



Credit as an influence upon trade center patronage patterns in central Montana  
by Earl B Peterson

A thesis submitted to the Graduate Faculty in partial fulfillment of the requirements for the degree of  
MASTER OF SCIENCE  
Montana State University  
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**Abstract:**

The objectives of this study were (1) to determine present market and patronage patterns, (2) to find out why -people went to one center over another, (3) to record the frequency of visits and distances traveled to various trade centers, (4) to determine if any differentiating characteristics existed for farm or ranch operators who patronize small or large trade centers and (5) to determine if credit usage, or availability has any influence upon trade center patronage patterns.

A six-county area in Central Montana was selected as the survey area and interviews were made with 243 farm, and ranch operators, Data is presented in tabular and descriptive form to show the influence of Lewistown, Billings and Great Falls as well as smaller centers upon patronage patterns and marketing patterns of residents in the survey area.

Some degree of influence is felt to exist between the availability and use of credit and patronage patterns in general. It was not determined which was the causal factor however. Credit is used by all types and sizes of farm and ranch units. The most frequent use of credit is for farm or ranch business including real estate, machinery or equipment purchases and production items. Nearly as many families utilized credit for family consumption items.

Rural trade centers once relied upon isolation for their patronage from agricultural units. Accessibility was the primary reason for going to one town rather than another. Improved transportation and communication systems as well as changing needs of farm and ranch families have caused patronage patterns to shift from accessible rural centers to more diversified larger urban centers. People now trade at a town because it is a good place to buy or sell and not because of distance alone.

Small towns and small farms or ranches are facing problems of increased competition and ultimate survival. This study was designed to measure the extent to which larger centers were presently serving the needs of farm and ranch people—the same people who previously patronized the small rural trade center.

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PATRONAGE PATTERNS IN CENTRAL MONTANA

by

Earl B. Peterson

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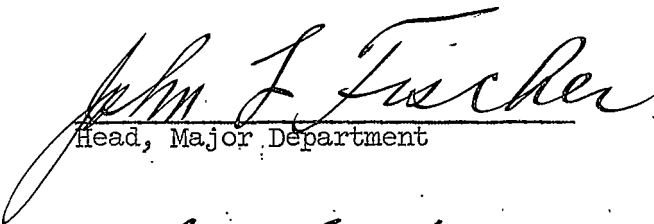
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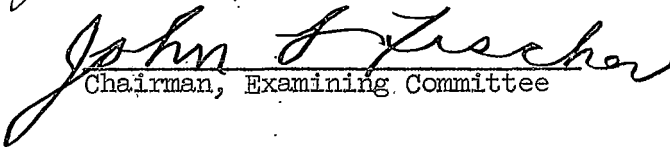
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## ABSTRACT

The objectives of this study were (1) to determine present market and patronage patterns, (2) to find out why people went to one center over another, (3) to record the frequency of visits and distances traveled to various trade centers, (4) to determine if any differentiating characteristics existed for farm or ranch operators who patronize small or large trade centers and (5) to determine if credit usage or availability has any influence upon trade center patronage patterns.

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Rural trade centers once relied upon isolation for their patronage from agricultural units. Accessibility was the primary reason for going to one town rather than another. Improved transportation and communication systems as well as changing needs of farm and ranch families have caused patronage patterns to shift from accessible rural centers to more diversified larger urban centers. People now trade at a town because it is a good place to buy or sell and not because of distance alone.

Small towns and small farms or ranches are facing problems of increased competition and ultimate survival. This study was designed to measure the extent to which larger centers were presently serving the needs of farm and ranch people--the same people who previously patronized the small rural trade center.

