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SIGNIFICANCE OF THE PATRONAGE
DIVIDEND AS APPLIED BY COOPERATIVE
COTTON GIN ASSOCIATIONS

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This Bulletin seeks to serve two main purposes: (1) to demonstrate the manner in which the patronage dividend of a cooperative gin may be computed to insure equitable distribution of the profits among members; (2) to explain the advantages of cooperative gins operating as competitive agencies.

The various physical measures of patronage are examined to determine the main features of a patronage dividend satisfactory to all members. A patronage dividend is equitable to a member provided he shares proportionately in the profits of all departments of the gin business in accordance with his contributions to those departments.

A cooperative gin can pay a patronage dividend only as profits are realized on business operations. Hence a discussion of patronage dividends involves the question whether or not a cooperative should charge the going rate for ginning service or a rate just sufficient to cover the cost of ginning. Experiences of many years have demonstrated the advisability of cooperatives charging the going rate or price for services offered or goods bought or sold. Under such circumstances a cooperative may assume its role as a competing agency in an economy of free enterprise. Such savings as are effected on volume of business and cost efficiency belong to the members as patrons. The payment of patronage dividends as a means of distributing profits has a pronounced stimulating effect on members. The patronage dividend was first devised by the Rochdale Pioneers 100 years ago. This feature of a cooperative program constituted one of their greatest and most far-reaching contributions to the development and maintenance of business democracy.

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SIGNIFICANCE OF THE PATRONAGE DIVIDEND AS APPLIED BY COOPERATIVE COTTON GIN ASSOCIATIONS

by

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and

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Every cooperative cotton gin association organized in Texas has had as one of its objectives the earning of a profit on business operations. As cooperative gins have established themselves, no particular effort has been exercised to lower the charges made for ginning service or to narrow the margins realized on bagging and ties and cottonseed. These gins usually are governed by the local competitive situation. No cooperative gin in Texas has ever offered ginning service to members at a charge based on the cost of the service.

During the past ten years the cooperative gins of Texas have had an average volume of ginning more than twice as large as the average of all ginners. As a chief result of this favorable circumstance the cooperatives realize ginning costs decidedly lower than those of the private gins. This general cost advantage together with gin incomes based on the going rate yields the cooperative sizable profits.

DISPOSAL OF GIN PROFITS

A vast majority of the Texas cooperative gins have used the profits of the early years to pay for the gin plants. As the indebtedness is cleared away profits become available for cash dividends. Whether members be assigned equities in the assets of the association or paid cash dividends, the management faces the problem of allocating dividends according to some acceptable measure of patronage.

Farmer gins established in Texas during the 35-year period 1886 to 1921, with but few exceptions, were organized as farmer stock associations. Profits were considered as a lump sum with no regard to the source from the various branches of the gin business. These profits belonged to members as stockholders. The guide followed in assigning dividends to a member was the number of shares of stock owned. Patronage was ignored in the dividend distribution.

Widespread failures of farmer stock gins compelled a reorganization of structure and program. Naturally the early cooperative gins varied as little as possible from the farmer stock organizations. The same view was taken of total profits. The vital change pertained to the claim and distribution of profits. In cooperatives profits belong to the members as patrons, not as stockholders. The problem facing the cooperatives was to find a unit for measuring the patronage to substitute for the stock unit used by the older organizations. Quite logically the first conclusion crys-

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tallized was that a member's significance as a patron is proportionate to the number of bales he gins. Thus the running bale dividend came into being. According to the information available this type of patronage dividend was used exclusively by Texas gin cooperatives as late as 1924. The running bale dividend is simple to calculate and easy to explain to members. All members seem to be treated equitably. Experience, however, has demonstrated several serious shortcomings in the running bale as an equitable measure of patronage.

PROBLEMS OF PATRONAGE DIVIDEND AS APPLIED TO GIN ASSOCIATIONS

Cooperatives may gauge patronage in terms of physical units of products handled as bushels of grain, crates of fruits and vegetables, pounds of butter and cheese, or tons of coal and feed. In such instances the patronage dividend is derived as a rate on the physical unit. Cooperatives may define patronage in terms of dollars of business done. Cooperatives handling either commodities of a wide variety making impractical the allocating of costs to each item or commodities having no common physical unit are most likely to measure patronage in dollars. Under such circumstances the patronage dividend rate is expressed as a percentage on the dollars' worth of business furnished by members.

The nature of the gin business accounts, in large part, for the problems encountered in devising a dividend equitable to all patrons. In the first place the running bale is not the only physical unit of patronage. Members deliver seed cotton to the gin. The weight of seed cotton ginned by the various members is an aspect of patronage. Members obtain lint bales as one of the marketable products from the ginning process. The weight of lint ginned by the various members is another phase of patronage. Members purchase bagging and ties according to the number of running bales ginned. This is a feature of patronage. Members may leave all their cottonseed with the gin, or a part of the seed, or none at all. The weight of cottonseed left with the gin by the various members is a most significant element of patronage.

In the second place, the gin business operates three distinct departments. These may be designated as the gin, the bagging and ties, and the cottonseed departments. If the gin buys the lint cotton of patrons a fourth department is added. Each of these departments has its own distinctive characteristics in the yielding of profits, or losses.

Ginning Profits

Ginning profit, or loss, is the difference between the gin toll and the cost of operating the gin plant. The profit of the gin department is exceedingly sensitive to the volume of ginning, the relative cost efficiency, and the gin toll per bale. At most gin points in Texas patrons pay for ginning service according to the weight of seed cotton ginned. In many instances the average weight of seed cotton per bale varies greatly among the different members. These variations are caused by the varieties of cotton grown, the weight of the lint bale ginned, and the type of harvest-

ing whether the cotton be picked or snapped. A member contributes to this department according to the weight of seed cotton ginned and not according to the number of bales ginned.

Bagging and Tie Profits

The price per unit which a ginner must pay for bagging and ties has no significant relation to the number of units bought. Hence the volume of ginning has no important bearing on the profit per unit. Over the years ginner have followed a well established practice of charging customers a price above the cost assuring a margin of profit. Obviously a member contributes to the profit of this department in accordance with the number of bales ginned.

Cottonseed Profits

The custom is well established among ginner of paying patrons a price for their cottonseed somewhat lower than the oil mill price. The margin per ton is quite independent of the volume of seed handled. Total profit possibilities of this department are governed by the volume of ginning, the pounds of seed per bale left with the gin and the margin. A member contributes to this department in proportion to the amount of seed left with his gin association.

Adoption of Dividends Other than According to the Running Bale

Many members and leaders among cooperative gins have been shocked at the first suggestion that dividends be allocated on some other basis than the running bale. In extreme cases dividends other than the running bale have been considered almost dishonest. The Childress Farmers' Cooperative Society holds the distinction of being the first gin association in Texas to break away from the straight running bale dividend. This cooperative paid its first cash dividend in the season of 1925-26. Dividends from profits realized on ginning and bagging and ties were allocated according to the running bale. But dividends realized on cottonseed were shared not according to the total bales ginned but according to the number of bales on which the members left the seed with their association.

The Danevang Farmers' Cooperative Society holds the distinction of being the first cooperative gin in Texas to distribute cottonseed dividends on the basis of the pounds of seed left with the gin. Dividends on ginning and bagging and tie profits were distributed according to the running bale. A dividend allocating profits from ginning and bagging and ties according to the running bale and from cottonseed according to the weight of seed left with the gin may be designated for the sake of convenience as semi-departmental. Danevang was thus employing the semi-departmental dividend.

At a meeting of the Danevang board of directors considering the patronage dividend to be paid for the season 1931, Peter Harton made a motion that the dividend of a member be governed by the amount of seed for cottonseed profits, by the running bale for bagging and tie profits, and by the gin tolls paid for ginning profits. The motion was seconded to permit discussion. One favorable vote was cast for the motion. A year later this plan of dividend was adopted. A dividend based on contributions

a member makes to the three departments may be designated for the sake of convenience as departmental. Thus the Danevang association was the first in Texas to adopt a departmental dividend.

