Columbia University Council for Research in the Social Sciences which previously had financed the preparation of his book on the Law of Coöperative Marketing Associations. In the composition of this paper he has had the invaluable coöperation and assistance of several officials of the Department of Agriculture and the Farm Credit Administration. In order to test and confirm the reports of the Department of Agriculture officials Edgar Turlington, Esq. of Washington, D. C. and Ben C. Thornton, Esq., of Greenville, South Carolina, at the writer's request made extensive trips throughout the tobacco regions and their reports of their examination of documents and their interviews with a wide variety of representative citizens in these areas, have been available to the writer. The writer's New York assistants, C. Rudolf Peterson, Esq. and Raymond J. Mischler, Esq. have digested a vast number of documents bearing upon tobacco coöperatives. The writer and his associates are under obligations to so many persons for assistance and courtesies that it is impossible to name these individually. Perhaps the writer will be pardoned for selecting Merton L. Corey, Esq. of New York, the principal receiver of the Tobacco Growers Coöperative Association, and a former member of the Federal Farm Loan Board, to receive an expression of appreciation both for himself personally and as a representative of the many others who have helped the writer in his agricultural studies.

¹ 2 HONE, EVERY-DAY BOOK (1838) 396. Pope Urban's decree of excommunication was against those who smoked in the Churches. Innocent XII in 1690 threatened excommunication against all who should take snuff or tobacco in St. Peter's Church in Rome. The story is told of William Breedon, Vicar of Thornton, Bucks, who was so dependent upon smoking that when he had no tobacco he would cut the bell rope and smoke it. Returning Americans report that some of the Vicar's cigars are still extant.

countrymen to use it. The Portuguese carried tobacco to India in the sixteenth century. It reached Turkey about the same time. Its cultivation in the Far East probably antedates tobacco raising by whites in the New World. Sir John Hawkins reports about its use in Florida in 1565 and his sailors may have been the first Englishmen to use tobacco. Sir Francis Drake and Governor Lane brought back to England from Virginia in 1586 some Indian smoking utensils and turned them over to Sir Walter Raleigh. It was through Raleigh that smoking became popular in England and on the Continent.²

Tobacco was a large factor in the growth of the English Colonies in North America. Even before the Jamestown Settlement in 1607 the use of tobacco had created an extensive demand for it in England and on the Continent. This demand was largely supplied from the Spanish settlements in the West Indies and South America. James I, although he affirmed that tobacco was pernicious to men's morals as well as to health, not only permitted Virginia tobacco to enter England but he prohibited the importation of tobacco from Spain and its colonies.

Tobacco, for the early settlers of Virginia and Maryland, was not only the only money crop, it was money itself. Every school history tells the story of the ninety English girls brought over to Virginia in 1619 by the London Company who were sold, with their own permission, to the colonists for 120 pounds of tobacco each, representing the price of their transportation. In Maryland as late as the birth of George Washington tobacco was legal tender for all debts including the salaries of state officials.

The enthusiasm with which the early settlers turned to raising tobacco in Virginia and Maryland gave the Governors the same sort of official headaches that now trouble the Department of Agriculture. Governor Dale in 1616 made an edict that no man should plant more than one out of three acres to tobacco. Governor Dale retired the same year, his deputy failed to enforce the tobacco order, and by the time Dale's successor came the next year he found the Colony threatened with famine while all the inhabitants were engaged frantically in cultivating every available foot for tobacco. Both Maryland and Virginia found it necessary to require a definite amount of food crops to be grown by every farmer as a condition of his raising tobacco.

The acreage grew so rapidly that in many years during the seventeenth and eighteenth centuries the exports were more than the market would absorb. There was much early legislation designed to limit production, fix prices, and insure that the exported crop would reach the market in such condition as would maintain the good reputation of the American product. Maryland's inspection law, passed in 1640, was the basis for the inspection system which has persisted to the present time. By the close of the eighteenth century tobacco culture had spread to other regions, being of special importance in Kentucky, Tennessee and Ohio. The South Atlantic states, however, were the chief sources of American tobacco until the Civil War

² Much amusing and instructive lore about tobacco may be found in FAIRHOLT, *TOBACCO, ITS HISTORY AND ASSOCIATIONS* (2 ed. 1876). See also, Holmes, *Some Features of Tobacco History* (1919) *AM. HIST. ASSN. AM. REP.* 387.

during which Kentucky obtained first place and has since either been first or second only to North Carolina.³

THE CULTIVATION OF TOBACCO

The charms of tobacco have inspired many poets but their verses relate to the use of the product rather than the growing of the plant. While to the observer there are many aspects to the cultivation of tobacco which are not without interest, to the actual workers the sheer drudgery of raising, curing, and conditioning tobacco is so continuous as to leave them little time or inclination for poetry. Botanists recognize about 50 species of *Nicotiana* but nearly all of the world's tobacco supply, wherever grown, comes from varieties of Virginia tobacco. The plant is a coarse annual, with simple straight stem, which may reach to a height of six feet or more, with large simple leaves. The leaves may be as much as two feet in length and they are covered with soft hairs from which exudes a thick secretion. The seed must be sown in nursery beds and the plant later transplanted. Tobacco will grow almost anywhere,⁴ but it is greatly affected by soil, climate, moisture and conditions of cultivation. The same variety grown under slightly different conditions will produce leaves of radically different qualities. One does not need to believe all the rhapsodies about tobacco manufacture one hears over the radio to appreciate the possibilities of affecting a tobacco product by judicious selection of raw material.

Every farmer must wage a never ending war with nature and in tobacco culture the combat is a continuous hand-to-hand struggle. The assiduous care in the nursery bed is followed by personal attention to each plant in the field. The ground must be kept always in cultivation and every weed and insect must be repelled. At precisely the proper time the plant must be topped and some leaves must be removed. Generally all the suckers are eliminated. Some cigar tobacco in Florida and in the Connecticut Valley is grown under lath or cloth screens.

The field cultivation is followed by a fatiguing process of harvesting. The heavy stalks must be split, cut off close to the ground, and carefully hung in the tobacco barns for curing. The curing process may take several months after which the leaves must be stripped from the stalk and prepared for market. The greatest of care in handling the tobacco must be exercised during the process of curing because under certain conditions of temperature and moisture the tobacco leaf becomes so brittle it will crumble to powder at a touch. The curing may end the process for the farmer, but it does not prepare the tobacco for manufacture. Following the curing the tobacco must be subjected to fermentation in piles for from three to five weeks and then subsequently aged in bales or hogsheads for a year or more before it becomes a manufactured article of commerce.

³ *Beginnings of Coöperative Tobacco Marketing*, FED. FARM Bd., Mimeo. Pub., Oct. 1931.

⁴ For example, in Alaska. If Alaskan press reports can be credited, Alaskan tobacco may become an important local crop.

TOBACCO PRODUCTION AND DISTRIBUTION

Tobacco is grown in about 40 states, but in only 19 is it of commercial importance, and in several of these it is distinctly a minor crop.^{4a} Tobacco is classified first as to whether it is to be manufactured for chewing, snuff, or smoking in cigarettes and pipes or whether it is to be used as fillers, binders or wrappers for cigars. The manufacturing types are in turn divided into classes based upon the methods of curing. The original Virginia tobacco was raised on rich land and cured by open wood fires which produced a dark-colored strong leaf. This is the dark or fire-cured tobacco, in which the smoke comes in direct contact with the leaf, and it is still the principal export type. It is now grown chiefly in a relatively restricted area in Western Kentucky and Northwestern Tennessee. A milder product is obtained by growing in lighter soil and curing with a heat method which does not permit the smoke to come in direct contact with the leaf. These are the flue-cured or bright types used both for chewing and smoking tobaccos. The fires are placed outside the tobacco barn and the heat led through the barn by iron pipes or flues. Flue-cured tobacco is grown in the Carolinas, Virginia, and Georgia. These bright types are divided into Old Belt, Middle Belt, Eastern North Carolina, Eastern Carolina and Georgia flue-cured. At one time considerable tobacco was sun-cured, but this method is no longer much used although it persists occasionally in the preliminary preparation of chewing tobacco.

While tobacco is of American origin it is by no means an exclusively American product at the present time. The growth of foreign production and the consequent decrease in American tobacco exports is having much the same effect on tobacco marketing in the United States, but to a lesser degree, as the decrease in the American export of wheat and cotton. Meanwhile such inspiring slogans as "A cigarette in the mouth of every man, woman and child in China" give some hope that increase of consumption may take care of much of the enlarged world production.

The mere fact that tobacco can be grown in a foreign country does not mean necessarily that the demand for tobacco from the United States is cut off. Certain American tobacco areas probably produce tobacco that is unique in the world as to quality and desirability for particular purposes. American production is not by any means all of such high quality, and the foreign production competes directly and on an even basis with a number of the leading American types. Some foreign to-

^{4a} In 1931-1932 production of tobacco in the United States was carried on in nineteen states as an extensive commercial operation. The principal producing states based on average production 1924-28 are the following:

North Carolina	403,133,000
Kentucky	330,574,000
Virginia	126,860,000
Tennessee	91,399,000
South Carolina	68,328,000
Georgia	52,632,000
Pennsylvania	51,840,000

The rest were under 50,000,000 pounds but there are important producing districts in Connecticut, Massachusetts, Wisconsin, Maryland, Ohio and Indiana.

