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THE GROWER-CONTROLLED POOL OF THE CALIFORNIA RICE GROWERS

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Among current endeavors to improve agricultural conditions through better marketing methods, the experiment of the rice growers of California seems to hold so much promise as to deserve careful attention. The extent to which the marketing methods of the rice growers could be adapted to other commodities, particularly grain, is problematical. However, since rice like wheat and barley is sold on world valuations, methods which have proved adequate for rice may conceivably contribute something that is useful to the improvement of methods for marketing other grains.¹

The history of rice in California may be briefly stated. In 1908, Mr. Charles E. Chamblis of the Office of Cereal Investigations was sent to California to experiment on the possibilities of commercial rice growing.² Later the Biggs Rice Field Station was established by the United States Department of Agriculture in cooperation with the Sacramento Valley Grain Association, to carry on further investigations. With this encouragement, 1,400 acres of rice were planted in 1912. As soon as the Sacramento Valley farmer, who had been raising hay and grain, realized that his land could be planted to rice that would bring a larger profit, rice was immediately planted.³ From 1912 to 1917 the acreage increased from 1,400 to 80,000 acres. The peak was reached in 1920, when 162,000 acres were planted and harvested. The normal planting now averages about 100,000 acres.

The Pacific Rice Growers' Association which was formed in 1915 as a cooperative sales agency, early appealed to the rice growers as the simplest and most direct method for disposing of the crop. It was based upon a one-year contract which gave the association exclusive agency powers for the sale of the rice of its members and which reserved to the grower the right to accept or reject all bids on his rice. The system of selling "was equivalent to a public auction" in Sacramento, the natural market for the homogeneous rice district.⁴

¹"To procure the highest possible net returns to California rice producers at this time, the Association must find a market for approximately seventy per cent of our crop outside of Continental United States." President's Annual Report, 1925 Year Book, Rice Growers' Association of California, p. 3.

²Jenkin W. Jones, "Rice Experiments at the Biggs Rice Field Station in California," *U. S. Department of Agriculture, Bulletin 1155*, p. 2. 1923.

³The increase in value of a rice crop over the value of a grain or hay crop was necessarily sufficient to cover much higher cultivation and irrigation costs entailed in the growing of rice.

⁴"California rice is practically confined to the Sacramento Valley. In this valley, it is limited toward the south by the cold winds coming through the gap in the Coast Range, and toward the north by the absence of much suitable land. As a really important crop, it is confined to Butte, Glenn, Colusa, Sutter, Yuba, and Yola Counties. . . . The San Joaquin Valley has suitable land and climate, but not water." Edwin Bingham Copeland, *Rice*, p. 166, 1924.

In 1921, curtailed demand and over-expanded supply brought on by the post-war boom, in combination with excessive rains, which had injured the quality of the 1920 crop, caused a partial collapse of the Association. The rice growers attributed a large share of their difficulty to the unstable form of their marketing organization. They called in Mr. Ralph P. Merritt, an experienced business man, and gave him ample power as President and General Manager to reorganize the association. The new or present association organized as "The Rice Growers' Association of California," with a five-year grower's contract to insure permanency for a more centralized management. It was based on the ownership of the land, and any owner of land who joined the association automatically marketed all rice through the association at any time the land produced rice.⁵ District associations and a system of district field agents were to maintain points of contract between the grower and the association.

One of the questions facing the new management was the advisability of an orderly marketing plan whereby predetermined parts of the crop would be put on the market at certain intervals. The officials of the new association reasoned that such a system was impracticable because the association could not control a sufficient proportion of the total supply to influence the market, even were all the California crop controlled.⁶ The policy of the old association of leaving the decision of when to sell to the grower was, therefore, incorporated into the new arrangement, the association making the point that the grower could market his rice in an orderly fashion if he should so desire.⁷ The new arrangement made no attempt to pool the crops of various members, but provided that each member's rice should be sold as a separate lot. The title was to pass from the member to the association, but simultaneously the member of the association was to retain "the right to fix in his contract, and to have the option of later modifying, the minimum price which he would accept for his own rice."⁸ The association was to receive bids for each specific lot of rice, and whenever the highest bid represented a fair value upon world market conditions and met or exceeded the mini-

⁵ Approximately seventy-five per cent of the rice land was thus signed up. The Association has had some annoyance on account of lessees farming lands belonging to members, claiming that they were not bound to market their rice through the Association. A new clause in the marketing contract has been suggested to remedy the difficulty. *Market Letter*, Rice Growers Association of California, January, 1925.