Kinds of Dividends Paid—Seasons, 1933, 1934, 1935, and 1943

Gin associations insisting on a single unit patronage dividend have a choice of distributing total profits according to the running bale, the seed cotton weight, or the lint weight. Gin associations insisting on calculating cottonseed dividends on the basis of the weight of cottonseed have a choice between the semi-departmental and the departmental dividends. The kinds of dividends actually in use by Texas gin associations should be of interest. Information on this point was obtained on all cooperative gins operating during the seasons 1933, 1934, and 1935, and on about 40 per cent of the gins operating during the season 1943.

The relative importance of various kinds of patronage dividends is indicated in Table 1. It should be noted that the number of gins using the

Table 1. Cooperative Gin Associations Grouped According to the Kind of Patronage Dividend Used

Kind of Dividend	Percentage of Total Gins			
	Season			
	1933	1934	1935	1943
Running Bale	65.2	52.3	48.1	43.3
Lint Weight	26.0	29.1	27.8	29.7
Seed Cotton Weight	1.5	4.7	5.3	1.4
Semi-Departmental	5.8	10.4	10.5	11.0
Departmental	1.5	3.5	8.3	14.6
Total	100.0	100.0	100.0	100.0
Total Number of Associations	69	86	133	145

running bale dividend dropped from about two-thirds in 1933-34 to about three-sevenths in 1943-44. No marked change occurred in the use of the lint weight bale. For the four seasons the running bale and lint weight dividends were used by 91, 81, 76, and 73 per cent of all associations. The seed cotton weight dividend was lacking in popularity. As between the seasons 1933-34 and 1943-44, the semi-departmental and departmental dividends gained nearly all the ground lost by the running bale dividend.

Of considerable interest was the increased use made of the departmental dividend in 1935-36. During that season Lamar Folda as manager of the Corpus Christi Farmers Gin Company and J. A. Bynum as manager of the Haskell Cooperative Gin Company, without any knowledge of the application of the departmental dividend elsewhere and without knowledge of the activity of the other, struck upon the departmental plan in assigning equities to members on profits left in the business. (See Exhibit A.)

Lamar Folda devised a comprehensive form for reporting the dividend to each member. (See Exhibit B.) The Houston Bank for Cooperatives was most favorably impressed with this departmental method for calculating the dividend and with the form used in explaining the dividend. On

March 6, 1936, John B. Jones, Secretary-Treasurer of the Houston Bank for Cooperatives sent a statement together with a copy of the dividend form to all gin association borrowers of the Bank. J. A. Bynum of the Haskell Cooperative not only prorated dividends according to departments but he also allocated losses sustained on lint cotton purchased from members at prices above the market. On May 29, 1936, Sterling C. Evans, President of the Houston Bank for Cooperatives, mailed a statement together with a copy of the Haskell form to all gin association borrowers of the Bank.

Most of the other six gin associations which adopted the departmental dividend in 1935-36 were newly organized cooperatives financed by the Houston Bank. It seems that these associations were influenced by the examples set by the Corpus Christi and Haskell gins. The Tahoka Cooperative Gin Company not only adopted the departmental dividend but also allocated losses on cotton purchased.

Dividend Analysis of Three Associations

As a practical approach to the technique of calculating the patronage dividend, data were obtained on actual dividends paid by three gin associations. From these data an analysis could be made of the dividends received by each member. Furthermore details on each member's deliveries to his association were such as to make possible the computation of various types of patronage dividends. Thus a comparative study could be made from the standpoint of individual members of various kinds of dividend payments.

The associations analyzed were chosen with a view of obtaining contrasting situations both as to amounts of profits available for dividend payments and as to sources of profits. Association A is located in the Blackland Area. The members of this gin are operating as a One-Variety Community. The cottonseed produced is sold as planting seed. All the seed cotton is picked. Association B is one of the oldest and most successful cooperative gins in Texas. It is located in the Low Plains Area. This association has been paying a semi-departmental dividend for nearly 20 years. Association C is also located in the Low Plains Area. The data obtained are on dividends paid the first season of operations. As members made deliveries they did not know that they would receive departmental dividends. They were told, however, that the dividend would not be according to the running bale.

The dividends each member would have received according to the five kinds of patronage measures were determined. In comparing the relative equitableness of each dividend a standard is required. The departmental dividend was selected since this dividend is calculated according to actual contributions of members to the different departments. Percentage relations of the other dividends to the departmental were computed and distinctions made whether those dividends were the same, higher, or lower, than the departmental. These percentage variations are reflected in Table 2. Members of Association A receiving 60 per cent of the semi-departmental dividend would have received like amounts under the departmental; members of the same association receiving 3.3 per cent of the seed cotton weight divi-

Table 2. Relations of Various Types of Patronage Dividends to the Departmental Dividend Associations A, B, and C¹

	Percentage Variation from Departmental Dividend	Percentage of Total Dividend										
		Semi-Departmental			Running Bale			Seed Cotton			Lint ²	
		A	B	C	A	B	C	A	B	C	B	C
Over-Payments	21-Up			0.3	0.5	2.4	2.3	2.8	2.1	1.6	2.9	7.3
	17-20		0.3	0.3	2.5	1.4	4.2		0.8	1.8	0.2	3.1
	13-16		0.1	0.6	3.4	1.6	3.1	5.6	1.5	4.6	2.4	5.3
	9-12			0.2	2.7	1.6	0.7	5.7	2.3	3.8	6.7	10.3
	5-8			2.3	7.5	8.9	8.1	15.2	10.9	10.4	6.2	7.3
	1-4	20.9	35.1	34.1	19.0	26.1	14.2	13.3	20.3	19.2	19.8	11.0
	None	60.1	33.9	15.5	10.3	8.9	5.9	3.3	8.5	12.3	7.2	5.5
Under-Payments	1-4	19.0	26.2	27.9	40.2	28.1	21.7	43.9	35.2	21.8	31.3	15.5
	5-8		1.9	7.9	12.8	19.5	10.2	17.6	13.1	20.8	13.4	9.4
	9-12			0.7	0.8	3.0	10.3	0.3	4.0	3.9	7.7	9.1
	13-16			1.0		0.1	4.9			0.4	0.6	3.2
	17-20			1.3		0.1	1.9		0.2	0.3	0.2	2.7
	21-Up			0.2			0.4		0.1	0.4	0.1	6.1

¹Total Patronage Dividends Paid: A, \$2,870; B, \$14,944; C, \$11,855

Total Bales Ginned: A, 1,666; B, 6,624; C, 2,410

²Lint weights of Association A not obtained

dividends would have received like amounts under the departmental. All semi-departmental dividends of Association A were within the range of 4 per cent above and below the departmental dividend. This same range included but 32 per cent of the lint weight dividends of Association C. The several dividends of Association A varied the least from the departmental; those of Association C varied the most.