## CHAPTER I

### Introduction

The technological revolution in agriculture has characteristics of both a blessing and a curse. In general, the agricultural sector has become increasingly productive. For example, "Today, one farm worker... produces enough food and fiber for 27 people, compared with 14 in 1947-49." 1/ The increase in productivity has been accomplished at the expense of a rapid change in the structure of agriculture, both in size and number of farms along with accompanying changes at the community level. The economic and social import at the community level is of major interest to those concerned with the welfare of the rural sector of the national economy. At the farm level, financing the improved seeds, feeds, breeding livestock, better and more abundant fertilizers, insecticides, herbicides, larger more efficient machinery or specialized equipment, expanding land acreage, building improvements or additions, often presents problems. In addition to the problem of financing new technology, prices of farm products are declining while prices of farm purchases are rising. Since 1947 farm output has increased 33 percent, farm production costs have climbed 63 percent, gross farm income has increased 18 percent, but realized net farm income has dropped 25 percent. 2/ The result is that within a relatively short period of time, agriculture has become one of the higher-capital-using industries with average investment in production assets per farm worker in 1962 of \$23,259 and the average investment per farm of \$47,632. 3/

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1/ United States Department of Agriculture, Upswing in Rural America, Washington, D. C., March, 1963, p. 30.

2/ Ibid., p. 31.

3/ Ibid., p. 30.

As farming becomes a higher-capital-using industry, more credit is being utilized. Leaders in the field of agriculture are pointing up the increasing use being made of borrowed capital or credit. Dr. Robert Tootell, Washington, D. C., Governor of the Farm Credit Administration, has stated that: "Agricultural debt in the nation has increased more than three times since World War II. <sup>4/</sup> (See Table I) However, the ability of the agricultural sector to secure the needed capital has often not kept pace with the need. The result is that marginal productivity of capital appears to be greater than its cost, reflecting capital rationing. In the words of a group who undertook an extensive review of this problem:

"Studies dealing with farm adjustments throughout the United States indicate that capital is a crucial limiting factor which prevents farm operators from obtaining desirable returns for their management, labor and investment". <sup>5/</sup>

The farmer in order to progress or even survive in modern agriculture must find credit in the amounts and on terms and conditions he requires. Frequently this means looking for credit outside of his home community. A shift in patronage for one vital service from the home community to a larger center is likely to result in a shift in patronage for other goods and services. The impacts that changing capital and credit needs and shifts in patronage patterns have upon the small rural trade centers is of major concern in this study.

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<sup>4/</sup> Better Farming Methods, October, 1962, p. 12.

<sup>5/</sup> E. L. Baum, Howard G. Diesslin, and Earl O. Heady, Capital and Credit Needs in a Changing Agriculture, Ames, Iowa, The Iowa State University Press, 1961, p. 4.

TABLE I. COMPARATIVE BALANCE SHEET OF AGRICULTURE, UNITED STATES, JANUARY, 1, 1940, 1950, 1960 and 1962. \*

Item	1940 (Billions)	1950 (Billions)	1960 (Billions)	1962 (Billions)
<b>Assets</b>				
Real Estate	33.6	75.3	130.2	138.0
Nonreal Estate	15.2	40.4	51.6	51.7
Financial Assets	4.2	15.9	17.9	17.8
Total	53.0	131.6	199.7	207.5
<b>Claims</b>				
Real Estate Debt	6.6	5.6	12.3	14.2
Nonreal Estate Debt	3.0	5.2	10.6	11.6
Commodity Credit Corp.	.4	1.7	1.2	1.9
Total	10.0	12.5	24.1	27.7

\* Source: United States Department of Agriculture, Agricultural Finance Review, Volume 23, Supplement, Economic Research Service, Farm Production Economics Division, Washington, D. C., December, 1962, p. 69.

Rural population of the United States has changed little in total since 1930. The dramatic change has been in the percent of rural population compared with the total population. (See Table II.)

TABLE II. COMPOSITION OF RURAL POPULATION, 1930, 1940, 1950 and 1960. \*

Year	Farm (Millions)	Nonfarm (Millions)	Total (Millions)	Percentage Farm
1930	30.5	23.3	53.8	57
1940	30.5	26.7	57.2	53
1950	23.0	31.2	54.2	42
1960	15.6	38.4	54.0	29

\* Source: United States Department of Agriculture, Upswing in Rural America, Washington, D. C., March, 1963, p. 29.