⁶ President Merritt later stated, "It was necessary to set up fundamental principles which could guide an industry merchandising a commodity which represented less than one-half of one per cent of the world's market values. . . . Therefore, price fixing had no place in the program of selling the rice crop, since there was no monopoly and since the crop must move upon values fixed by world movements." *First Annual Report*, Rice Growers' Association of California, July, 1922.

⁷ In the March, 1922, *Association Grower* bulletin the statement was made that "as a matter of general policy, it is usually wise to divide one's holdings into three or four parts and sell portions at different times in order to obtain the average range of the market."

⁸ Each member upon the delivery of his rice has the right to name the minimum price he will take for his crop, and later to change the minimum upward on ten days notice, and downward on immediate notice. *Third Annual Report*, July 1924, p. 4.

mum fixed by the member for that lot of rice, the association was to sell, the rice to be delivered from the warehouse where it was located.⁹

Before the formation of the new association, the old association had set up a "rice exchange" at Sacramento, where bids and offers could be made. The new association retained and perfected this exchange. All rice millers and dealers who assented to the rules of the Rice Growers' Association were invited to become members of the Exchange.¹⁰

The procedure of selling as it has been worked out, now appears very simple. Since the owner of each sample has the privilege of determining the minimum price that he will accept, only that rice that has a price set by the grower in the range of the demand prices for that day is displayed for sale. Table samples of these rices, drawn by a representative of the association as soon as possible after the rice has been warehoused, are made available for inspection from 8 a. m. to 1 p. m. on sales days, which at present occur at stated intervals during the selling period. The sealed bids of the dealers are submitted to the association not later than 1 p. m. The bid is either confirmed or rejected, depending upon the relation of the price offered to that set as a minimum by the grower. Should the bid be accepted, the buyer fills out a sales contract which provides the terms of the agreement, a description of the lot of rice, its price and quality, and its method of delivery.¹¹

A marketing program of this nature rests upon the theory that the seller will be able to sell to his best advantage on a free competitive market, and clearly depends upon two factors. First, it is necessary that the grower know world valuations of rice and that he act intelligently on this information. Second, it is essential that the grower be able to secure advances on his crop so that the financial pressure of his operating expenses will not force him to dump his crop indiscriminately on the market. Both of these factors have received attention. The growers have been informed upon all phases of the rice market and the problems faced by the association, through a member bulletin service and market letter which secures for the membership the latest and most reliable statement of supply and demand conditions at present available. The market letters are based upon market information gathered from the trade and from association research upon the rice industry. In this work the association has had

⁹ *First Annual Report, 1922*, p. 5.

¹⁰ The most important stipulation of the association rules dealt with the purchase of non-association or disputed rices. The rules stated "Members hereof shall not purchase non-association rice on 'warehouse receipt' or 'round,' or upon sample with grading more favorable to the seller than those currently in effect on this Exchange."

¹¹ "Delivery is taken as soon as practicable after purchase. Payment in full is made at time of delivery. If delivery is not taken within fifteen days after purchase, two-thirds of the selling price becomes due and payable and the full amount becomes due at the expiration of twenty days." *1925 Yearbook, Rice Growers Association of California*, p. 5.

the assistance of frequent reports on rice in foreign markets, published by the Department of Commerce.¹²

In 1923, President Merritt, in his report to the members of the association, made the following statement on the success of the policy. "The past year's experience of this association, with almost no carry-over and with conspicuously accurate absorption of all favorable price peaks, indicates that our members only required a source of adequate information, interpreted and condensed to meet their needs, and an unflinching distributive channel through which they might act, in order to supply soundly, for the most part, the sales decisions of the rice each produced."¹³ The 1924 report further asserted that "the success of the 'minimum' system is based upon the regular weekly market letters which continuously inform the members accurately upon the condition of markets and the opportunity for sales."¹⁴