Table 3. Total Dollars of Dividends Over-Paid and Under-Paid with the Departmental Dividend as the Standard. Associations A, B, and C

Percentage Variation from Departmental Dividend	Over-Payments and Under-Payments in Dollars											
	Semi-Departmental			Running Bale			Seed Cotton			Lint		
	A	B	C	A	B	C	A	B	C	A	B	C
Over-Payments	\$	\$ 7	\$ 8	\$ 3	\$ 94	\$ 76	\$ 15	\$ 78	\$ 51	\$ 107	\$ 190	
		1	9	11	31	78	20	19	36	5	61	
		3	29	12	30	45	6	25	69	44	77	
		19	55	5	9	63	21	54	76	89	116	
	5	88	87	10	75	108	8	87	42	56	81	
					86	45		67	42	61	40	
Under-Payments	5	99	73	31	109	76	42	152	78	106	42	
		19	57	22	165	84	27	114	169	127	68	
			9	3	45	121	1	57	46	107	105	
			18	2	2	83		6	6	12	55	
			29	4	4	39		4	6	6	55	
			8			12		3	11	4	240	
Total Over- and Under-Payments	\$ 5	\$ 118	\$ 194	\$ 56	\$ 825	\$ 415	\$ 70	\$ 330	\$ 316	\$ 362	\$ 565	

A number of gin associations has changed from the running bale to the lint dividend. For Association B, 8.9 per cent of the running bale dividends was the same as the departmental; 7.2 per cent of the lint dividends was the same as the departmental. The range of 4 per cent above and below the departmental dividend included 63.1 per cent of the running bale and 58.3 per cent of the lint dividends. For Association C, 5.8 per cent of

Table 4. Relative Importance of Dividends Over-Paid and Under-Paid with the Departmental Dividend as the Standard. Associations A, B, and C

	Percentage variation from departmental dividend	Percentage of total dividends over-paid and under-paid										
		Semi-departmental			Running bale			Seed cotton			Lint	
		A	B	C	A	B	C	A	B	C	B	C
Over-payments	21-Up			0.1	0.1	0.6	0.6	0.5	0.5	0.4	0.7	1.6
	17-20		0.0	0.0	0.4	0.2	0.7		0.1	0.3	0.0	0.5
	13-16		0.0	0.1	0.4	0.2	0.4	0.7	0.2	0.6	0.3	0.6
	9-12		0.0	0.2	0.2	0.1	0.5	0.2	0.4	0.6	0.6	1.0
	5-8		0.1	0.5	0.5	0.5	0.9	0.7	0.6	0.4	0.4	0.7
	1-4	0.2	0.6	0.7	0.3	0.6	0.4	0.3	0.4	0.4	0.4	0.3
	None	99.6	98.4	96.8	96.1	95.7	93.0	95.1	95.6	94.7	95.2	90.5
Under-payments	1-4	0.2	0.7	0.6	1.1	0.7	0.6	1.5	1.0	0.7	0.7	0.3
	5-8		0.1	0.5	0.8	1.1	0.7	0.9	0.8	1.4	0.8	0.6
	9-12			0.1	0.1	0.3	1.1	0.0	0.5	0.4	0.7	0.9
	13-16			0.1		0.0	0.7				0.1	0.5
	17-20			0.2		0.0	0.3			0.0	0.1	0.5
	21-Up			0.1			0.1		0.0	0.1	0.0	2.0

the running bale dividends was the same as the departmental; 5.5 per cent of the lint dividends was the same as the departmental. The range of 4 per cent above and below the departmental dividend included 41.8 per cent of the running bale and 32.0 per cent of the lint dividend. It would seem that the lint dividend tends to diverge more from the departmental than the running bale dividend.

Over- and under-payments of various dividends as compared with the departmental were computed in dollars as shown in Table 3. Over- and under-payments for Association A were \$5, \$56, and \$70 for the semi-departmental, running bale, and seed cotton dividends. Over- and under-payments for Association C were \$194, \$415, \$316, and \$565 for the semi-departmental, running bale, seed cotton weight and lint weight dividends. Maladjustments of over- and under-payments of variations greater than 21 per cent were rather extreme for the lint dividend of Association C.

Table 2 may be somewhat misleading in suggesting greater maladjustments in the various types of dividends than those actually obtaining. A member, for instance, with a running bale dividend 10 per cent below the departmental, receives a dividend of which 90 per cent corresponds with the departmental. Dividend payments varying from the departmental were analyzed as to the percentage correspondence with and divergence from the departmental as reported in Table 4. If Association C had used a lint weight dividend 90.5 per cent of the total would have agreed with the departmental; if Association A had used a semi-departmental dividend 99.6 per cent of the total would have agreed with the departmental.

From 93 to 96 per cent of the running bale dividends coincided with the departmental. This means that only 3.5 per cent of the dividend was under-paid in the one instance and only 2.0 per cent in the other. The point may be made that this is close enough to the ideal for practical purposes. Thus the simplicity of the running bale dividend could be employed rather than the greater complexity of the semi-departmental or departmental dividend. The fact must not be overlooked, however, that two of these associations used the departmental dividend and the other the semi-

Table 5. Average Pounds of Seed Cotton and Cottonseed per Bale as Delivered by Members Associations A, B, and C

Pounds per bale	Seed cotton			Cottonseed			Pounds per bale
	Percentage of total bales ginned			Percentage of total bales ginned			
	A	B	C	A	B	C	
1200-1299	0.8					0.6	100-199
1300-1399	10.9		0.4		0.8	0.9	200-299
1400-1499	70.9		0.3		1.2	3.1	300-399
1500-1599	14.9	0.2	0.6		2.4	5.7	400-499
1600-1699	2.5	1.4		0.2	5.6	12.8	500-599
1700-1799		11.8	7.6	6.4	49.7	26.5	600-699
1800-1899		36.0	9.0	12.7	38.1	30.2	700-799
1900-1999		34.2	44.1	73.0	2.2	18.2	800-899
2000-2099		13.7	22.1	7.7	0.0	2.0	900-999
2100-2199		1.3	9.7				
2200-2299		1.4	3.3				
2300-2399		0.0	0.5				
2400-2499			0.8				
2500-Up			1.6				
Average pounds per bale	1455	1902	1983	836	671	672	Average pounds per bale
Standard deviation in pounds	+75	+94	+153	+67	+82	+140	Standard deviation in pounds

departmental. If these associations had used the running bale dividend over a period of years chances are that deviations from the departmental would have become more pronounced.

Reasons for Differences in Patronage Dividends

One explanation for the lack of uniformity in the behavior of dividends of the different associations is to be found in the variability in weights of seed cotton and cottonseed per bale of members. Table 5 shows the distribution of average weights of seed cotton and cottonseed per bale of the deliveries of members. About two-thirds of the seed cotton bales delivered by members of Association A were within a range of 75 pounds of the average weight; about two-thirds of the seed cotton bales delivered by members of Association C were within a range of 153 pounds of the average weight. About two-thirds of the bales delivered by members of Association A had weights of cottonseed within a range of 67 pounds of the average; about two-thirds of the bales delivered by members of Association C had weights of cottonseed within a range of 140 pounds of the average.

The rate of the dividend of the different departments is a second factor influencing the behavior of the patronage dividend. Table 6 shows

Table 6. Rates According to Type of Patronage Dividend Associations A, B, and C

Type of dividend	Associations		
	A ¹	B ²	C ¹
Departmental:			
Bagging and ties	33¢	37¢	40¢
Seed cotton per 100 lbs.	1.59¢	4.63¢	15¢
Cottonseed per 100 lbs.	13.9¢	15¢	23¢
Semi-Departmental:			
Running bale	\$0.561	\$1.25	\$3.374
Cottonseed per 100 lbs.	13.9¢	15¢	23¢
Running bale:			
Per bale	\$1.723	\$2.256	\$4.919
Seed cotton:			
Per 100 lbs.	11.84¢	11.86¢	24.81¢
Lint:			
Per 100 lbs.		44.49¢	98.35¢

Type of patronage dividend actually paid:

¹Departmental.

²Semi-Departmental.

the equivalent rates according to physical units of various dividends of the three associations. The dividend rate on the seed cotton under the departmental dividend of Association A was but 1.59 cents per 100 pounds. A change of 63 pounds in seed cotton weight was required to change the dividend by one cent. The dividend rate on the seed cotton under the departmental dividend of Association C was 15 cents per 100 pounds. A change of but 6 $\frac{2}{3}$ pounds in seed cotton weight brought about a change of one cent in the dividend. Dividend rates on cottonseed were such that a change of 7.2 pounds for Association A made a change of one cent in the

dividend and a change of 4.4 pounds for Association C made a change of one cent in the dividend. These variations in weights and rates explain the fact that 91.2 per cent of the running bale dividends of Association A was within the limits of 8 per cent above and below the departmental dividends while but 62.2 per cent of the running bale dividends of Association C was within these limits of the departmental dividends.