Of the 38.4 million rural nonfarm people counted in 1960, about 10.4 million lived in places with less than 2,500 population and the remaining 28 million resided in the open country. 6/ Between 1950 and 1960, most towns under 2,500 lost population.

Another significant point to consider is composition of the rural population. Rural people aged 60 to 69 outnumber those who are 20 to 29. In urban areas, people aged 20 to 29 exceed those aged 60 to 69 by 64 percent.

The combined factors of increasing age of rural people, decreasing number of farms, increased size of units, and much improved transportation systems have created a problem for many of the small rural trade centers. These rural centers are largely dependent upon farm income for their survival.

#### The Problem Situation

Trade centers originated because of the surrounding rural population. Farm people needed a central point at which to market their production and from which they could get necessary supplies and fundamental services. Since roads were generally poor and transportation meager, distance was a limiting factor. Historically, rural people have traded at the most convenient center. C. J. Galpin states that "accessibility seemed to be the largest factor in determining the regular trade center for any farm home" in his original studies dealing with trade areas and community concepts. 7/

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6/ Ibid., p. 29.

7/ C. J. Galpin, The Social Anatomy of an Agricultural Community, Wisconsin Agricultural Experiment Station, University of Wisconsin Research Bulletin 34, 1915.

Later studies began to show that trade centers were undergoing change. Changes in transportation and communication made significant impacts upon rural communities. C. E. Lively made a study in Minnesota where the importance of these two factors on the reorganization of rural life was measured. <sup>8/</sup> Generally the results indicated that increased use of communications and better methods of transportation would result in: (a) A realignment in rural living processes, techniques and loyalties, both economic and social, (b) a regrouping of farms and the rise of larger units and (c) the decline and disappearance of many smaller centers and service agencies whose chief basis of existence was found in isolation. <sup>9/</sup>

Another analysis dealing with retail services and merchandising indicated that larger trade centers were taking advantage of higher living levels of farm families to draw trade away from smaller rural centers. <sup>10/</sup> The size of the trade center and the quality and variety of services offered was felt to be an important aspect of the problem.

"Farmers are not satisfied with incomplete trading services. Sometimes the dissatisfaction is expressed openly, but more frequently it is shown by the farmer's shopping trips to a larger center or by his patronage of a mail-order house." <sup>11/</sup>

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<sup>8/</sup> C. E. Lively, Growth and Decline of Farm Trade Centers in Minnesota, 1905-1930, Minnesota Agricultural Experiment Station, University of Minnesota, Bulletin 287, 1932.

<sup>9/</sup> Ibid.

<sup>10/</sup> H. Bruce Price and C. R. Hoffer, Services of Rural Trade Centers in Distribution of Farm Supplies, Minnesota Agricultural Experiment Station, University of Minnesota, Bulletin 249, 1928.

<sup>11/</sup> Ibid.

As a follow-up to the work started in 1910 by C. J. Galpin in Wisconsin, J. H. Kolb restudied the same area in 1958 and reported his findings in the book, "Emerging Rural Communities." <sup>12/</sup> Kolb studied 12 centers in an effort to isolate the dispersion of patronage and marketing by the people of the open country. He identified farm families, location and names of villages and where the family went for eight services: (a) banking, (b) dry goods, (c) groceries, (d) sales of milk, (e) high school, (f) church, (g) library and (h) weekly newspaper. The findings indicated that family loyalties to community trade centers tended to break down; patronage was spread among several centers rather than concentrating on the nearest one as observed by Galpin. <sup>13/</sup> Trade centers as studied by Kolb tended to specialize in the type of services offered. This aided them in maintaining sufficient business volume providing a neighboring center did not specialize in the same service.

Conditions in the Great Plains region intensify the situation which small trade centers are facing. The problem has been narrowed to one of ultimate survival in some cases. Original settling of this area was done via crudely drafted and improperly adopted homestead laws. Walter Prescott Webb writes in "The Great Plains" that:

"It is not too much to say. . . that no law has ever been made by the federal government that is satisfactorily adopted to the arid region." <sup>14/</sup>

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<sup>12/</sup> John H. Kolb, Emerging Rural Communities, Madison, Wisconsin, The University of Wisconsin Press, 1959.