TOBACCO-GROWING DISTRICTS

LUE-CURED TYPES

CLASS 1

Wide belt flue cured
Middle belt flue cured
Southern North Carolina flue cured
South Carolina flue cured
Georgia flue cured

FIRE-CURED TYPES

TYPE

CLASS 2

21 Virginia fire cured
22 Eastern fire cured (Clarksville and Hopkinsville)
23 Western fire cured (Paducah and Mayfield)
24 Henderson fire cured

AIR-CURED TYPES

TYPE

CLASS 3

31 Burley
32 Scattered Burley acreage
33 Southern Maryland
34 One Sucker
35 Green River
36 Virginia sun cured

CIGAR-FILLER TYPES

TYPE

CLASS 4

41 Pennsylvania Seedleaf
42 Gebhardt
43 Zimmer or Spanish
44 Dutch
45 Georgia and Florida sun grown

CIGAR-BINDER TYPES

TYPE

CLASS 5

51 Connecticut Valley Broadleaf
52 Connecticut Havana Seed
53 New York and Pennsylvania Havana
54 Southern Wisconsin
55 Northern Wisconsin

CIGAR-WRAPPER TYPES

TYPE

CLASS 6

61 Connecticut Valley shade grown
62 Georgia and Florida shade grown

MISCELLANEOUS

CLASS 7

71 Eastern Ohio export
72 Louisiana Perique

bacco, for instance much of the cigar leaf raised in Cuba and also part at least of the Turkish tobacco, supplements rather than competes with that grown in America. The estimated total world production in 1930-1931 was 5,112,000,000 lbs. of which the United States produced 1,647,377,000 lbs. or about 32 per cent. Up to about 10 years ago the United States was producing about half of a world production considerably less than the present figures. India is the nearest rival to the United States in production, its crop being about three-fourths of the American output. India is a direct competitor with the United States for the tobacco trade with China, our best customer next to the United Kingdom. Total American tobacco exports beginning with 20,000 pounds in 1618, passing 1,000,000 pounds in 1639, exceeding 100,000,000 pounds by the time of the Revolutionary War, now rarely fall below 500,000,000. A number of factors have caused a steady decline in the period 1928 to 1931, from 575,000,000 pounds to 503,000,000 pounds.⁵

The total demand, foreign and export, is affected not only by economic conditions, but by changes in habits of consumption. The increase in cigarette smoking, especially among women, has created a tremendous demand for cigarette types of tobacco. This means that tobacco production in some sections has shrunk to a fraction of its former size while in other sections more and more land has been given over to this crop. In 1909 approximately 342,000 acres of flue-cured tobacco was grown in the United States. After 1928 the acreage most of the time exceeded 1,000,000 acres.

The consumption of cigars reached its high point in 1905 when every man, woman and child smoked on an average 80 cigars each. The high point in total cigar consumption was reached in 1920. Since that time the consumption of cigars has been subject to fluctuations but the general tendency has been down until in

⁵ Tobacco is grown on every continent of the globe. In Europe the principal tobacco growing countries are Russia, Greece, Bulgaria, Turkey, France, Italy and Czecho-Slovakia. In the Americas the leading tobacco countries are the United States, Brazil, Cuba, Dominican Republic, Porto Rico, Mexico and Canada. In Asia, British India is the largest tobacco-growing country but large amounts are also produced in China, Japan, Philippine Islands, Sumatra, Java and Turkey. Tobacco growing is becoming an important branch of farming in Australia. On the African continent tobacco is grown principally in Algeria, Nyasaland, Union of South Africa, Madagascar, and Northern and Southern Rhodesia. (See *Statistics, Acreage, Yield, Production in Foreign Countries*, YEARBOOKS, DEPT. AGR.).

The estimated world total production in 1930-31 (latest figures) was 5,112,000,000 pounds, about 3,000,000,000 in 1920-21, and about 2,800,000,000 in 1910-11. The principal producers are as follows:

	1910-11	1920-21	1930-31
United States	1,103,415,000	1,509,212,000	1,647,377,000
Russia	160,130,000		305,183,000
Italy	24,783,000	28,260,000	128,606,000
Greece	16,534,000	68,500,000	145,215,000
India	450,000,000*		1,281,280,000
Japan	93,787,000	137,194,000	145,175,000
Philippine Islands	56,257,000	143,064,000	101,662,000
Brazil	75,284,000	191,000,000	187,351,000
Turkey	49,177,000		92,184,000
Total	2,029,367,000	2,077,230,000 (80%)	4,034,033,000

(YEARBOOK, DEPT. AGR. (1933), Table 148, p. 499).

* Estimate.

1930 the per capita cigar consumption was under 50. Since 1920 the effects of increase in population have not been sufficient to offset the effects of decreasing consumption per capita. The consumption of chewing tobacco per capita began to decline in 1890, but owing to the increase of population the peak consumption of chewing tobacco was not reached until 1917 when about 206,000,000 pounds of plug, twist, and fine cut chewing tobacco were manufactured. By 1930 the total manufactures were down below 100,000,000 pounds, a decrease of 52 per cent in 14 years. Per capita consumption of snuff increased until 1905. Since that time it has remained constant. The consumption of cigarettes beginning with about 10 per capita in 1880 increased to over 1,000 per capita by 1930. Of the total American crop in 1929 43.5 per cent was used in manufacturing cigarettes, 37.4 for smoking tobacco, chewing tobacco and snuff, and 19.1 for cigars.

TOBACCO MARKETING METHODS

No intelligent discussion of the marketing of tobacco is possible without a consideration of the social and economic conditions of the tobacco farmers.⁹ As has been indicated, the major part of the American tobacco crop is raised in the South Atlantic states and in Kentucky and Tennessee. Tobacco farms on the average are small, the ordinary farm being not more than 50 acres. Many tobacco farms are even smaller. An exceptionally large percentage of tobacco land is not farmed personally by the owners. The actual farming is done by croppers and other tenants, many of whom are illiterate and almost all of whom have a weak economic position. Tobacco farming requires little farm equipment but much fertilizer. Most of the financing of the crop is done by local supply merchants. The actual cost of the financing is high, partly due to the risk of loss assumed by the creditor. The custom has developed in many regions of practically entrusting the marketing of all agricultural crops to the local creditors. The bargaining power of the Southern tobacco farmer would be small at best, but his relative position is further weakened by the fact that the tobacco produced in the Southern area is almost all purchased by the six largest tobacco companies. While cigar manufacturing tends to be more and more concentrated in a few hands, there are still many independent makers of cigars. The independent manufacturing of cigarettes on the other hand is of minor significance. Competition in purchasing among the larger companies, if it exists at all, is not calculated to bring much price advantage to the individual farmer. A large number of the smaller tobacco farmers are colored, and their bargaining power is particularly weak.

The absence until the last few years of any official standard grades for tobacco and consequently of any market quotations of the sort that are available for wheat or cotton was a further handicap to the poor uneducated tobacco farmer. Dealers and manufacturers have their own system of grades designated by their private marks. There is no uniformity in these private grading systems. The tobacco farmer, though he may be wise in country lore and have some elementary knowledge

⁹ See Vance, *Human Factors in the South's Agricultural Readjustment*, *supra*, p. 259.

about the qualities of tobacco that appeal to particular buyers, has no sense of the more subtle differences that determine the buyers' grades. The Department of Agriculture somewhat later for tobacco than for other staple crops developed a standard grading system which, when added to a service reporting daily the average prices paid for each grade at the principal markets, has been of great benefit to farmers generally and of particular benefit to individual farmers, the quality of whose tobacco has been above the general level. In the chief auction markets the tobacco grading service maintained by the Department of Agriculture in coöperation with the state agricultural bureau inspects and grades the tobacco before the auction sales and announces the grades to the buyers before they bid.

The marketing of tobacco, so far as the farmer is concerned and except as affected by the coöperative associations, occurs either at the auction markets or by country sales.

Most cigar tobacco other than that handled by the coöperative associations is sold on the farm, sometimes as the result of contracts made during the growing season and sometimes by sales after the tobacco is cured. Some sales are made of all the farmer's crop irrespective of grades, and some are for a particular part of the crop. Farm buying also occurs in the smoking, chewing, and snuff areas, notably in certain parts of the dark fired districts of Kentucky and Tennessee and in portions of the Burley district. These Kentucky and Tennessee purchases are mainly by speculators seeking the choicest tobaccos for resale to manufacturers. In the shade tobacco districts where the tobacco is not itself grown by a corporation the ultimate purchaser often has a financial stake in the growing tobacco and a partial responsibility for the expense of the crop in advance of its maturity and sometimes in advance of its planting. Only occasionally tobacco farmers are able to have their own tobacco re-dried, packed, and stored for future sale.

The earlier method of disposing of tobacco at central markets was to sell it in hogsheads, either at open auction or by closed bids. At the market the hogshead was removed and samples were drawn by inspectors from breaks made by lifting the mass of tobacco at two to four places. The tobacco was then replaced in the hogshead and the samples used as a basis for the bids. The closed bid practice prevails now only at Baltimore where it has gone on continually since Colonial times. In this market the buyers after examining the samples file sealed bids which are opened at the close of each day and sales made accordingly to the highest bidder. Most of the other hogshead auction markets, even the one at Louisville, Kentucky, which at one time was the largest tobacco market in the world, have gradually been displaced by the loose leaf auctions.⁷

Most tobacco for cigarettes, pipes, chewing and snuff is sold by the farmers on

⁷ Gage, *American Tobacco Types, Uses and Markets*, U. S. DEPT. AGR. CIRC. No. 249 (1933). This publication seems to the author the best contemporary work about the growing and marketing of American tobacco. It not only contains an authoritative statement about America's tobacco types, with many illuminating statistical tables, but its illustrations, charts, and maps, as well as the text, give a clear and impartial picture of the actualities of American tobacco farming.

the loose leaf auction floors. More than a billion pounds of tobacco is sold annually between August and April in a large number of auction warehouses scattered over the leading tobacco regions. The growers are the sellers; the auctioneers, the agents; and the manufacturers, exporters, and other dealers and speculators are the buyers. The auction warehouses with their low roofs and huge floor space are a characteristic feature of the landscape, especially in Kentucky. The larger centers in the tobacco areas have many warehouses. Lexington, Kentucky, alone has twenty-three. Some warehouses are so extensive that two sets of auctioneers can work simultaneously on the same floor. In a town where there are only a few warehouses they usually have an understanding among themselves as to which warehouse will have the first sale each day and the order during the day at which sales at the other warehouses will follow. The crop matures at different times throughout the season so that the active points of tobacco trading vary from day to day. The buyers make a steady progress from one warehouse center to another. At the height of the season, however, many markets are operating simultaneously and the principal buyers must have representatives at many points on the same day. Farmers frequently have a choice not only among auction rooms but also among towns. A rapid shift to one town may glut the market and decrease prices locally. The best modern auction rooms are lighted by a large number of small skylights placed at regular intervals in parallel rows in the roof. Convenient driveways below the floor level facilitate deliveries to and from the warehouse.⁸

Farmers bring their tobacco to the warehouse and pile it neatly in large shallow baskets. The baskets are weighed, ticketed with the grower's name, the number of pounds and a serial number. The ticket contains spaces for information to be inserted after the sale is made. In former times this was all the information that was shown about each basket, but now since the Department of Agriculture has adopted a standard grading system the tobacco is often graded in advance of the auction. When this is done the baskets are also marked to show the grade and quality. After the tobacco is marked the baskets are arranged in long rows with narrow aisles.