Allocating Losses on Cotton Bought

Association C bought 2,331 bales of cotton from its members of the 2,410 bales ginned. The average cotton loss suffered was \$1.84 per bale on the bales bought and \$1.78 per bale on the bales ginned. The loss per 100 pounds of lint bought was 37 cents. If losses had been written off as a lump sum against total profits, members would have shared losses on the basis of a straight running bale. Losses could have been written off as a running bale on the bales bought. Association C, however, allocated cotton losses at the rate of 37 cents per 100 pounds of lint bought. Thus the average dividend credit of this association was not \$4.92 per bale but \$3.14.

One factor having a bearing on assessing fairly, losses on lint bought was the weight of the lint bales ginned. A second factor was whether or not members sold all their cotton to the association. Relative dividends of members according to the methods of assessing losses on cotton bought are shown in Table 7. It is clear that the small lint bale members would

Table 7. Relative Patronage Dividends According to the Method Used in Allocating Losses on Cotton Bought Association C

Lint weight per bale	Method of assessing cotton losses		
	Lint weight bought	Running bale bought	Straight running bale
1			
-449	100	89	91
450-499	100	98	100
500-549	100	102	104
550-599	100	107	109
2			
440	100	97	90

¹Members sold 100 per cent of their ginnings to the Association.

²Members sold 402 bales of 481 ginned.

have suffered losses under the running bale bought and straight running bale methods while the large lint bale members would have profited. Since the members who did not sell all their cotton to the association sold an average of 84 per cent, their relative losses under the running bale methods were moderate. One member, however, sold but 2 bales of the 10 he ginned. As against the dividend he received under losses assessed on lint bought, his dividends would have been but 73 and 71 per cent as large under the running bale bought and straight running bale methods of allocating cotton losses.

The greater the differences in the percentages of bale sold by members to their association at a loss, the greater the need of allocating losses on the actual bales or lint weight bought. The chief gain to Association C in allocating cotton losses on the lint weight bought was demonstrating to members that such losses cannot be hidden. This method of writing off these losses is virtually treating these cotton losses as prepaid patronage dividends.

OBJECTIVES OF PATRONAGE DIVIDEND

A chief objective of the patronage dividend is to assure an equitable share to all members of such profits or savings as may be designated for dividend distribution. The secret of a fair dividend lies in the choice of units which measure equitably the overall patronage of each member. The problem facing the management of a cooperative gin is making the best choice of one of some five distinct types of dividends.

Percentages of total dividends yielded by the different departments may serve as an index on the type of dividend which should be adopted. Table 8 reveals the relative importance of different departments for the

Table 8. Contributions of the Various Departments to the Average Departmental Dividend. Associations A, B, and C

Department	Percentage of total dividend		
	A	B	C
Bagging and ties	19.2	16.4	8.1
Ginning	13.4	44.6	60.5
Cottonseed	67.4	39.0	31.4
Total	100.0	100.0	100.0

three associations. Under the semi-departmental dividend 86.6 per cent of the dividend of Association A would be identical with the departmental dividend. Under the same type of dividend but 39.5 per cent of the total dividend of Association C would be identical with the departmental dividend.

The running bale measures accurately the dividend on bagging and tie profits. This department, however, usually yields less than 20 per cent of the total dividend. The amount of cottonseed per bale left with the gin has no bearing on this dividend. A running bale dividend places a premium on the ginning of small bales. A member by inflating his bale count gains an increasing share of both ginning and cottonseed profits. Objections to the running bale dividend are intensified by the fact that usually more than 80 per cent of the dividend is subject to the vagaries of the size of bale ginned by members.

Lint weight fails as a measure of a member's contribution to any of the three departments. To the degree that the turnouts of the members' ginnings vary, the lint weight is not an equitable measure of gin tolls paid on the basis of seed cotton weight. To the extent that lint weights of members' bales vary from the average lint weight is not a fair measure of profits on bagging and ties. Differences in the pounds of cottonseed per

bale left with the gin by members are wholly disregarded. The lint weight dividend, however, does put a stop to a raid on ginning and cottonseed profits through the ginning of small bales.

The seed cotton weight dividend has gained little favor with Texas cooperative gins as revealed in Table 1. Seed cotton weight measures accurately the contributions to ginning profits provided gin charges are based on the weight of seed cotton ginned. But the ginning profit is usually considerably below 50 per cent of the total profit. Four cooperative gins of Texas with volumes much above the average and with gin tolls considerably above rates in later years had ginning profits averaging 46 per cent of total profits over periods of from 7 to 15 years. The greater the weight of seed cotton per bale, the higher the ginning rate, and the greater the volume of ginning, the greater becomes the relative importance of ginning profits to total profits. To the degree that seed cotton weights of members' bales vary from the average the seed cotton weight is not an equitable measure of profits on bagging and ties. Variations in contributions of members to cottonseed profits are of no influence with this type of dividend. In calculating the seed cotton dividend much of the work has to be done that is needed in computing the departmental dividend.

Regarding members who deliver relatively light seed cotton bales, this point should be noted: One group of these members may gin small lint bales; the other group may gin lint bales of standard weight. Whether deliberate or not, the former group is inflating its count of running bales. The second group makes a proper adjustment to a high turnout.

Minimum Essentials of an Equitable Patronage Dividend

Perhaps the most positive statement which may be made regarding requirements of an equitable patronage dividend of a cooperative gin is that cottonseed profits should be allocated in terms of weights of seed, members sell to their association. This rules out the single unit dividends according to the running bale, the lint weight, and the seed cotton weight. Thus desirable dividends are limited to the departmental and semi-departmental.

Departmental and semi-departmental dividends agree on the method of allocating cottonseed dividends. As for dividends on bagging and ties, the logical unit for the latter dividend is the running bale. This measure is the fairest and the easiest to calculate. Thus the two dividends agree on the distribution of profits on bagging and ties. The real difference arises as to the allocation of ginning profits. With the departmental dividend these profits are distributed according to the weight of seed cotton ginned or the gin tolls paid. With the semi-departmental dividend the logical unit for distributing ginning profits is according to the running bale.

The basis of choice between departmental and semi-departmental dividends is a matter of attaining the highest possible degree of equity in allocating ginning profits according to seed cotton weight as against the greater simplicity of the running bale. According to Table 2 differences between the two dividends of Association A were only \$5 over- and under-payments of the semi-departmental as against the departmental dividend. It seems clear in this instance that all the extra work of computing the departmental dividend was not worthwhile practically. On the other hand

differences in the case of Association C were great enough to warrant the use of the departmental dividend. Association B seems to lie between the extremes of the other two associations.

Obviously no hard and fast rule can be stated as to the better choice between departmental and semi-departmental dividends under all circumstances. No doubt if the one dividend had to be chosen for permanent adoption the departmental would be the better selection. In general, however, situations indicative of a preference for the semi-departmental dividend are:

1. Ginning dividends less than 50 per cent of total dividends.
2. Ginning dividend rate of 5 cents or less per 100 pounds of seed cotton.
3. One-half or more of the volume of ginning with seed cotton bales weighing within 75 pounds of the average weight.
4. Variations in weights of seed cotton per bale reflecting differences in turnout with fairly uniform lint weights per bale.

PROFIT OR NON-PROFIT ASPECTS OF GIN BUSINESS

A discussion of technical aspects of the patronage dividend assumes that the gin business is conducted at a profit. It seems fitting that the question be raised whether or not a cooperative like a gin association should exact a charge for services either high enough to yield a margin of profit or just sufficient to cover the cost of service with no profit.