The financing of the rice grower has likewise been satisfactorily cared for. At first this was done through the War Finance Corporation, whereby under the security of warehouse receipts the association was enabled to borrow for the grower \$1.25 for each bag of one hundred pounds of paddy rice, and latterly through the established banking system.¹⁵ The use of an assignment order system makes it possible for the grower to secure loans of banks and merchants before harvest or delivery by assigning the proceeds of the crop.¹⁶ The procedure of the association in handling assignments is explained as follows by the present president of the association, Mr. E. L. Adams:

"The assignment orders are forwarded to the office and listed in the order in which they are received. The duplicate copy is retained by the association and the original returned to the assignee, showing the amount of outstanding assignments against the rice in question. When a loan is secured against the grower's rice all assignment orders are paid from the proceeds of the loan. If there is a balance after the payments of assignments, it is forwarded to the grower. If the loan does not pay the assignments in full, then the balance of the assignments are paid when the rice has been sold."¹⁷

Although the association has not attempted to develop a standardized product in the manner of other California cooperatives who are organized on a commodity basis, it is the attitude of the association that "by selling each lot separately, on a minimum fixed by the grower, and by the analysis and dissemination of information relative to prices

¹² *Third Annual Report*, Rice Growers Association of California, July, 1924, p. 4.

¹³ *Second Annual Report*, Rice Growers Association of California, July, 1923, p. 6.

¹⁴ *Third Annual Report*, Rice Growers Association of California, July, 1924, p. 4.

¹⁵ Not all growers are able to get financial assistance to enable them to hold for the best prices. To accommodate these growers, the association borrows from the Federal Intermediate Credit Bank. Warehouse receipts are given as security providing they are issued by a warehouse operating under either the State or United States Bonded Warehouse Act. Advances for the 1924 crop were made at the rate of five per cent, and were limited to \$1.50 per bag of one hundred pounds. *1925 Yearbook*, Rice Growers Association of California, pp. 4-5.

¹⁶ "More than \$1,500,000 of these orders passed through the hands of the association for the year ending June 30." *1925 Yearbook*, p. 5.

¹⁷ Personal letter, December 20, 1924.

which various types and differing qualities have brought, there is being built up an understanding of the economic worth of carefully produced and expediently selected types." This policy has caused the standardization work to be considered one of the most important parts of the marketing system, and only recently, after much experimentation, have standard grades been established that are fairly satisfactory.¹⁸

Lots of rice are now sold on the basis of samples drawn by employees of the association. It is assumed, however, in selling a sample that the lot represented by the sample contains some superior and some inferior grades, and that the quality of the lot cannot be shown accurately by one grade. For that reason a "deduction and elimination schedule" has been developed to assist in adjusting such differences. A confirmation of the association's grade on all samples used as a basis of sale or adjustment is secured through a California State Department of Agriculture paddy rice inspection certificate.¹⁹

In summing up this brief study of the marketing methods of the Rice Growers' Association, of California, it is necessary only to point out their simplicity and directness.²⁰ The crop, although dependent upon a world market, is marketed in the locality in which it is grown, in a way to insure each man a price based upon the value of his product under world-wide conditions. The Rice Growers' Association, of California, does not attempt to control the acreage, or to fix the price, except under exceptional circumstances,²¹ but attempts rather to encourage a product worthy of a good demand and to market it with a method calculated to secure the highest return to the grower.

¹⁸ Interview at association offices with Mr. Fagan, Sales Manager, Sacramento, December, 1924.

¹⁹ *1925 Yearbook*, Rice Growers Association of California, p. 10. Also, see p. 9.

²⁰ This paper has considered only those arrangements essentially distinctive of the rice marketing system. Other functions of the association which are concerned jointly with the marketing and production of rice, are found in provisions for blanket insurance rates, seed distribution, labor policies, and supply purchasing.

²¹ Prior to the 1924 harvest the demand for rice was strong, tempting growers to sell for future delivery. The association did not wish to have growers sell at prices lower than warranted by supply and demand conditions, so fixed an association minimum of \$3.00 per hundred pounds on all bids that would be accepted by members. In this way the rice buyers were forced to pay a fixed price for the future commodity.