A stranger, even if familiar with the rapidity with which other sorts of auctioneers conduct sales, is always amazed at the extreme speed at which the baskets of tobacco are sold in the tobacco warehouse. Some local business organization usually sets a minimum standard of piles to be sold per hour, perhaps 250. Actual sales usually occur at about 300 per hour although rates as much as one-third higher are not uncommon. The bidding is on the basis of price per 100 pounds and 25 cents is the normal interval between bids for normal lots. For very choice tobacco the interval may be 50 cents or \$1.00, and occasionally 10 cent bids are permitted where the price is low. The auctioneer, the warehouseman, the clerks, the buyers, and farmers and spectators make a little group which moves rapidly up and down the aisles. The warehouseman and often the auctioneer are personally acquainted not

⁸ *Ibid.*, 62 et seq.

only with the buyers but with most of the farmers. In the nature of things the acquaintanceship tends to be closer between buyer and warehouseman than between farmer and warehouseman. It is obvious to any casual observer that some farmers are in much better standing than others with the warehouseman. It is equally obvious that the warehouseman and the auctioneer are able to have a considerable effect upon the price bid for the tobacco, especially where it has not been graded in advance of the sale. Before and during the sale there is much bantering among the participants, and the subtle differences in the intonations and expressions of the greetings and chaffing doubtless have a considerable effect upon the amount of money received by the farmers. A prominent local merchant in one of the tobacco towns assured me that the more humble farmers could afford to pay their better known neighbors two cents a pound to market their tobacco.

Sheer accident has a considerable effect upon the bids even in the best markets, and this is particularly true if no standard grades are recognized. The appearance of the tobacco is affected greatly by the lighting conditions inside and outside the warehouse. Not all warehouses are arranged to give a uniform light over the whole floor and even in the best ones the light varies more or less from hour to hour dependent upon outside weather conditions. The crowd around the baskets may keep a buyer who would especially appreciate a certain farmer's tobacco from noticing the quality or some interruption may distract the attention of this particular buyer. While the farmer is not required to accept the price bid for his tobacco and does in fact occasionally reject the bid price, the farmer is by no means certain of doing any better at another sale. The warehouseman sometimes buys for his own account, partly to keep the farmer's goodwill, tobacco which the farmer feels has not received a fair price at the auction.

One hears a good many stories of unfairness and trickery at the auction warehouses. These stories go on accumulating year after year, and no doubt it is possible to gain a misleading impression as to the general operation of the whole loose leaf sales system. On the other hand it is obvious that the system at best often does operate unfairly in respect to individual farmers and perhaps almost always does not do full justice to the humble white and colored croppers and other poor tenants. The loose leaf system also does not seem to be particularly satisfactory from the standpoint of the manufacturers themselves.

The large number of auction markets, 115 for flue-cured tobacco alone, requires the leading manufacturers to maintain a peak load staff of experts whose season is comparatively short. Moreover the number of auctions going on at the same time means that the manufacturers must trust the instantaneous judgment of every member of their staff in respect to considerable lots of tobacco. Under a more deliberate marketing system fewer experts would have a better opportunity to pass upon the quality of the manufacturers' purchases.

The auction market at its best has some advantages, the chief one being that it

affords a means by which a farmer may display, sell his tobacco, and receive payment in a comparatively short time. The chief dissatisfaction of the auction system was manifest prior to the development of standard grades. The notation under the authority of a licensed grader of the actual grade of a growers tobacco prior to the auction would undoubtedly meet some of the objections urged against the loose leaf floors.⁹ The auction system is of considerable local importance in the tobacco regions and directly and indirectly supports a large and influential element in the population. In some smaller towns it is the chief business institution. Any marketing scheme which purports suddenly and ruthlessly to supplant the auction system without taking care of much of the property and personnel connected with the auction warehouses will meet a vigorous and even desperate opposition. The various interests connected with the tobacco warehouses are likely to suffer more, at least as an initial matter, from any change in marketing methods than the manufacturers and exporters.

THE DEVELOPMENT OF COÖPERATIVE MARKETING

Tobacco planters as early as Colonial times had invoked the aid of legislators when prices were not right and other marketing conditions were unsatisfactory but it was not until the Granger movement that any attempt seems to have been made to market tobacco coöperatively. The Grange watchword was coöperation and as a part of the mushroom development of coöperative stores, purchasing societies, and marketing enterprises, a few coöperative tobacco warehouses were built in Kentucky and one or more in Western Massachusetts. The Grange coöperative structure collapsed within a few years, and thereafter until 1901 there seems to have been no organization of tobacco coöperative societies or pools. In the meantime there had come in the United States the great consolidations of capital popularly called trusts, and in no industry was one company more nearly dominant than in tobacco manufacturing. From 1903 or even before, until the dissolution of the American Tobacco Company as a result of a decision by the Supreme Court of the United States in 1911, there was, for all practical purposes, only one buyer of tobacco in the chief American producing areas.

The first tobacco coöperative movements in Kentucky and Tennessee and the subsequent movement in Wisconsin in 1902 were concerned with the development of farmers' warehouses. After 1904 in Kentucky and Tennessee the dominant purpose of such organizations as the Planters Protective Association in the dark tobacco district of Kentucky and Tennessee, "The Black Patch," and of the Burley Tobacco Society of Kentucky, "The Blue Grass Region," was to induce or, if necessary, to compel tobacco farmers to refuse to sell tobacco to the American Tobacco Company unless prices demanded by the associations for various grades were paid. The basic notion was that the manufacturer's monopoly would be met by a farmers' monopoly. The original plan of the farmers was peaceful enough but success could not be

⁹ *Ibid.*, *passim*.

obtained merely by trusting to voluntary membership and to the loyalty of those associated with the Societies. The final result of the efforts to keep members in line to prevent defeat by non-members was the activity of the Night Riders. The Night Riders began their operations in the Black Patch in December, 1905. A reign of terror was instituted directed against the factories and warehouses belonging to or affiliated with the trust and against growers who refused to coöperate with the Association. Between December 1906 and December 1907 several towns were raided, a number of large tobacco warehouses were burned, the climax being the destruction of huge stores of tobacco in Hopkinsville, Kentucky. Hundreds of individual tobacco barns were burned, many tobacco fields were ruined, and a number of growers were killed.¹⁰

In the Burley region the Burley Society obtained control of a large part of the 1906 and 1907 crops. The American Tobacco Company refused to pay the Society's price, and with its reserves and what it could buy from independent growers managed to get along without dealing with the Society for two years. The Society then decided to prevent all raising of Burley tobacco during 1908. This decision was carried out but only by means of the night riding activities which had already terrorized the Black Patch. The violence in the Burley region did not extend to the raiding of towns and the burning of the larger warehouses. The activities of the Planters Coöperative Association and the Burley Society, largely due to the night riding violence, did compel the American Tobacco Company to pay substantially the prices demanded by the two associations for their tobacco stocks. As soon as the victory was won both farmers' organizations began rapidly to disintegrate although their nominal organizations continued for a number of years. The Burley Society for a time had a coöperative factory and a number of loose leaf warehouses.

In addition to the Kentucky, Tennessee and Wisconsin associations there were a half dozen or more short-lived and on the whole unimportant associations in other tobacco areas.

During the World War the prices of all farm products were attractive, and prices of tobacco increased more than most farm products and much faster than the cost of living. This was due partly to increased consumption, particularly of cigarettes, and to the transportation advantages enjoyed by American tobacco in reaching the European market. The high prices continued the year following the War, the 1919-20 crop being sold at an average price of 39 cents for all tobaccos. This was the end, however, for the average price of the 1920-21 crop fell to 21 cents, a decrease of over 45 per cent. Burley tobacco, which had been produced at an estimated cost of 32 cents per pound, sold at an average of 13 cents. The tobacco farmers were inclined to blame the marketing system for the sharp drop in prices.¹¹ They gave less atten-

¹⁰ STEEN, COÖPERATIVE MARKETING (1923) c. II.

¹¹ The actual changes in the price for three types were as follows:

Type	1919-20	1920-21	Per Cent Drop
Flue-cured	44.58 cents	21.14 cents	52.6%
Dark-fired	25.0 "	9.9 "	60.4%
Sun-cured	28.0 "	10.0 "	64.3%

tion to the great increase in acreage and production, to the extravagant prices paid for tobacco land, and to the general depression which was bringing down all prices. A wave of enthusiasm for coöperative marketing followed which resulted within two years in the organization of seven associations with a total membership of 300,000 persons. Coöperative associations had handled one per cent of the 1919 crop. Their members delivered to them nearly half of the 1922 crop. The drastic drop in farming prices, swinging the farmers rapidly from the state of abnormal prosperity to threatened insolvency, made the agricultural population ready to accept any plausible scheme for financial deliverance. The success obtained by several conspicuous combinations of capital gave the farm leaders a persuasive argument in favor of large scale farmer coöperation. The War Finance Corporation was available as a source of practically unlimited loans. Finally, there was Aaron Sapiro.

Aaron Sapiro was a young California lawyer who had been associated with the California Commissioner of Markets during the development of the California coöperative associations, especially those handling citrus fruit. Mr. Sapiro not only knew a great deal about coöperative associations and the laws relating to them, but he was deeply convinced that the farmers on a whole were not getting a fair deal in the American political economy and he had an uncommon capacity for eloquent statement of his beliefs.

Mr. Sapiro's basic idea was to obtain new agricultural coöperative statutes in all the agricultural states under which regional associations could be organized and relieved from the operation of the state anti-trust laws and membership contracts protected and enforced by liquidated damage provisions, specific performance and injunction. He won over the chief farm leaders and with their assistance went all over the United States presenting to legislatures his Standard or Sapiro Act. In a few years he had practically succeeded in obtaining a uniform coöperative marketing statute throughout the United States.¹²

The typical Sapiro coöperative association was a centralized organization, state-wide, or even larger, in its scope, to which as many growers as possible were directly bound by contracts under which they agreed to sell to the association all of the commodity raised by them for five years. The price received by the member was to be the average price received by the association as a result of the orderly marketing of the product. Initial payment to the grower was made when the commodity was delivered and further payments were made from time to time as the crop was sold. The money for the initial payment was usually obtained by borrowings from banks or the War Finance Corporation; the later payments came from the proceeds of sales. These central associations rendered certain services to their members in addition to marketing, the members receiving much miscellaneous advice about planting and preparation of the crop and being educated along the lines of the improvement of grades and the delivery of the production in good condition. The essential notion

¹² A detailed discussion of the Standard or Sapiro Coöperative Marketing Act may be found in the writer's *LAW OF COÖPERATIVE MARKETING ASSOCIATION* (1931) c. II, III.

of these large coöperative associations, however, was that at last the farmer would have an organization large enough to talk business with the buyers on even terms.