The question of profit or non-profit operations of a cooperative gin association has two main phases: (1) The practical dealing with such matters as the collection of charges for gin service; the relative importance of fixed and variable costs; and the problem of estimating costs at the opening of the ginning season. (2) The philosophical dealing with the proper role of cooperatives in the national economy. This raises the issue whether cooperatives should operate as competitive agencies in an economy of free enterprise or as non-competitive agencies in a Utopian retreat.

Cooperatives Operating at Cost

The nature of the business of a cooperative has an important bearing on whether or not profit or non-profit operations are feasible. If costs are principally variable, or operating, non-profit business is practicable and perhaps preferable. In the livestock shipping association costs are primarily a per unit charge either on the individual head or on the shipping unit. In the cheese factories of Wisconsin producing foreign types of cheese the main cost is the percentage commission on cheese sales paid the cheesemaker for his services. In such instances the cost or charge can be collected currently through deductions from receipts due the members. Thus members do not receive service on credit. In such instances no particular period or season is involved. The volume of business for the year does not influence the per unit cost of operations.

In a processing plant with heavy fixed investments non-profit operations would introduce many complications. The ginning business is characterized by heavy fixed costs. This explains the marked influence of volume of ginning upon costs.

Whether or not costs need to be estimated at the opening of the ginning season is largely a question of the most feasible time to collect charges for ginning service. If collections may be delayed until the end of the season actual cost can be determined and the charge for service governed accordingly. This procedure would introduce two problems: the financing of current operations; and the collection of charges after members had disposed of their cotton and cottonseed. If gin charges were not collected until the end of the season, arrangements would have to be made to finance all out-of-pocket expenses incurred during the ginning season. Operating a ginning business on credit is not practicable. Collections would be exceedingly difficult to make and losses on such accounts would be heavy. To the extent that these charges were not collected the business would be operated at a loss.

Collection of Gin Charges at Time of Ginning

The successful operation of a ginning business makes imperative the collection of charges at the time patrons receive the service. If a cooperative gin were to operate on a cost basis this would require an estimation of the cost of ginning at the opening of the season. In estimating the cost several uncertainties arise. At the opening of the season the volume of ginning cannot be estimated with the precision needed in making accurate estimated costs. The volume depends both upon the size of the crop and on deliveries by patrons. The influence of volume on cost is such that a relatively small deviation, especially with a low volume, may change costs considerably. The relative cost efficiency for the year ahead is rather unpredictable. Unforeseen factors may arise during the season as marked increases in labor costs because of a scarcity of gin labor; and slow and costly ginning resulting from a general unfavorable state of the weather. Furthermore, few managers and board members are in position to make an accurate estimate of costs at the opening of the season even if all the more important variables be known.

To the extent that estimated costs differ from the actual, adjustments would need to be made at the end of the season. If the estimated costs proved too low the gin association would face the unpleasant task of collecting the shortages from members. Many members, no doubt, would contend that they had paid for the service in full through the charge paid at ginning time. If estimated costs were too high the association would have to refund over-charges to members.

Gin Charges at Cost in Short Crop Seasons

Attempts to base the charge for ginning service on the cost of the service would be particularly troublesome in short crop seasons when regular charges do not cover the cost. To charge members a rate for service less than the going rate would but increase losses for the season; to charge the going rate would be to confess that the cost plan had to be abandoned at times; to charge the full cost would mean members would be paying more for ginning service at their cooperative than the going rate at competing gins.

Whether or not a cooperative gin will obtain a normal volume of business though charging a rate above the competitive level depends en-

tirely upon the general attitude of the members. Experience on this point is lacking in consistency. Cases may be cited of cooperatives suffering heavy reductions in volume whenever they charge above the going rate; other cases may be cited of cooperatives enjoying a most satisfactory volume even though charging 5 or 10 cents per hundred pounds of seed cotton above the competitive rate. If a large percentage of the members are in the mood to shop for the lowest charges available at ginning time, a charge according to the high cost of a short crop season may prove quite disastrous.

Operations at Cost and Financing Program

Operations of a cooperative gin plant at a profit or at cost have implications other than the question whether or not patronage dividends may be paid. The whole program of financing may be involved. With very few exceptions cooperative gin associations of Texas have financed their investments from profits of the business. In operations at cost, profit financing would be impossible. Under this circumstance members would have to assume their share of the financing as an outright investment. The other alternative would be to exact a retain, or deduction, of a stipulated amount per bale as the source of necessary funds.

Under cost operations the accumulation of a surplus and of various reserves would also involve retains. Members would more than likely view the retains as costs of ginning added to the cost charge. As the amounts of funds vary from year to year the retains would vary adding to the uncertainties of charges exacted from members. Quite frequently the total of the retains and the cost charge would be greater than the going rate at the gin point. To the extent that growers look for the lowest possible cost of gin service at the time of ginning, patronage at the cooperative would suffer.

The financing of the investment in the gin plant and the accumulations of necessary reserves and surpluses are comparatively simple for gins operating under the profit plan. The funds used in financing come from profits and cannot be viewed as costs in such circumstances. The retain system may be more desirable in financing the fixed assets of an association than profit financing. But in the gin operating at a profit the patronage dividend available may more than offset retain deductions. But before the general run of cooperative members in Texas will accept the retain system as a substitute for profit financing much educational work will need to be done.

The shortcomings of deferring the collection of ginning charges to the end of the season and the difficulties of the necessary estimation of ginning costs if charges are to be collected currently emphasize the impracticability and undesirability of attempts to operate cooperative gin associations at cost.² If gin charges are to be other than at cost the most logical basis seems to be at the going rate in the gin point.

²Burgess and Weaver in their discussion, Possibilities of Pooling, express approval of operations at cost. See Bul. 41, Expenses, Income and Dividends of Oklahoma and Texas Cooperative Cotton Gins. Farm Credit Administration, 1940. pp. 56-62.

Status of Cooperative Gins in Texas Gin Industry

The question of profit or non-profit operations raises the fundamental issue of relations of the Texas cooperative gins to the gin industry of the state and to the cotton growers outside the cooperative movement. If members and leaders of cooperatives accept the status of competition, operations of gins at a profit seem valid and desirable. If members and leaders wish to retreat from the competitive into a non-competitive world, operations at cost seem logical and consistent.

Members of cooperative gin associations and private ginners have many interests in common. Certainly the cooperative groups cannot be entirely indifferent and oblivious as to what happens to the private ginners. Anyone at all acquainted with the cooperative gin movement in Texas must realize that a very considerable percentage of cotton growers do not wish to belong to a cooperative gin association. This fact is being demonstrated in the patronage of one of the most successful cooperative gin associations of Texas from the standpoint of profits earned and patronage dividends distributed. Members joining this association are not required to make any contribution to the capital needed in operating the business. The only charge exacted is a one dollar membership fee required of all members old as well as new. This membership fee need not be paid in cash but may be collected as a deduction from such patronage dividends as may accrue to the credit of the member later. The gaining of a membership in this association involves nothing more than the delivery of a bale of seed cotton to the gin. The total number of patrons over an 18-year period in terms of the average number of patrons per season indicates six turn-overs in the membership. That is, the average membership lasts but for three years. Fifty per cent of the members patronized the cooperative for only one season. In the most favorable season not more than 40 per cent of the cotton growers ginning in the county delivered to this cooperative gin. It should be evident that a very large percentage of the cotton growers ginning in this county either choose, not to become members of the cooperative gin, or to become members for but a brief period. In light of past experience about 70 per cent of the cotton ginned in the county will be taken care of by private ginners.

If cooperative gins of Texas operated at cost the charges exacted would represent price-cutting of service charges as viewed by private ginners. To the extent that private ginners would follow the lead of the cooperatives the amount of the cut in charges would depend upon the volume and costs of the cooperatives. The least disturbance would occur at points with cooperative gins of low volume and relatively high costs and the most drastic adjustments at points with cooperatives of large volume and relatively low costs.