<sup>13/</sup> Galpin, op. cit.

<sup>14/</sup> Walter Prescott Webb, The Great Plains, New York, New York, Grosset and Dunlap, 1931, p. 399.

Several attempts were made at establishing a base for homestead sizes. Provisions were made in various laws for units of 100 acres up to areas 10 miles square. Further efforts reduced the tract size to 640 acres and then 320 acres. In 1804 the law reduced land size to 160 acres. This was again changed in 1820 to 80-acre tracts.

"When viewing the land laws from 1789 to 1862, the date of the passage of the Homestead Act, we see two tendencies operating: The first was a tendency to reduce the price of land; the second, a tendency to reduce the size of the tract offered for sale." 15/

Possibly the most significant point regarding settlement of the Plains region is that one proposal was made which would have been suited to semi-arid conditions. Webb reports on the famous, "Report on the Lands of the Arid Region of the United States", by Major John Wesley Powell. 16/ Some of the more important features of the Powell report as presented to Congress in the form of a bill follow.

1. The land unit in the irrigation district was not to exceed 80 acres; the land unit in the pasturage district was to be 2,560 acres.
2. In either case the settler was to be permitted to take land under the Homestead Act (that is free)--80 acres in one case and 2,560 acres in the other.
3. In both cases water for irrigation was to inhere in the land, and title to water was to pass with title to land. The irrigation homestead was to have water presumably sufficient to irrigate the whole farm or as much of it as might be agreed upon by members of the district; but the pasture homestead holder was not permitted to irrigate more than 20 acres. In either case, if the water should not be utilized within five years, right to it and to the land should lapse.

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15/ Ibid., p. 403.

16/ Ibid., p. 419.



4. The rectangular system of surveys was to be abandoned, and the settlers of the district were to be permitted to parcel the lands themselves. The land would be in such shape that each person would have access to water, and with the rectangular system this could not be done.
5. Incidentally, in connection with the parceling of lands according to topographic basins and not by the rectangular system, Major Powell asserted that practically all values inhered in water in the arid region.

The influx of settlers onto the Plains region called for establishment of trade centers. Business centers grew up around the post office, trading post, the depot and the grain elevator. Neighborhoods began to take shape, and communities were organized. The basic function of the trade center was to service the outlying rural population. Many communities had their beginning in the homestead era only to see almost immediately the decline of population, enlargement of land holdings, better transportation available and competition from larger or more serviceable centers.

Trade centers are heavily dependent upon agricultural income. In the Plains region the rural towns must not only compete among each other for the patronage of agriculture but they have the task of dealing with specialized risks and hazards which are part of the Great Plains make-up.

It is a semi-arid region, with fertile soils and inconsistent rainfall. As Carl F. Kraenzel states in his book, "The Great Plains in Transition",

"The Plains. . . are not semi-arid in that the climate is halfway between humid and arid. They are not half dry and half wet; rather, some years they are dry and even arid; other years they are very wet; and still other years they are wet or dry at the wrong times from the standpoint of agricultural production and yields." <sup>17/</sup>

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<sup>17/</sup> Carl F. Kraenzel, The Great Plains In Transition, Norman, Oklahoma, University of Oklahoma Press, 1955, p. 12.

Other characteristics of the Plains region which make agriculture a hazardous occupation include great fluctuations in weather conditions, the social cost of space, lack of good alternatives for agricultural income and great distances from markets and industrial production centers.

Finally another critical problem in light of today's demands upon agricultural inputs is the fact that the Great Plains is considered to be a capital short region. The financial centers are outside the Plains. Sources of capital and credit to support agricultural investment are an important factor in this vast land. Availability of this input could be expected to influence patronage patterns in trade centers within the region.