The campaign for the organization of centralized coöperatives, especially in the tobacco areas, emphasized the success of the California fruit coöperatives without giving adequate attention to the differences between the problems in California and those in the Southern tobacco areas. The orange growers, whose coöperative was perhaps the most successful, were among the best educated and most intelligent farmers in the country while the tobacco growers were among the least advanced. Nearly every orange grower had invested considerable capital and was a person of a degree of independence. An increase in orange production is more severely limited by restrictions of soil, climate, and water than is the case with tobacco. A great increase in the production of oranges cannot take place without the investment of a large amount of capital and a delay of several years. The production of tobacco on the other hand can easily and immediately be enlarged.

The California fruit associations were in many instances federations of local units whose marketing activities were supplementary to, and in some cases of less importance than, various service activities relating to the preparation of the crop for market. Especially with the orange coöperatives the individual grower had a number of alternative ways for handling his crop even after he joined an association. For example, a grower could have the association sell his particular crop or part of it as his agent without pooling and without waiting for a seasonal return in order to obtain payment. When a California fruit association became large enough to become a factor in marketing on a national scale it usually represented an extended period of experience on a smaller scale. Both the members and the officers had been tested by years of coöperative activity.

Mr. Sapiro was a man of too keen intelligence not to have known that the California experience indicated that the greatest usefulness of agricultural coöperation depended upon its rendering a large variety of services differing considerably for different commodities. Whether he felt the time too short and the emergency too great to make any detailed studies with a view to adjusting the type of coöperative to the need of the commodity or whether he felt that after all centralized marketing was of so much greater importance that if this were accomplished mistakes could be corrected and adaptations made in due course, the fact remains that under his direction coöperatives differing only in minor detail were set up for the most varying sorts of products. Mr. Sapiro personally was cautious about making public appeals to farmers based upon the monopoly argument, but there is no doubt that the farm leaders generally were imbued with the notion of meeting monopoly with monopoly and that the individual farmers in many or most instances joined such coöperative associations as those in the tobacco areas with the idea that thereafter they could dictate prices to the consumer. The tobacco associations were organized amid a frenetic enthusiasm in which were mingled a good many verbal assaults at the big

tobacco companies. While these large manufacturers were the targets of much agricultural oratory the real threat in the tobacco associations was not to the manufacturers but to the local buyers and others who depended upon the maintenance of the loose leaf auction system. To a large extent the campaigns for the tobacco coöperatives created enemies out of these persons. Perhaps such an outcome was inevitable, but it is interesting to observe that the areas with which these local persons connected with the tobacco industry were most antagonized were those in which the tobacco coöperatives most speedily disintegrated.

THE BURLEY ASSOCIATION

The three largest tobacco coöperative associations, which were also the three largest of all coöperative associations, were the Burley Tobacco Growers Coöperative Association, organized in 1921, with headquarters at Lexington, Kentucky; the Dark Tobacco Growers Coöperative Association, organized in 1922, headquarters at Hopkinsville, Kentucky; and the Tobacco Growers Coöperative Association, also known as the Tri-State Association, organized in 1922, with headquarters partly in Raleigh, N. C. and partly in Richmond, Virginia. All were centralized associations of the non-stock one-man-one-vote type.

The Burley Association¹³ was fortunate in its organizers. The incorporators were among the most prominent men in Kentucky. At the head of the movement were Judge Robert W. Bingham, publisher of the Louisville *Courier Journal* and now American Ambassador to Great Britain, and James C. Stone, later Chairman of the Federal Farm Board. Aaron Sapiro drew up the detailed plans and the contracts with growers while the local men furnished the financial, political, and social prestige which brought into line practically all of the banking interests of the state, the farm leaders, and ultimately the warehousemen. Although the Burley Association had members in six states most of its members were from a fairly concentrated area, largely in Kentucky. The dominant Burley members were the most progressive type of tobacco raisers. The membership drive was well planned and enthusiastically carried out. Between March 20, 1921, when fifty prominent Kentucky men met in the Seelbach Hotel in Louisville to discuss the possibility of coöperative marketing and November 15, 1921, 55,716 members, representing 85 per cent of the 1920 production, had agreed to pay \$5.00 as a membership fee and to deliver all of their tobacco to the Association for five years. All these commitments were made before the Association was incorporated. In order to handle the 1921 crop the organization committee induced the warehousemen to postpone the opening of the 1921 markets until January 26, 1922. The Association was first incorporated in North Carolina, but by January 10 the Kentucky legislature had rushed through a new coöperative law. The Association was then reincorporated in Kentucky. The Burley area was divided into 22 districts, each one of which was entitled to a director. There were also three directors at large representing the public. Judge Bingham was the director at large

¹³ Elsing, *The Burley Tobacco Growers' Experiment* (1928) 2 AM. COÖPERATION, 499-621.

from Kentucky. Eight directors were farmer bankers, three were farmer business men, five were farmer lawyers, one an editor, and eight were dirt farmers. James C. Stone of Lexington was elected president. H. Lee Earley, auditor of the Bank of Kentucky was appointed secretary-treasurer. The intelligence, honesty and usefulness to the farmer which marked the entire life of the Burley Association is an interesting commentary upon the politicians' stock plea for more dirt farmers in responsible positions in farming organizations and in state and federal agricultural offices. On the whole the organizations which have served the farmers the worst have been those in which responsibilities requiring technical skill and business training have been placed upon persons whose only experience has been with the raising of crops. Immediately upon its incorporation the Burley Association announced its intention to sell by grade and to make payments to members based on the quality of the product. Competent graders were hired, and a comprehensive grading system covering 52 grades was at once established. The Association conducted a three-day school for graders and qualified 96 out of the 150 who attended.

Ultimately nine warehousing corporations were organized. These corporations offered to lease every warehouse in the territory for the first half of 1922 and then to buy the warehouse. 117 out of 120 warehouses in the Burley territory accepted the Association's lease proposals, and all but eight later agreed to sell.

Payments for these warehouses, for the most part, were in 6 per cent debenture bonds and 8 per cent preferred stock of the warehouse corporation. The prices paid for the warehouses, especially as viewed from the price level of a few years later, indicates that few warehouse owners undervalued their property. On the other hand the sales were made to new corporations unable to make substantial cash payments. From the Association's standpoint there was the further advantage that identifying the substantial warehouse interest with the Association's success would be a powerful factor in diminishing opposition to the Association. Cross-contracts were made between the Association and the warehousing corporations by which the warehousing corporations would handle the Association's tobacco at the Association's expense while the Association guaranteed payment of the warehousing corporation and also guaranteed dividends on its preferred stock. The Association had the right, by contract with its members, to make deductions from the amounts due the members in order to acquire warehouse properties. The bonds were to be retired in six years and the preferred stock in five years out of these deductions. As the preferred stock was retired common stock was to be issued in its place to the members in proportion to the amounts deducted.

The Burley Association, although meeting some little local opposition, was able to arrange local financing for its preliminary expenses. A substantial line of credit from the War Finance Corporation was also available as soon as the Association had tobacco on hand for security. The Association dealt directly with large manufacturers. Nearly half of the tobacco was sold in winter order, *i.e.*, in the green state in which the farmer delivers it.

During the six years of its operation, the Association received and sold nearly a billion pounds of tobacco. The first tobacco received was that of the 1921-22 crop and totaled about 119 million pounds or 68 per cent of the total production of that year. The Association disposed of approximately 55 million pounds of this crop in winter order. The balance, 66 million pounds, was redried and held until it could be sold at an acceptable price. By May, 1922, the officers had sold enough to make a second payment. By the following October the entire crop had been closed out, the final checks to members bringing their net average to 20 cents per pound, seven cents above the previous year which had admittedly produced a finer crop.

Deliveries of the 1922-23 crop rose to 197 million pounds, or 70 per cent of the year's production. Of this crop more than 150 million pounds or over three-fourths of the deliveries were sold immediately. The sales proceeded so rapidly that the Association was able to finance its advances to members and to handle the entire crop without borrowing a penny. Members received a second payment in June, 1923, a third in May, 1924, and final settlement on that crop in the Spring of 1925. The crop brought a net average of 25 cents a pound.

So far the Association was meeting the highest expectations of its organizers. Its credit was excellent, its management sound and efficient. Growers, on the whole, were satisfied with the results. Tobacco was now the growers' most valuable crop. Because of the large percentage controlled by the Association, floor prices tended to rise to the Association's level. Non-members feverishly increased their production and so did many members in spite of constant warnings. The size of the 1922-23 crop had already necessitated a considerable hold-over, and now came the largest and most inferior crop of Burley ever produced, the crop of 1923-24. Of this crop the Association received 69 per cent or 245 million pounds, more than twice as much as was received the first year. Over 6000 outside growers, dissatisfied with the floor prices, rushed to join the Association. Membership rose to over 102,000. The Association was forced to redry 185 million pounds of this crop.

The management was now required to make a decision which was to prove its most important one, judging from subsequent events. Should this vast surplus be held until a satisfactory price could be obtained, or should it be moved steadily into the normal channels, if necessary at a reduced figure? A minority on the board urged the latter course, but the majority of the board and most members thought it should be held, so held it was, from year to year and at great expense until the last was finally sold in 1927. From this crop the members received an advance payment of \$8.72 and a second payment in June which brought the total net average to \$13.78. After final distribution in 1927 the crop had netted \$16.19 per 100 pounds.

The 1924 crop, although smaller than the 1923, again exceeded the estimated consumption. The Association received 57 per cent of the total production, 171 million pounds, and had to redry and store 94 million, which added to an already large stock of stored tobacco. In anticipation of this situation the Association had sought new

outlets for the 1924 crop, and, by sending a committee to a number of foreign countries, and by establishing a European office at Brussels, did succeed in disposing of twelve million pounds in export.