Avoiding Over-Duplication of Ginning Facilities

The outstanding weakness of the gin industry as it has developed in Texas is that of over-expansion of ginning facilities. Texas ginners have been too optimistic. Capacity has been gauged to furnish ample ginning service during the bumper crop seasons. Furthermore ginners have expressed a willingness to accept very modest returns on their gin invest-

ments by the way they have stayed in the business. Cooperative gin associations of Texas by obtaining a volume of ginning more than twice as large as that of private ginners, on an average, are eliminating much of the disadvantage of too many gins in the state so far as the cooperative members are concerned.

An average gin with a volume of about 900 bales and a gin income of about \$6 a bale breaks even. The cooperative associations with an average volume of about 2,250 bales and a gin income of about \$6 a bale are effecting a saving of about \$2 a bale. Thus the average cost of about \$6 a bale for the private ginners is reduced to about \$4 a bale for the cooperative groups. This lower cost of the cooperatives is not the result of superior cost efficiency but rather is the result of the favorable circumstance of larger volume.

The apparent advantage of a large patronage dividend has its basis in psychological considerations rather than in economic. If the minds of cooperative gin members could be focused on the cost of the gin service rather than on the patronage dividend a different outlook would open up.

Suppose the cooperative gin associations took the initiative in dropping the gin income to \$5 a bale. Private ginners, undoubtedly, would follow suit in dropping their charges. At a gin income of \$5 a bale the volume needed to break even is about 1,200 bales. Thus about 25 per cent of the private gins would be forced out of business. Assuming that the cooperative gins would get their proportionate share of the increased volume because of the reduction in the number of gins, the average volume would be 2,800 bales. At this volume the cost of ginning would drop to about \$3.60 a bale. In lowering gin charges to \$5 a bale, the cooperatives would not suffer a reduction in patronage dividends to \$1 a bale but to \$1.40 a bale.

The significance of the changed situation is this: in the first place, members would pay \$1 a bale less for service at ginning time; in the second place, members would receive ginning service at a cost less by 40 cents a bale, a saving of 10 per cent.

Advantages of Operating Competitively

Experiences of cooperative associations over a period of 100 years have amply demonstrated the advantages of charging the going rate. Normally a cooperative gin with an economic volume of ginning, efficient cost operations, and the going rate of gin income will realize profits which become available for the payment of cash dividends distributed on the patronage basis. The patronage dividend was one of the most profound and far-reaching contributions of the Rochdale Pioneers to the cooperative movement. Holyoake in his famous HISTORY OF THE ROCHDALE PIONEERS put the matter rather succinctly: "Mr. William Chambers, in his paper on cooperation, says, with true insight, 'Without the principle of accumulating profits, cooperation remains a very insignificant affair.' The long years of store experience which preceded the commencement of the Rochdale Store of 1844, were the 'insignificant' days of cooperation. There was no alluring accumulations then." (Tenth Edition, p. 150.)

SUMMARY

Business operations at a profit is one of the objectives of all cooperative gin associations. The purpose of the patronage dividend is to effect the distribution of these profits among the members.

The problem encountered in devising an equitable patronage dividend is largely the result of the nature of the gin business. A gin operates three distinct branches of ginning, bagging and ties, and cottonseed; each department has its distinctive characteristics as to profit or loss.

The problem facing the early cooperative gin was to find a unit to measure the patronage to be substituted for the share of stock used as the unit by farmer stock gins. The first unit selected as the basis for patronage dividends was the running bale. Experience has demonstrated several weaknesses in the running bale as an equitable measure of overall patronage of members.

The running bale is only one of several physical measures of patronage in a cooperative gin. The weight of seed cotton delivered; the weight of lint ginned; the number of patterns purchased; and the weight of cottonseed left with the gin are other units to be considered as physical measures.

The Childress Farmers' Cooperative Society was the first association to break away from the running bale dividend; the Danevang Farmers' Cooperative Society was the first association to adopt the departmental type of dividend.

For the seasons 1933-34 and 1943-44, the percentages of all cooperatives using the various types of dividends were: running bale, 65.2 and 43.3; lint weight, 26.0 and 29.7; seed cotton weight, 1.5 and 1.4; semi-departmental, 5.8 and 11.0; and departmental, 1.5 and 14.5.

A comparison of the various types of dividends of three associations with the departmental as the standard shows that:

1. The percentages of total dividends received which would have been the same varied from 3.3 of the seed cotton dividend of Association A to 60.1 of the semi-departmental dividends of Association A.
2. The percentages of total dividends within the limits of 4 per cent above and below the departmental varied from 32.0 for the lint dividend of Association C to 100.0 for the semi-departmental of Association A.
3. The over- and under-payments in dollars varied from \$5 for the semi-departmental dividend of Association A to \$565 for the lint dividend of Association C.
4. The percentages of total dividend payments coinciding with the departmental varied from 90.5 for the lint dividend of Association C to 99.6 for the semi-departmental dividend of Association A.

The lack of uniformity in the behavior of different kinds of dividends of various associations resulted from the variability in the weights of seed cotton and cottonseed per bale and in the rates of the dividend of the various departments.

Association C allocated cotton losses at the actual loss of 37 cents per 100 pounds of lint bought. The greatest gain in this procedure was that

of demonstrating to members that these losses cannot be hidden. This manner of handling cotton losses has the effect of treating these losses as prepaid patronage dividends.

A chief objective of the patronage dividend is to assure an equitable share to all members of the profits of the business. The secret of a fair dividend lies in the choice of units to measure the patronage.

Single unit dividends according to the running bale, the lint weight, or the seed cotton weight disregard differences in the pounds of cottonseed per bale left with the gin by the various members.

The running bale dividend places a premium on the ginning of small bales. As a member purposely gins smaller bales he obtains a proportionately larger share of ginning and cottonseed profits. The lint weight dividend curbs the attempt to obtain an advantage through the ginning of small bales.

A first essential of an equitable patronage dividend is that profits on cottonseed be distributed according to the amount of seed each member leaves with his association. This requirement rules out the single unit dividends.

The two desirable dividends are the semi-departmental and the departmental. Both agree in the distribution of profits on cottonseed and bagging and ties. The departmental dividend distributes ginning profits according to the weight of seed cotton ginned or gin tolls paid: the semi-departmental according to the running bale.

The semi-departmental dividend is preferable provided differences in the ginning dividend according to the two methods of calculation are too small to be of any consequence. In the main circumstances favoring the semi-departmental dividend are: ginning profits less than 50 per cent of total profits; ginning dividend of 5 cents or less per 100 pounds of seed cotton; 50 per cent or more of the bales ginned with seed cotton weights within 75 pounds of the average weight; and variations in seed cotton weights a matter of differences in turnout rather than the result of attempts to increase the number of bales through the ginning of small lint bales.

The question of profit or non-profit operations of a cooperative gin association has two main aspects: (1) The practical dealing with such matters as the collection of gin charges; the relative importance of fixed and variable costs; and the problem of estimating costs at the opening of the ginning season. (2) The philosophical dealing with the fundamental issue of the status of the cooperative gins within the gin industry and with respect to the cotton growers outside the cooperatives.

Cooperatives whose costs are primarily variable, or operating, may operate at cost. Cooperatives with relatively heavy investments and consequent heavy fixed costs face a much more complicated situation if operations are at cost.

A cooperative gin operating at cost might delay the collection of charges to the end of the season when costs could be ascertained accurately. But such collections after members have disposed of their cotton and cottonseed would be most difficult to make. The other alternative

would be to collect the charge when the service is furnished. The latter procedure would require that costs be estimated at the opening of the ginning season. Because of uncertainties as to volume of ginning and relative efficiency for the season ahead accurate cost estimates are exceedingly difficult to make.