#### The Research Problem

Central Montana has the characteristics typical of much of the Great Plains region. The types of agriculture predominant throughout the region are expressed here namely as livestock, grain, and livestock grain combination units. It is an area in which: (a) many homesteads were taken, (b) numerous rural trade centers were established, (c) transportation facilities were rapidly improved, (d) distance was a factor in trade center selection and (e) a choice existed between small, rural centers and larger, urban centers for goods and services.

Table III shows the story of numbers of units and size of farms and ranches in Montana.

TABLE III. SIZE AND NUMBER OF MONTANA FARMS AND RANCHES, 1945, 1950, 1955, 1960. \*

		1945	1950	1955	1960
Farms	Number	37,747	35,085	33,061	28,957
Average Size	Acres	1,557	1,689	1,859	2,214

\* Source: Cooperative Extension Service and Agricultural Experiment Station, Montana Agriculture Basic Facts, Montana State College, Bozeman, Montana, Bulletin 293, June, 1962, p. 28.

Numbers of units have decreased from 37,747 to 28,957 or 23.3 percent. Sizes of units have increased 29.7 percent from 1,557 acres to 2,214 acres. The larger sizes through economies of scale have partially enabled the operators to maintain income levels. Improved technology would account for the remainder.

Population of towns in Montana also reflects the fewer yet larger farm and ranch units. Table IV shows the various changes in population for trade centers in the Plains area of Montana.

TABLE IV. POPULATION IN THE PLAINS COUNTIES OF MONTANA LIVING IN INCORPORATED PLACES AND OUTSIDE INCORPORATED PLACES, 1930 AND 1960. \*

	1930	1960	% Change
Total Number	314,714	387,358	23.1
Urban Places	85,153	179,079	110.3
Centers 1,000-2,500 population	22,304	35,566	59.5
Outside Incorporated Centers	207,257	172,713	-16.7

\* Source: Harald A. Pedersen, Montana's Human Resources, Montana Agricultural Experiment Station, Montana State College, Bozeman, Montana, Circular 231, September, 1960, p. 3.

Urban places or centers with 10,000 people or more numbered 15, and in the three decades more than doubled their population. Twenty-one trade centers were included in the 1,000 to 2,500 population category, and they had a growth rate of one-half that of the urban centers. Those living outside incorporated centers, which includes farm population, lost population to the extent of 16.7 percent.

Not only are changes in size taking place within towns of Montana, but the age distribution is showing a significant trend. According to Harald A. Pedersen people from age 20 to 34 constituted one-third of the

total population prior to 1910.<sup>18/</sup> The reason for this was that homesteading was at its height in the 1900-1910 decade, and many young men came to Montana to take up homesteads and buy cheap land. In 1960 the population was divided somewhat differently than in 1910. People under 18 years of age now made up 38.6 percent of the total while those over 65 years of age accounted for 9.7 percent. The 18 to 64 years of age group constituted 51.7 percent of the total for the year 1960.<sup>19/</sup> Looking at this in terms of trade center size, Figure 1 presents a descriptive analysis.

Particular attention should be directed toward the composition of small towns (1,000 to 2,500 people) and the open country area. Small towns are retirement towns. The original homesteaders have moved into these towns which they helped establish years ago. On the other hand, the open country has a large number of youth in its total population. This indicates some trends in patronage patterns since a school is of vital concern.

Trade centers in Central Montana are facing several problems in terms of patronage from agricultural units. The size of unit is increasing, but numbers are declining. Improved technology, more reliance on machines and equipment, and increased specialization have altered the types of services required for farm operators. Small, rural trade centers must keep pace in providing these essential service functions or lose patronage. Agriculture in Montana faces a capital shortage, and use of credit is increasing. Competition for patronage in Montana may be influenced by willingness to extend or availability of credit services.

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<sup>18/</sup> Harald A. Pedersen, Montana's Human Resources, Montana Agricultural Experiment Station, Montana State College, Circular 234, June, 1961, p. 5.

<sup>19/</sup> Ibid., p. 8.





























































































