By the summer of 1925 members had received just their advance payment of \$8.90 on the 1924 crop, and their advance payment of a similar amount on the 1923 crop. On the other hand, non-members had received their money all at once and had been benefited by the hold-over policy of the Association. Voluntary reduction of acreage was making little headway. A surging undercurrent of membership discontent was becoming more pronounced.

Only 135 million pounds, or 48 per cent of the 1925 crop, was delivered to the Association, but because of the glutted condition of the market, only 45 million pounds were sold "green," and the rest redried and added to the hold-over stocks of the past two years. In 1926 there was produced the second largest crop in Burley's history. The Association's share of this crop was 118,000,000 or 40 per cent of the year's production.

During the summer of 1926, preceding the delivery of that year's crop, a movement among the growers, which up to that time had been scattered and ill-defined, reappeared as an organized and insistent command that the 1926 crop be sold at auction. The Board of Directors, at their October meeting, so voted and the bumper crop was dumped on the market. The average price recorded for the season was \$12.83, \$7 less than the average for the past five years. Even through this crisis the Association left a monument to its efficiency in grading and handling. Association tobacco sales averaged \$13.20 while outside markets averaged \$12.50.

The 1926 crop was the Association's last one under its original contract. In the summer of 1927 it disposed of all its redried stocks. Ninety million pounds of the 1923-1924-1925 stocks were sold within a period of 60 days. Final payments on these crops were made respectively in October and November, 1927 and January, 1928. The 1924 crop netted \$18.69, and the 1925 crop \$16.75. Thus the Association paid \$19.32 net to Association members on its first five crops. The ten years from 1910 through 1920, including the four years of high war prices, showed a Lexington average of only \$13.20 gross. The Association's first advance to its members on every crop had exceeded the gross price on the auction floors in 1906, 1910, and 1914 and its first two payments had exceeded the auction average for any year prior to the World War. Although some of this improved price status may be attributed to a general post-war adjustment, economists readily concede a three to eight-dollar increase due exclusively to the well conducted organization.

The Burley Association with its skilled and experienced management, its valuable warehouse properties, and its strong financial position might have gone on as an active business even with a greatly reduced membership. It should have been possible to have continued the organization and greatly to have diversified its activities so that not all growers would have been asked to sign the same sort of contract.

The majority of the directors still influenced by monopoly ideas decided to make the continuance of marketing operations dependent upon obtaining new contracts from growers controlling 75 per cent of the crop. The new contract was for a seven year period and was a substantial duplicate of the original contract. While there was a good deal of enthusiasm for the Association and a considerable number of signatures were obtained the 75 per cent quota was not nearly reached. The 1927 crop was short and of good quality. Buyers were offering 25 to 30 cents per pound for tobacco on the farms. The Burley directors therefore gave up the attempt to obtain another series of contracts but voted to conduct auction markets on all their warehouse floors. The personnel was cut down in accordance with the greatly restricted activities of the Association. The Association still exists as a corporate entity, and there is always the possibility that its coöperative activities may be revived.

The Burley Association, although its management doubtless confesses to a number of mistakes of greater or less importance, was defeated by its successes rather than by its errors. No serious accusations were ever made against its management in respect to numbers, methods of choice, or salaries of employees. Dealings in respect to properties bought by the Association were reasonably satisfactory to all concerned. The handling and grading of the tobacco were not subject to any serious criticism.

The Association had set out to accomplish a certain task in a particular way and had done it so well that the directors perhaps are to be pardoned for a certain inflexibility of attitude which seemed to make it impossible for them to survey sympathetically the possibility of the Association's continuing on a somewhat different basis in which it would render a variety of sales and agency services. The successful operation of the Association on the original monopoly idea depended absolutely upon keeping production within control. This the Association could not do. It could not even keep its own members from increasing production. Had they been able to do so, there were always enough non-members to have defeated such a program. Even an effective American crop production plan might not have been successful in view of the dependence of the American crop on foreign markets and the magnitude of the potential foreign competition. As soon as the American crop threatens a great carry-over large manufacturers are increasingly independent of a coöperative association, the final payments to members are inevitably postponed, and the amount of such payments uncertain, while non-members receive cash payments at once and in the event of a falling market receive greater total payments than the postponed payments to association members. If an association adopts a sales policy of holding for a fair price it must succeed or the consequences are fatal for the carrying charges over any considerable period will constitute a substantial reduction from the amount to which the members are entitled. The Burley Association in 1923 would have been better advised if it had forced its inferior tobacco steadily into consumption even at the cost of a temporary market depreciation. The Association's carry-over was largely red tobacco which became increasingly difficult to sell. The financing and

the storage charges for carrying this tobacco were a severe burden upon the Association and an unfortunate charge upon other types of tobacco.

The Burley Association had to meet the contract violation problem, but the situation in this respect did not become so acute as in the case of the other two large tobacco associations. Contract violations at no time apparently exceeded 4 per cent of the membership of 100,000. These contract violations were condemned by other members who insisted upon legal action. The Association was usually successful in suits against contract violators. Damages of five cents a pound collected as liquidated damages more than maintained the legal department. A few of the Association's cases related to its rights in respect to outsiders. On the whole the litigation of the Burley Association contributed materially to a definition of the legal status, rights and obligations of agricultural coöperative associations.¹⁴

THE DARK TOBACCO ASSOCIATION

The success of the Burley Association in handling its 1921 crop stimulated the organization of an association to handle the dark tobacco grown in Kentucky, Tennessee and Indiana.¹⁵ The Dark Tobacco Growers Coöperative Association was incorporated Nov. 22, 1922 under the Bingham Coöperative Marketing Act of Kentucky. Its set-up and membership contracts were similar to the Burley Association. Before its incorporation its association agreement and marketing contract had been signed by 56,634 growers representing more than 55 per cent of the dark tobacco production of the territory. The nominal membership continued to grow until in March, 1926, the total was 71,178. The Association received 175,066,000 pounds of the 1922 crop of 303,000,000 pounds or 57.6 per cent of the crop, being slightly more than the anticipated deliveries. Receipts in 1923 were 173,568,000 pounds or 53.7 per cent of the crop. In 1924 deliveries dropped to 90,375,000 pounds or 36.3 per cent of the total production. This was the last crop delivered to the Association. A resolution was adopted by the board of directors in October, 1925, releasing members from their contracts as to the 1925 crop. The new management in 1926 obtained voluntary deliveries of about 47,000,000 pounds. The 5 year contract expired with 1926. A sufficient number of signers to a new agreement could not be obtained so that the Association suspended operations and wound up its efforts.

Adverse economic factors were sufficient to prevent the survival of the excellently managed Burley Association. These same economic factors contributed to the downfall of the Dark Tobacco Association. The years 1922 and 1923 set new records in the production of dark tobacco and at the same time marked a sharp and apparently permanent decline in foreign demand for these tobacco types, 80 per cent of which

¹⁴ Fifteen coöperative association cases to which the Burley Association was a party are cited in the author's book, *Law of Coöperative Marketing Associations*. Perhaps the most important of these cases is *Liberty Warehouse Co. v. Burley Tobacco Growers Coöp. Ass'n*, 276 U. S. 71, 48 Sup. Ct. 291 (1928). In this case the Association, in a suit to recover a statutory penalty for interference with a coöperative contract, successfully met the contention that the Kentucky Coöperative Marketing Law was unconstitutional.

¹⁵ O'Hara, *Legal Battles in the Black Patch* (1929) 3 COÖP. MARKETING J. 9; *Coöperative Marketing*, REP. FED. TRADE COMM. (1928) 194, SEN. DOC. NO. 95, 70th Cong. 1st Sess.

had been exported. The reduction of demand from Italy was particularly severe, partly because of the institution of an intensive campaign for cultivation of Italian tobacco. The Dark Tobacco Association therefore might have gone the way of the Burley Association even had its own record been equally commendable. In fact, however, its membership, management, and policies were such as to make it doubtful whether its original organization would have succeeded had the fundamental business situation been much more favorable.

The membership of the Dark Tobacco Growers Association, widely scattered, composed in considerable part of humble and simple people of both races, was not selected but was solicited in a campaign marked by emotional appeals and on the part of some agents by promises going far beyond what might reasonably be expected to be accomplished. Almost the only common interest of the members, aside from the fact that they were all tobacco growers, was their discontent. It was inevitable that in such a group of 56,000 persons there would be some to whom sanctity of contract was of minor importance. It was of primary concern to the Association that its field force should devote much attention to educating the members in the purposes and possibilities of genuine coöperation and in the members' duties and responsibilities to the Association. Although apparently only about fifty growers violated their contracts in respect to the 1922 crop, the Association seems almost at once to have adopted a stern policy of indiscriminating enforcement of the Association's legal rights against the members. The coöperative leaders had induced the legislatures to give the Association new rights in the matter of liquidated damages, specific performance, and injunction and the Association seemed determined to show their appreciation of these legislative gifts by using their new legal weapons on every possible occasion. The Dark Tobacco Association was sweepingly successful in its litigation. The Association's counsel upheld the coöperative law and the contracts against all sorts of legal objections.¹⁰ The Association's field force became experts in gathering evidence to be used against individual contract violators. Unfortunately for the Association there was something in its methods and policies which instead of coercing the disloyal had the effect of alienating the friendly. The more suits for liquidated damages won by the Association and the more injunctions it obtained, the more members refused willingly to coöperate. Perhaps no association can win a thousand law suits against its members and expect to survive.

The Dark Tobacco Association, to a greater extent even than other associations, seemed to regard its function as that of organizing an army for conflict. The notion that because the Association had control of over one-half of the dark tobacco to be marketed it was in a position to exercise a monopolistic control over prices, especially to foreign buyers, was fallacious. The creation of the Association undoubtedly had

¹⁰ Among these cases in which the Dark Tobacco Association was victorious in a court of last resort are *Potter v. Dark Tobacco etc. Ass'n*, 201 Ky. 441, 257 S. W. 33 (1923); *Dark Tobacco etc. Ass'n v. Dunn*, 150 Tenn. 614, 266 S. W. 308 (1924); and *Dark Tobacco etc. Ass'n v. Robertson*, 84 Ind. App. 51, 150 N. E. 106 (1926).

an effect on the price of tobacco, raising it materially at least during the first year of its operations. The Association, befuddled by its temporary success, set prices which it refused to alter. This resulted in the necessity of holding over nearly one-quarter of the deliveries of the first crop handled by the Association and greater portions of subsequent crops with consequent delay in final settlement to members and pronounced dissatisfaction among members and their creditors.