Operations at cost would prevent profit financing. Members would have either to furnish capital as an outright investment or to adopt some form of retain on the volume handled.

The question of profit or non-profit operations raises the fundamental issue of the relation of the cooperative gins to the gin industry and to the cotton growers outside the cooperatives. If the status of competition be accepted, operations at a profit seem valid and desirable; if the non-competitive ideal be entertained, operations at cost seem logical and consistent.

If cooperative gins should operate at cost, the charges exacted would represent price-cutting of service charges as viewed by private ginners. To the extent that competing gins would meet these reduced charges they would suffer financial loss; growers outside the cooperatives would obtain ginning service at the same cost as members of cooperatives but without the responsibilities attached to cooperative membership.

It seems evident that the best interests of both the cooperative gins and their private competitors are furthered and preserved by maintaining gin charges at competitive levels.

Experiences over a period of 100 years have amply demonstrated the advantages of operating at a profit with such profits distributed through a patronage dividend. One of the most profound and far-reaching contributions of the Rochdale Pioneers was that of the patronage dividend.

EXHIBIT A

Development of Departmental Dividend and of Forms for Reporting the Dividend

Statement from personal letter, October 2, 1943, of Lamar Folda, former manager, Corpus Christi Farmers Gin Company:

"In explanation of the manner in which I arrived at this form of dividend crediting, I wish to go back to a meeting at Dallas of the Texas Agricultural Association, in the spring of 1934. At this meeting Daddy Cole gave a talk, also a man from Quanah. Each of them stated what their dividend had been, in dollars per bale. This was my first attendance at such a meeting, and I was absorbing cooperative information and spirit thru every pore. I gave the subject a great deal of thought during the next few months. Then as we were nearing the end of our first ginning season, in October of 1935, the inequity of such dividend payments in equal dollars per bale bothered me, for this reason: One of our members had taken about 97% of his seed home. He would sell it in the winter to the oil mill, and receive three or four dollars per bale more for his seed than the rest of our members who sold their seed to the gin. Under a system of paying dividends in flat dollars per bale he would obtain a certain amount of seed profit from the other members who sold their seed to the gin, and on which seed the gin made their regular merchandising profit. Then he would receive this merchandising profit of about three dollars per bale on all his seed which he hauled home. Suddenly the thought struck me, just separate the ginning cost and ginning income from seed handling cost and income. So it was really very simple."

Statement from personal letter, October 4, 1943, of J. A. Bynum, former manager, Haskell Cooperative Gin Company:

"I shall relate some of the events that prompted me to work out an equitable basis for computing the dividends from our organization. During the very short cotton season of 1934 I began talking with the gin customers about organization. They all thought it would require cash to put it over, consequently there was very little interest. The following spring we had a meeting with Mr. J. E. Montgomery there to explain the Houston Bank proposition to the few present. A better crop prospect was in sight and the farmers were all busy. They were interested, but too busy to help much in the organization work or even attend the meetings. It was up to me to get the stock subscriptions, with some aid later by some who were up with their farm work. In this subscription work I found many who were opposed and bitter toward farmer-owned gins. Several stock company and society gins had just recently 'gone broke' and many of those I approached had paid off heavy notes as a result. Naturally they were in no mood to sign a note for more cooperative gin stock. They also had not liked the way profits were divided, nor the way the books were kept. They complained that the members never knew how much profit was made or how dividends were computed and that the big man got all the profit from the stock companies. It was then that I began working out our departmental plan and I explained it to the subscribers as I sold them the stock. We also assured these subscribers that the books would be audited annually and that an individual statement would be furnished showing dividend calculations. At the end of our first season which was the 1935-36 season we could easily make up these individual statements because we had from the beginning kept an individual customer's ledger sheet. These sheets not only kept the customer's account with the gin but showed the number of pounds of seed cotton, cottonseed, lint sold the gin, patterns bagging ties bought and other commodities bought. It seems to have been a coincidence that Folda of Corpus Christi and I were working on a similar plan at the same time. I do remember getting one of his statement forms (individual) and I might have used some part of this form in ours. However, the departmental idea had been worked out long before I knew of his plan. The Houston Bank also asked me to send them one of my forms. I later learned that they mimeographed a quantity of them and mailed them out to cooperative associations. My first thought in this work was for our own organization to overcome weak spots in former associations and not for credit. I was influenced by the revised Texas Cooperative Marketing Laws which say that patronage dividends shall be distributed to both members and non-members on an equal prorata basis regardless of the amount of stock owned. This law cannot be followed on any other basis. I give this lengthy explanation to show that the organization work is not always easily accomplished; to show how we restored confidence in farmer-owned gins in this vicinity or at least among our members and not to gain credit or publicity. I never thought of it attracting attention outside of Haskell, but since the letter sent out by the Houston Bank, representatives from several gins have visited me for further information."

EXHIBIT B

Various Forms for Reporting the Patronage Dividend to Members

1. Patronage Statement of December 31, 1935, to A. Customer

Your note, payable to the Corpus Christi Farmers Gin Company, for \$125.00 has been received, evidencing a subscription for an equal value of the common stock of the company at par of \$25 per share. Net profits for the year's operations, after deduction of all expenses and depreciation, leave an amount sufficient to declare a patronage dividend, according to the charter and by-laws. This entire distribution will be credited on your note above mentioned, as a payment on principal. It has been agreed by the directors, that for this year there will be no dividend on stock, and that no interest shall be charged on your note held by the company. In effect, the dividend on the stock would exactly balance the interest on your note, because for this year, each member would owe interest on exactly the same sum of money on which he would be entitled to receive dividends from stock owned.

The Manner of Calculating Patronage Distribution follows:

You sold 21,750 pounds of seed to the gin, distribution is 22 cents for each hundred pounds of seed sold.....	\$ 47.85
You paid \$153.20 for ginning at 35 cents per hundred pounds, distribution is one fourth of ginning paid.....	38.30
You bought 30 patterns of bagging and ties, and after deducting from this profit the cost of hauling your cotton to the compress, distribution at 32 cents per bale is.....	9.60
Your Total Patronage Distribution.....	\$ 95.75
If one fourth of this distribution is due to a land owner, other than yourself, his rental share is.....	23.94
Three fourths of the entire distribution due to you amounts to.....	\$ 71.81

Note

The original amount of your stock note was.....	\$125.00
Net distribution credited on principal.....	\$ _____
Other credits	_____
Total credits.....	71.81
Balance of principal still owing on note.....	53.19
Amount of stock now outstanding and credited to your account.....	\$125.00

This statement shows exactly what your share in the financial income of the company amounts to for 1935. Dividends are not distributed primarily to stockholders only, according to stock owned in the company, but are being distributed on an equal prorata patronage basis, based upon the amount of business you brought to the gin. You are the sole contributor of, and the chief factor determining the amount of distribution which this company pays to you. It is your gin. The gin crew has worked consistently and faithfully to operate the plant efficiently and economically. The cotton producers have cooperated exceptionally well during our first ginning season. The board of directors have given generously of their time, effort, and experience, without pay, to advance the best interests of the gin company.

I, the undersigned, an owner of common stock in the Corpus Christi Farmers Gin Company, hereby agree to waive my rights to a dividend on said stock for the year 1935, for the following consideration: **First**—In consideration of the agreement by the gin company, duly authorized by the board of directors, and by the membership, to waive all interest for the year 1935 on the note which I owe the company for stock purchase price, and, **Second**—In consideration of the patronage refund by the gin company to me for 1935, which shall be credited on the principal of my note above described, it being distinctly understood that this agreement is binding only for the year 1935 and none other.

Appreciatively yours,
Corpus Christi Farmers Gin Co.,
By Lamar Folda, Manager.

Member-stockholder

2. Patronage Statement of Haskell Cooperative Gin Company for Season Ending March 31, 1936

To: John Doe

Landowner: John Doe

Share: $\frac{1}{4}$

The purpose of this statement is to show you the basis upon which your distributions were calculated and to show your exact interest in the financial income from your first year's operations. After deducting from this income all expenses, depreciation, and reserves, there is a dividend surplus for distribution. According to the charter and by-laws, distributions are made on stock not to exceed eight per cent. The remaining dividend surplus is distributed on an equal pro rata patronage basis, regardless of stock owned or membership. This year your entire distribution will be credited on your stock purchase note as a payment on principal. If your distribution is more than the amount of your note, the difference will be paid in additional shares of the common stock.

Stock Distribution

Since your stock dividend would exactly equal the interest on your stock note, it has been agreed by the directors that for this year no stock dividend will be paid and no interest will be charged on your note. All distributions will be on a patronage basis.

Patronage Distribution

Profits, or losses, are made at a gin from such departments of the business as ginning seed cotton, bagging and ties sale, cotton seed sales, lint cotton trading, and other commodities. Therefore, your distribution from a department is determined by the amount of business you do with that particular department. On this basis, the calculation of your patronage distribution follows:

You ginned 55,600 Lbs. of seed cotton at 40¢ per 100 Lbs.,	
distribution is 15¢ for each 100 Lbs. ginned.....	\$ 83.40
You sold 19,100 Lbs. of cotton seed to the gin, seed	
distribution is 23¢ per 100 Lbs. sold to gin.....	43.95
You bought 28 patterns of bagging and ties, bagging	
and ties distribution is 40¢ per pattern.....	11.20
Other commodities.....	Distribution.....
Your total patronage distribution from above department is.....	\$138.55
You sold the gin 14,030 Lbs. of lint cotton on which	
there was a loss from handling of 37 points per pound. Deduction is.....	51.91
Your total net patronage distribution is.....	<u>86.64</u>
If one-fourth of this distribution is due to a landowner other	
than yourself, his rental share is.....	21.66
Three-fourths of the entire distribution due to you is.....	64.98

Stock Note

The original amount of your note, payable to the Haskell Cooperative	
Gin Co., for subscription to 20 shares of common stock at par of \$5	
per share was.....	\$100.00
Net distribution credited on principal.....	\$.....
Other credits.....
Total credits.....	64.98
Balance of principal still owing on note.....	35.02
Your credit balance toward additional shares of Common Stock is.....	\$.....
Amount of stock now outstanding and credited to your account.....	\$100.00

The success of our first year's operations is the strongest evidence of the splendid cooperation and loyalty of the members and patrons. The directors have given generously of their time and experience for the advancement of your interest. The crew has worked faithfully to give you the best service and operate your gin economically.

I, the undersigned, an owner of common stock in the Haskell Cooperative Gin Co., hereby agree to waive my rights to a dividend on said stock for the year 1935, for the following consideration: First: In consideration of the agreement by the gin company, duly authorized by the board of directors, and by the membership, to waive all interest for the year 1935 on the note which I owe the company for stock purchase price, and, Second: In consideration of

the patronage refund by the gin company to me for 1935, which shall be credited on the principal of my note above described, it being distinctly understood that this agreement is binding only for the year 1935 and none other.

Haskell Cooperative Gin Company
By J. A. Bynum, Manager

Member-Stockholder

3. Patronage Statement of Howard Co-Op Gin Co. for Season Ending _____ 194_____

To: Landowner: Share:

The purpose of this statement is to show you the basis upon which your distributions were calculated and to show your exact interest in the financial income from your year's operations. After deducting from this income all expenses, depreciation, and reserves, there is a dividend surplus for distribution. According to the charter and by-laws, distributions are made on stock not to exceed _____ per cent. The remaining dividend surplus is distributed on an equal pro rata patronage basis, regardless of stock owned or membership. This year your entire distribution will be credited on your stock purchase note as a payment on principal and interest. If distribution is more than the amount on your note, the difference will be paid in additional shares of your stock.

Stock Distribution

The directors declared a Stock Dividend of _____ per cent to all Stockholders as of record _____, 194_____.

Patronage Distribution

Profits, or losses, are made at a gin from such departments of the business as ginning seed cotton, bagging and ties sales, cotton seed sales, and bale cotton. Therefore, your distribution is determined by the amount of business you do with that particular department, and below your patronage distribution is calculated as set out:

You ginned _____ Lbs. of seed cotton at _____ per 100 Lbs.
 Distribution is _____¢ for each 100 Lbs. seed cotton ginned \$ _____
 You left _____ Lbs. of cotton seed at the gin, seed distribution
 is \$ _____ per ton on seed left at the gin \$ _____
 You bought _____ patterns of bagging and ties, bagging and ties
 distribution is _____ per pattern \$ _____
 Other Commodities _____ Distribution _____ \$ _____
 Your total net patronage distribution from above department is \$ _____
 Your Stock Dividends at the rate of _____ per cent amount to \$ _____
YOUR TOTAL PATRONAGE AND STOCK DIVIDEND AMOUNT TO \$ _____
 If one-fourth of this distribution is due to a landowner other
 than yourself, his rental share is \$ _____
 Three-fourth of the entire distribution due to you is \$ _____

Stock Note

The original amount of your note, payable to the Howard
 Co-Op Gin Company, for subscription to
 Common and preferred stock was \$ _____
 Interest on your note _____ 194_____,
 amounted to \$ _____
 Total amount of note and interest \$ _____
 Less: Your net patronage and stock distribution \$ _____
 Balance of principal still owing on note \$ _____
 Amount of stock herewith issued to you \$ _____
 Your credit balance toward additional shares of
 Common - Preferred Stock is \$ _____

The success of our year's operation is the strongest evidence of the splendid cooperation and loyalty of the members and patrons. The directors have given generously of their time without pay, and experience for the advancement of your interest and they have served you unselfishly and given much of their valuable time so that each and every patron would receive fair and just treatment. The manager and crew have worked faithfully to give you the best service and operate your gin economically.

It has been a pleasure for us to serve you as your Board of Directors this past year and the spirit of cooperation that has existed is indeed indication of the willingness of the members to further the interest of the Company for each one's financial, as well as moral advancement. It is necessary that each one cooperate in the future as in the past year to make this organization one of real benefit to the farmers of this community.

Board of Directors of
HOWARD CO-OP GIN COMPANY

By _____
W. R. Woods, Secretary-Treas.

4. McKinney Co-Operative Gin Association for 1940 Season

To _____

Your gin has completed its third year of operations. This has been a very good year as you will observe from the statement. Your Board of Directors and Management have endeavored to handle your business in a careful and economical manner. Your loyalty to your organization has made this a successful year.

A total of 2,075 bales, or 3,082,788 pounds of seed cotton, have been ginned, and 1,330,495 pounds of cotton seed have been handled for all patrons. Out of the Net Earnings for the year, your Board of Directors has declared a dividend to each patron in proportion to the amount of business furnished the gin by him.

The Cash has been used to pay on the Indebtedness, so no cash Dividend is being made, but a Dividend and Stock Ledger has been set up and your account in this Ledger has been credited with your portion of this Dividend.

Below is shown the amount of business furnished the gin by you and how your Dividend is figured:

You Ginned _____ pounds of seed cotton and your	
dividend at 4¢ per each hundred is.....	\$ _____
You sold to Gin _____ pounds of cotton seed and your	
dividend at 25¢ per hundred is.....	\$ _____
Your Total Dividend is.....	\$ _____

Since the amount of your Dividend each year is governed, in a large measure, by the volume of business, we ask that you talk to your neighbors and friends and tell them of our organization and solicit their patronage.

Sincerely yours,

Board of Directors of
McKINNEY CO-OPERATIVE GIN ASSOCIATION,
By E. H. Bush, Manager