Another consequence of the dependence upon supposed monopoly control was a sales policy which consisted essentially of waiting for foreign orders. The management apparently felt that since it had so much tobacco, foreign buyers would have to seek out the Association for their needs. On the contrary the unusually large crops produced in 1922-23 permitted foreign buyers to supply most of their needs elsewhere. The Association was caught with the surplus. It took the Association over two years to establish a foreign sales office.

A powerful coöperative association always raises the general level of prices for the commodities it handles. That means, of course, that it raises the prices for non-members as well as members. Non-members who sell outside the association get full payment at once, can make immediate settlement with their creditors, and can have the surplus, if any, for their various needs. The association member, on the other hand, gets only about half the price of his tobacco when he delivers it, and cannot expect to get the balance due him for nearly a year. The Dark Tobacco members had to wait more than a year for payments on their very first deliveries and had to wait several years for payments on some of the later deliveries. The enemies of the Association, particularly the local buyers and others whose business was directly threatened by the Association, doubtless circulated many misleading statements about the Association, but the dissatisfaction created by the Association's own policies was what made the adverse propaganda so effective among members and their creditors.

The Dark Tobacco Association not only made a mistake in thinking of itself as an organization for conflict and then made serious errors in its plan of campaign, but the membership of its army, as has already been indicated, was weak, it was disunited, and its leadership with some exceptions was inexpert.

The Association was created on a machine-made pattern that took little account of tobacco problems in the Black Patch. The dark tobacco district is divided into five sections classified by the Department of Agriculture into (1) Clarkesville and Hopkinsville; (2) Paducah; (3) Henderson (stemming); (4) One Sucker; (5) Green River. Each of these districts produces a different type of tobacco. Each type has a particular market, and requires special treatment to meet the demands of its market. The only basis for handling these types together is that most of the tobacco of each type is exported. So far as the Association is concerned some types sold more readily than others and there was much friction within the Association because, as all types were pledged to secure large loans from the War Finance Corporation and the Inter-

mediate Credit Banks, the growers of some types felt that they carried the burden for growers of other types.¹⁷ It might have been better either to have had five different associations affiliated for certain purposes in one sales agency or, if there were but one association, separate financing for each pool.

The creation of the Association on a ready-made plan resulted in the employment of too many high salaried executives and in a too hasty choice not only of the leading officers but of the subordinates. The Association had no opportunity to grow or to advance its own employees on the basis of experience. Charges of favoritism in the choice of personnel are so frequent and explicit as to leave no doubt as to their essential accuracy. The graders were not only inexperienced and untrained but were undoubtedly affected by the prevailing idea that tobacco prices were to be raised rapidly. There was much criticism that the grading was uneven. As buyers rejected or turned back tobacco the Association was obliged to regrade a considerable amount of what had been delivered to it with consequent irritation between the Association and the members.

Particularly serious errors of judgment were made by the Association in the purchase and management of warehouses. Ten warehousing corporations were created by the Association which bought warehousing properties throughout the Black Patch for prices aggregating approximately \$3,400,000, counting approximately \$100,000 spent in improvements on the property. Payment was made partly in cash, partly by notes of the warehousing corporation, and partly by the issuance of preferred stock and serial bonds by the warehousing corporation. The Association underwrote the payment of these securities and planned to retire them out of deductions from sales of its tobacco. The Association guaranteed to the warehousing corporations the actual costs of operation on a non-profit basis as well as the interest on bonds, taxes, insurance, depreciation and dividends on the outstanding preferred stock. The Association planned to issue common stock to its members as the preferred stock was retired. The members were to receive an amount of stock equal to the deductions from the returns due them. The Association seems to have paid extravagant prices for warehouse properties and to have established at least one-third more receiving stations than were actually necessary for the economical operation of the Association. Not only were some deductions of doubtful legality made from the amounts due the members but the total amount was so great that this added acutely to the dissatisfaction already existing because of the delays in making final returns.

The dissensions and difficulties of the Association which resulted in the passage of the resolution of October 13, 1925, already mentioned, by which the members were released from the obligation to make 1925-26 deliveries was followed in 1926 by proceedings asking for a federal equity receiver for the Association. This petition

¹⁷ All types might be pledged as security for a loan which was distributed to members in proportion to the pledged tobacco. Some types would sell and others would remain. The sales would not reduce the loans enough to obtain a release of pledged tobacco. The Association could make no additional distribution to any members until the loan had been repaid.

was denied after extended hearings, and the Association allowed to continue a plan of voluntary liquidation. Ultimately in 1927 the Court appointed a special master to examine the books of the Association in reference to certain contentions made against it, particularly involving the relation between the Association and the warehousing corporations, but the Association was allowed to continue its liquidation and ultimately succeed in taking care of its secured creditors. Since the Dark Tobacco Association's liquidation several other associations have been organized in the region but for the time being coöperative marketing is not an important factor in the selling of tobacco in the dark tobacco district.

THE TRI-STATE ASSOCIATION

The Tobacco Growers Coöperative Association of Virginia, North Carolina and South Carolina, often called the Tri-State Association, was incorporated February 9, 1922, under the coöperative law of North Carolina.¹⁸ Its nominal main office and the actual headquarters of its field service and legal department were at Raleigh, N. C. Its financial and administrative offices were in Richmond.

Virginia, North Carolina and South Carolina produce about 40 per cent of the United States tobacco production. North Carolina alone produces about one-quarter of the total output in the United States. South Carolina is considerably less important as a producer than the other two states. Production is concentrated in the central and south-central part of Virginia, in the north-central and eastern part of North Carolina, and in the northeastern part of South Carolina. Practically all of the production in the Carolinas and the principal production in Virginia is flue-cured tobacco, but Virginia also produces fire-cured, sun-cured and a small amount of Burley. About 45 per cent of the flue-cured tobacco is exported.^{18a} Most of the rest is used in cigarette manufacturing. Virginia dark-fired is grown chiefly for snuff and smoking tobacco, while Virginia sun-cured is largely used in chewing tobacco manufacture. The pressure for coöperative organization in the Tri-State area, as in other tobacco regions, was due to the rapid drop in prices after the war and to dissatisfaction with the loose-leaf auction method of selling. The conditions of tobacco farmers in all parts of the Tri-State area were not the same, however. Speaking generally, the flue-cured tobacco raisers probably were assured the best prices. Among the growers of the flue-cured types, tobacco from some localities brought fair prices even when general quotations were extremely low. The Tobacco Growers'

¹⁸ Scanlon, (Tinley, Collaborator) *Business Analysis of the Tobacco Growers' Coöperative Association*, U. S. DEPT. AGR. CIRC. No. 100 (1929). This is an impartial and comprehensive statement made after a carefully planned and well-directed field study. Partly because the author's study was begun before Mr. Scanlon's report was available, and partly to check the report, the writer's associates, without attempting to duplicate the research of the Department of Agriculture, spent several days in various parts of the Tri-State area. Our findings and conclusions agree in all essential respects with those of the Department of Agriculture experts. Reference is here made generally to Mr. Scanlon's monograph as authority for many statements in the following pages.

^{18a} A table showing exports of flue-cured tobacco, 1923-1932, is set forth in Knapp and Paramore, *Flue-cured Tobacco Developments under the AAA*, *infra*, p. 328.

Association was set up on the same general model as other associations sponsored by Aaron Sapiro, especially the Burley Association. After a number of mass meetings at central points solicitors were sent out to obtain members in the three states. The objective was 50 per cent of the 1920 crop. By the end of 1921 the Association had obtained the necessary members. The total membership on July 1, 1922, was approximately 80,000. About half of these were in North Carolina, more than three-quarters of the remainder were in Virginia. The membership campaign continued as long as the Association was active so that by 1925 the Association had 95,970 members of whom 46,060 were in North Carolina, 38,550 in Virginia and 11,360 in South Carolina. Since the members signed a five year contract, most of these contracts were still technically binding when the Association went out of business.

Few aspects of the membership campaign were calculated to produce a closely integrated corporation of intelligent responsible members. The campaign for members was conducted to an unfortunate degree upon the basis of hostility to existing agencies dealing with tobacco. Many rash promises were made to the farmers themselves, few of whom were fitted by experience, education, or economic condition to pass critically upon the claims of the Association's solicitors. As in the case of the other tobacco associations the idea of monopoly control and the benefits to come from it were those most influential with the membership. In a subsequent inquiry made by the Department of Agriculture a great majority of growers interviewed stated that they had not only joined the Association to get better prices but that these prices should be obtained by the Association's setting prices and holding for these prices or otherwise assuring the members the cost of production plus a profit. Only a small minority seemed to realize the significance of supply and demand in determining prices.

The economic and social conditions of tobacco farmers in much of the Tri-State area is sufficient to discourage any coöperative organizers. Most of the farms are small and the percentage of tenancy is high. For the whole state of Virginia over 25 per cent of the farmers are tenants, in North Carolina 45 per cent and in South Carolina 65 per cent. In some of the tobacco counties the percentage of tenancy exceed 80 per cent. In Virginia about 26 per cent of the farmers are colored, in North Carolina about 29 per cent, and in South Carolina over 52 per cent. The percentage of tenants who are croppers ranges from 32 per cent in Virginia to 41.2 per cent in South Carolina. These percentages are higher in the most important tobacco counties. Illiteracy is high. When the Tri-State Association was organized the percentage of rural white illiteracy in the Tri-State area was about 10 per cent and the colored illiteracy more than 34 per cent. The proportion of those but little removed from illiteracy was higher. The low farm incomes and other unattractive features of farm life had tended to draw from the farms the more progressive elements. These conditions had important items of significance for the Association. Much of its potential membership was ignorant, individualistic, suspicious, inex-

perienced in any kind of coöperative endeavor, and wholly unfamiliar with the legal obligations required of a member of a coöperative association. Even more significant was the fact that the financing of the cropper and other tenants by landlords, time merchants, and other creditors made it impossible for the grower to control the crop he raised.¹⁹ The Association was thus deceived by the number of members into anticipating much larger deliveries than were in fact obtained. The members therefore were peculiarly subject to control and influence by many of the very individuals and organizations which the Association in its membership campaign had particularly antagonized. It must not be assumed that all of the members of the Association were tenant farmers and croppers. In every county the Association had an appreciable number of progressive farmers, many of whom supported the Association to the end in spite of loss to themselves. On the whole, however, it seems that in many localities the leading farmers were largely inclined to stay out of the Association. It seems inevitable that such farmers will always stay out of a coöperative association unless it can promise a greater variety of service to them than was true of the Tri-State Association.

The folly of any policy based on the theory of monopoly control should have been apparent from the lack of control the Association had over the production of its own members. Even if this control had been an actuality the monopoly idea would have failed because of the increase of production by non-members. For example during the operations of the Association the production in Georgia alone, where the Association was not operating, increased from about 6,000,000 pounds in 1922 to about 40,000,000 pounds in 1926.

The Association expected to receive 57 per cent of the 1922 crop, and on the basis of its membership it might have expected to receive a greater percentage of subsequent crops. In fact it received 35 per cent of the 1922 crop, 28 per cent of the 1923 crop, 23 per cent of the 1924 crop and 15 per cent of the 1925 crop. Even allowing for the number of growers who could not control their own deliveries it is obvious that many members were violating their contracts even the first year. The number of violators steadily increased. The Association, partly at the instance of loyal members, adopted a vigorous policy of legal enforcement of contracts. Much information and considerable entertainment can be obtained from an examination of typical records of these suits.²⁰ The net result of the enforcement activities of

¹⁹ See N. C. CODE (Michie, 1931) §§2480 *et seq.* as to priority of agricultural liens. See also *Tob. Growers Coöp. Assn. v. Harvey & Son Co.*, 189 N. C. 494, 127 S. E. 545 (1925). The problem is discussed with numerous citations in HANNA, *LAW OF COÖPERATIVE MARKETING ASSOCIATIONS* (1931) 245 *et seq.*

²⁰ A common defense of members sued by an association on account of non-delivery of tobacco raised by the member was that they had not signed the marketing agreement. The writer has a report of an organization meeting in the Sycamore School House in North Carolina. The room was lighted by several lanterns with perhaps one lamp. Several of those present could not write their names so that the organizer was obliged to write the signature which the member authenticated with a mark. Some of the members later insisted that the organizer ran out of contract forms and had the illiterate members make their marks

the Association's legal department was to increase dissatisfaction and contract violation, encourage the members in all sorts of devices for avoiding contracts with the Association and to add to the Association's expenses an amount much greater than the recoveries for liquidated damages.²¹ The experience of this and other associations in enforcing these five year sales contracts indicates strongly the advisability of allowing the members an annual withdrawal period.

The Tri-State Association, like the Dark Tobacco Association, probably attempted to handle in one organization types of tobacco which should have been handled in separate associations or at least in separate pools having no responsibility for the financing of each other.

Aside from the Association's fundamental mistakes of basing too many policies on the notion of monopoly control and of grouping too many conflicting interests in one organization the Association was not well served in respect to its management. The division of executive offices between Richmond and Raleigh led to disunity and contributed to the extravagance. The salaries of several of the Association officials were undoubtedly generous, even taking account of the magnitude of their tasks and the high salary schedules prevailing at that time. It seems incredible that it was necessary to pay an annual salary of \$45,000 to the general manager of the dark leaf department, \$35,000 to the general manager of the bright leaf department, and two salaries of approximately \$25,000 each to assistant managers of the bright leaf department. Something might have been said for paying one large salary to a single executive who was really the head of the whole organization, but no such person was employed by the Association. In this, as in certain other associations, there has been too much the feeling that if an executive is taken who has had at times a large income from speculative activities, his association salary must duplicate this speculative income. An able and experienced man who goes with a new organization should doubtless have some bonus by way of compensation for the risk of failure of the organization. Even this may be questioned since it diminishes the incentive upon the official to accept responsibility for the association's future. Something doubtless may be added by way of salary to an official whose local prestige is powerful enough to swing important public support to a new enterprise, but this prestige element is usually given exaggerated importance by organizers of new corporations. It was evident to any one who was intimately in touch with the Tobacco Growers' Coöperative Association and was at the same time acquainted on other pieces of paper. They charged that later he evidently had placed the signatures on the actual contracts.

In the case of a suit by the Dark Tobacco Association against a member known as Sap Johnson, a negro, the defendant's testimony was about as follows:

"Yessuh, dat gentman come round gettin up de pool. I axed my white folks about it, and dey sayd that de pool was good. So I signs de contract. I didn't read it—can't do much reading, but I can write my name. Yessuh, my name is Frank Johnson, but everybody hereinbouts, both white and black, inginerally calls me Saphead Johnson—so I up and signs the contract 'Sap'."

²¹ Some of these devices were fictitious leases and sales of the member's land, including transfer to corporations created to own land and conduct farming operations on it.

with the personnel of the Department of Agriculture, that the Department of Agriculture was paying much less than the Association for an equivalent ability. If the Tri-State Association could have filled most of its chief executive positions at about one-fifth the salaries with unknown but competent men drawn from the federal and state Departments of Agriculture, it might still have collapsed but not for the same reasons.

Numerous details of the Association's policies are subject to legitimate criticism although to some of these criticisms more or less plausible answers can be made. The Association acquired too many warehouses and paid too much for them. This was due in part to over-estimating the amount of tobacco which the Association would receive, in part to the program of buying all warehouses offered to the Association at practically the owner's own price in order to keep the good will of the local warehouse interests.

A more damaging criticism of the Association relates to its decision to contract with private redriers to redry Association tobacco. Since the Association had spent so much money for warehouses that it did not feel able to own and operate its own redrying plants it felt, perhaps erroneously, that it could not be in a strong bargaining position in comparison with the manufacturers unless it was able to redry most of the tobacco delivered to it. The Association therefore made contracts with redrying plants owned and operated by some of its officers and directors. While the charges for redrying may have been only the customary charges in the region, the redrying corporations unquestionably made a large profit as a result of the Association's contracts. The interest of the officers in these redrying plants was a real scandal and when it was discovered by the members contributed materially to the general dissatisfaction. The redrying expenses, the deductions for warehousing, the financing and carrying charges aggregated such a high percentage of the amount received for the Association tobacco as to be in themselves almost conclusive on the point of managerial inefficiency. The expenses per 100 pounds increased each succeeding year except for 1925. Since the amount of tobacco redried increased from 31.4 per cent in 1922 to 80.3 per cent in 1923 a considerable part of this increase is due to the redrying expenses. On total sales of somewhat more than \$98,000,000 the general overhead expenses were over \$8,000,000, the carrying charges over \$2,000,000, the redrying expenses about \$9,500,000, making a total of all expenses of about \$20,000,000. Since some of this expense should be allocated later for the tobacco sold by the receivers for the Association, perhaps the total expense figure charged against the Association sales should be reduced to about \$17,000,000. Even so this represents a cost ratio of about 17 per cent on total sales. Obviously this charge would have to be radically reduced if the Association were to be regarded as a successful marketing organization. As a matter of fact by the time the Association went into receivership it was operating on a much more economical basis.

The Association never succeeded in bringing about satisfactory relations between

itself and the larger manufacturers. For this condition the fault was doubtless not wholly with the Association. Some of the larger companies, influenced in part by the Association's decision not to sell green tobacco to leaf dealers after 1924, refused to deal with the Association at all. The Association, in order to maintain its sales relations with certain other companies, was forced to make concessions in the way of storage of sold tobacco that were unfortunate financially for the Association and can only be defended on the ground of the Association's necessities.

The Association's influence for proper grading of tobacco throughout the Tri-State area has been cited as one of its best achievements. There is no doubt that the Association had a considerable part in establishing suitable grades. On the other hand some of the grades were only tentative, and a good deal of the tobacco was graded hastily and inaccurately. The tobacco turned over to the receiver contained a large number of stocks obviously overgraded. The return to members on the whole was materially under the valuation assigned to their tobaccos at the time of delivery. This was due in part to decreasing tobacco prices, but it was also explained to a considerable degree by the errors in the original grading.

The mistakes and difficulties of the Association resulted during 1925 and 1926 first in certain reforms in Association policies and then in an attempt to organize four new associations in the Tri-State area. Inability to obtain sufficient support either for the old Association or for new associations resulted in the Association's failure to resist a petition for receivership brought mainly by those interested in the dissolution of the Association. The receivership was granted by the U. S. District Court at Raleigh June 19, 1926.²² Three receivers were appointed: James J. Pou of Raleigh, H. S. Ward of Washington, N. C. and Merton L. Corey of New York City, formerly a member of the Federal Farm Loan Board. Mr. Corey was the active executive in charge of the liquidation of the Association. The receivers after an economical and efficient administration during five years were able to pay all the Association's debts in full with a small balance for the members. The receivers abandoned more than 800 law suits pending against members at the time of the receivership.²³

²² The receivers obtained ancillary appointments in other federal districts of the Tri-State area. The receivers for the Association were also appointed receivers for the warehousing corporations.

²³ The report of the receivers concludes with an enumeration of the factors which brought about the ruin of the Tobacco Growers Coöperative Associations. First comes mismanagement, under which several specific items are listed:

(1) Too many employees; (2) excessive salaries; (3) unbusinesslike development of the trade; (4) re-drying contracts on which the officers profited; (5) too many warehouses purchased at unreasonable prices. Then, in order: disloyalty of members, opposition of warehousemen and speculative tobacco interests, inadequate credit facilities, lack of understanding on part of farmers of the principles of coöperative marketing, ineffective field information service, reliance upon legal remedies to enforce loyalty rather than reëstablishing the confidence of the members by correcting obvious faults in management, personnel, and policies, the generally bad economic condition of the farmers who relied too much on each crop and tended therefore to overproduce (in this connection it was asserted that the farm diversification program must be a corollary to any future coöperative scheme which hoped to be successful), and failure of the business and banking interests fully to support the Association.

PRESENT PROBLEMS OF TOBACCO COÖPERATIVES

Coöperative associations are not at present an important factor in tobacco marketing in the chief tobacco areas. The coöperative movement, however, still has important supporters in these regions, and there are many who believe that coöperative marketing will be reestablished.²⁴ Associations actually exist for all of the leading tobacco types and only need popular support to become active organizations.

The sponsors of agricultural coöperation at the present time have several important advantages over the organizers of the 1921 associations.²⁵ First, there are the important lessons taught by the experience of the Burley Association, the Dark Tobacco Association, and the Tri-State Association. Men are still available who served these organizations competently and who have now passed their apprenticeship. Throughout the country also there are many individuals who have had successful experience as executives of coöperative associations handling other agricultural commodities. While tobacco marketing has its own peculiar problems there are many common elements in the management of a tobacco association and a wheat, a cotton, or a fruit organization. Furthermore, among the students of coöperative marketing in universities, especially men engaged in graduate research, may be found valuable candidates for positions in the associations. The American Institute of Coöperation with its annual sessions and its summer schools has contributed materially to the training of agricultural leaders. No one who has attended the meetings of the American Institute of Coöperation and other agricultural organizations for a period of as much as fifteen years can fail to be impressed by the difference between the programs of the earlier day and those of the present. The speakers at a farm congress in 1920 would almost certainly have included a number of professional friends of the farmer whose speaking time would be devoted to denunciations of Wall Street, the packers, the tobacco manufacturers, the millers, and the railroads. While denunciatory eloquence on behalf of the farmer still exists at farm meetings, such representative gatherings as the American Institute of Coöperation are now devoted exclusively to economic, managerial, and technical problems of the various associations.

Not only does the coöperative movement at the present time have a better program and better trained leaders than it had in 1921, but the individual farmers, partly as a result of the coöperative movement itself and partly as a result of general educational endeavors along coöperative lines, are much better fitted to be coöperators. The organization of a particular coöperative association depends so much on local factors that general prescriptions must be taken with no illusions as to their universal application. Certain criteria, however, do appear from the coöperative experience of the past ten years. A coöperative association for one of the chief commodities cannot be acceptably founded on a monopolistic basis. That means that it

²⁴ Corey, *Market Control vs. Sound Business Management* (1928) 2 COÖP. MARKETING J. 215; *A Receiver's Post Mortem*, *ibid.* 9.

²⁵ Nourse, *The Future of Coöperation* (1928) 2 COÖP. MARKETING J. 15.

is not necessary for the association to control any particular amount of the crop. All that is required is that the association obtain sufficient support so that its overhead will not be unduly burdensome on the commodity handled. Such an association should stress services other than mere selling. In the case of tobacco associations, assistance to the farmer in putting the tobacco in an acceptable form for sale and dependable grading are of prime importance. A tobacco association should not only make no effort to obtain as members all tobacco growers but it should establish certain minimum qualifications for membership so that membership would be considered a privilege. The association however should be willing to handle non-member tobacco. So long as the tobacco handled for non-members does not exceed that handled for members the association does not imperil its coöperative status for tax and other purposes.

Contracts should allow the members several options. Some farmers are in such fortunate circumstances that their tobacco always commands the top price for a particular crop. Such men usually lose by blanket pooling operations. Their support can be obtained only if they have the right to have the association sell their tobacco on an agency contract. In some cases, the personal situation of a farmer irrespective of the control over his crop by creditors is such that in some years it is essential that he be paid for his crop as soon as it is harvested. The association's contracts should permit the member this privilege. The variety of membership contracts should not greatly diminish the association's bargaining power, assuming the association has a respectable volume of tobacco under its control. Whatever the type of contract, provided it is for three or more years, the members should have the right of withdrawal by giving appropriate notice to the association during a certain period each year. While some of the most successful coöperative associations, notably those handling citrus fruits in California, are federations of local coöperative corporations, the type of coöperative best suited to the tobacco coöperatives seems to be one dealing with a particular type of tobacco in a definite geographical crop area. Such associations will have many common problems. It may well be that a group of such associations can create several subsidiary corporations to render common service for all of them. Among such corporations might be a central management association, a central domestic selling agency, and a central foreign selling agency. A coöperative association organized on a substantial basis at the present time would likely obtain financial support from local banking interests, but even if it did not it would have little difficulty in taking care of its financial requirements. The Farm Credit Administration now operates two sets of financial institutions, the twelve Intermediate Credit Banks and the twelve Banks for Coöperatives with a Central Bank for Coöperatives, whose resources are directly available to coöperative associations. Besides these the Production Credit Corporations, also under the direction of the Farm Credit Administration, are available to the individual farmers through local production credit associations. Rates of interest on all agricultural loans are low. What-

ever the farmers' difficulties it may be confidently asserted they are not due to lack of credit.

The two most serious problems of the Southern tobacco farmer which, if not solved, are calculated to wreck any coöperative association, however well managed, are diversification of crops and production control.

Crop diversification in some tobacco areas is exceedingly difficult of accomplishment. Much tobacco land is of little value for any other crop. Even when the land could be otherwise adapted the farmer often has neither the skill nor the capital, to say nothing of the inclination, to do any other type of farming. He may have so little land that his only chance of obtaining any kind of a livelihood is in devoting all the land to tobacco, because if the land were used for a food crop it could not produce enough to make the effort worth while. Nothing short of an agricultural revolution in certain Southern tobacco areas can bring about a tolerable situation for the tobacco farmer. Perhaps some sort of coöperative effort in production is not beyond the bounds of possibility. The fact that the land is owned in larger units than the actual units of individual farming operations makes reforms looking toward diversification somewhat easier than if there were less tenancy. Responsible leaders in the Southern states have been occupied at intervals for 300 years with the matter of inducing tobacco farmers to raise more food crops. Perhaps never has so much intelligence and energy been displayed as at present in soil surveys and other efforts looking toward a decrease in the Southern farmers' dependence on tobacco and cotton. While the millennium is not expected tomorrow it is not too much to hope for a significant betterment over existing conditions.

Production control, which is tied in with the question of diversification, is the nub of the whole agricultural problem. Until recently practically every coöperative and governmental effort to raise the price of farm products has carried with it an invitation to increase a surplus which is already a hopeless burden on the market. The present plan is for the federal government by subsidy, contract, and taxation to attempt to restrict production of the principal commodities including tobacco to an amount which the market seems likely to absorb. This tendency to leave production control to the government is itself decreasing the importance of coöperative associations. If a combination of production control with a tariff on agricultural products insures high prices to the farmer the significance of marketing operations diminishes. To the coöperative association is left then only servicing operations, mostly local in character. The subject of production control as applied to tobacco is much too complex to be treated in this brief survey of agricultural coöperation in tobacco. The activities of the short-lived Federal Farm Board were centered largely in the coöperative association. Its successor, the Farm Credit Administration, has continued and enlarged governmental facilities for enhancing coöperative operations. On the other hand, the Agricultural Adjustment Administration, which for the time being is perhaps of greater significance in production and marketing, has operated

almost wholly without reference to the association.²⁶ In spite of frequent assertions by governmental officials and others to the contrary, the popular opinion seems to be growing that the chief farm policies of the administration are not calculated to stimulate agricultural coöperation. It is easy enough to define possible alternatives. Whether this popular opinion is accurate and if so, whether present policies represent the tendency of the future are points about which at the moment prophecy is particularly hazardous.²⁷

²⁶ Tobacco is one of the six basic agricultural commodities affected by the provisions of the Agricultural Adjustment Act of May 12, 1933. The AAA has undertaken the reduction of acreage and production of tobacco by separate plans for each of six groups of types. The first plan applied to cigar binder and filler tobacco and was made applicable to four districts. It covers a three year period and proposes to bring about (1) a reduction in acreage in 1933, 1934, and 1935 to approximately one-half of the 1932 level, and (2), at some time during the period, a diversion to non-commercial uses of old stocks of low grade tobacco to the amount of approximately one-half of one year's crop. A base tobacco acreage is established for each farm included in the program and from this base average a reduction of 50 per cent is required in 1933 and an option obtained on an equal acreage for the years 1934 and 1935 which the AAA may exercise wholly or in part. Producers who coöperate will receive two cash payments for each acre of required reduction, the first to be made on presentation of proof of reduction of acreage and the second on proof of fulfillment of the other terms and conditions of the contract. The first payment in each district is 20 per cent of the average fair exchange value of the production of one acre of tobacco in that district. The second payment is equal to 40 per cent of the average returns received by the individual growers for the tobacco produced in 1933. One-half of the acreage taken out of tobacco may be used for food crops or for feed crops for home consumption on the farm. The benefit payments are financed by a processing tax according to the chart below.

A slightly different plan was devised for the two cigar-wrapper districts. Since supplies of the Georgia-Florida types were larger than the Connecticut Valley type, these growers were given payments for leaving from 20 to 25 per cent of the 1933 crop in the fields. Most of the shade tobacco production will be controlled through trade agreements with an allocation of acreage to individual growers.

Individual plans were worked out for the Burley, Maryland, dark air-cured, flue-cured, and fire-cured tobacco types by which rental and benefit payments are made for voluntary reductions in acreage, in no case exceeding 30 per cent of the average production for 1931, 1932, and 1933. The producers were asked to sign agreements curtailing production in 1934 and 1935. For a discussion of the flue-cured tobacco marketing agreement and production adjustment contract, see Knapp and Paramore, *op. cit. supra* note 18a, *infra*, p. 325. A tax was levied beginning October 1, 1933, on tobacco first processed for domestic consumption, as follows:

Type	PROCESSING TAX (cents per pound).		
	<i>farm sales weight</i>	<i>with stem</i>	<i>stem removed</i>
Cigar leaf	3.0	3.75	5.0
Maryland	1.7	1.8	2.4
Burley	2.0	2.3	3.1
Flue-cured	4.2	4.7	6.1
Fire-cured	2.9	3.2	4.1
Dark air-cured	3.3	3.8	5.1

Although the tobacco program had the support of the great majority of growers, nevertheless, there are still a number of non-coöperating producers. In April, 1934, Representative J. H. Kerr of North Carolina introduced in Congress an emergency plan to penalize non-coöperation. Under his plan, a tax of 25 per cent of the market value would be levied on all tobacco sold for the period of the rental and benefit programs. Farmers who have joined in the voluntary plan would be issued tax-payment warrants for the amount of their allotments. The Kerr Bill (H. R. 9690) was enacted on the closing day of the session, June 18, 1934. For a discussion of its provisions, see Cavers, *Production Control by Taxation*, *infra* at p. 349.

²⁷ In 1933 there were still 21 tobacco coöperative associations with an estimated aggregate membership of 54,000 doing a gross business of about \$10,000,000, approximately one-half of one percent of the 1932 crop.