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PUBLIC AFFAIRS PAMPHLETS

# COOPERATIVES IN THE U. S. —A BALANCE SHEET

BY MAXWELL S. STEWART

Why do people join cooperatives?

Are the cooperatives "socialistic"?

How do the American cooperatives compare with those abroad?

Does the cooperative movement offer a "middle way" for America?

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# COOPERATIVES IN THE U. S.— A BALANCE SHEET

By

MAXWELL S. STEWART

LESS than fifteen years ago a group of farmers in the Middle West, possessing a total capital of $12,500, became weary of paying middlemen profits for gasoline and decided to set up a cooperative gas station. That was in 1925. Today this cooperative is the leading distributor of gasoline and oil in the county. It has done nearly four million dollars' worth of business; its assets are valued at $192,000, and it has paid back to its members more than $375,000.

This is not an isolated example. Consumers' cooperatives have entered the field of big business. Oil cooperatives alone

This pamphlet was prepared on the basis of the Report of the Inquiry on Cooperative Enterprise in Europe, reports of the Farm Credit Administration, the United States Department of Labor, and other data. For bibliography see page 31.

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did over $110,000,000 worth of business in 1937. And cooperatives are no longer limited to grocery stores and gas stations. They have their own wholesale organizations; they have set up their own oil-blending plants and branched out into the distribution of automobile accessories. "Co-op" brand tires and batteries are on sale throughout the country. There are cooperative insurance companies and the rudiments of a banking structure. There is a "co-op" book-buying service. A conservative estimate lists some four thousand societies with a membership of approximately a million.

## The Awakening of Consumers

THE AVERAGE American has but recently discovered the consumers' cooperative movement. A few years ago it was confined almost entirely to the country. The few city cooperatives that existed were operated by Finnish, Swedish and other nationality groups, and were unknown to most persons. Within the last few years much interest has been aroused in cooperation as a possible solution of our economic problems. Books on the cooperative movement abroad have been listed among our best-sellers. Magazines of all types and shades of political opinion have printed articles which, in the main, have been highly optimistic regarding the prospects of the movement. As a reflection of this growing popular interest, President Roosevelt appointed a special commission of inquiry in the summer of 1936 to study the European cooperatives at first-hand. It was asked to suggest what governmental action, if any, would be desirable to promote consumers' cooperation in this country. The report of this Inquiry, published in March, 1937, contains a wealth of information.

## What Are Consumers' Cooperatives?

ON THE outside, a cooperative store looks much like any other. The difference lies in the method of organization. A consumers' cooperative is owned and controlled by those who patronize it—by consumers. It differs from an ordinary stock corporation in that each member has one vote and only one vote, regardless of the amount of capital which he has invested.

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In a private business the profits are passed out to the shareholders in proportion to the amount of stock which they hold. In a cooperative the savings resulting from joint action are given back to the members—after paying a fixed rate of interest on the capital—in proportion to the amount which they spent for purchases.

How do "co-ops" get started? They are not normally organized from outside. They usually start simply. A few persons may start by pooling their buying in order to save money on large purchases. Later they may decide to expand by setting up a regular store. Or they may proceed immediately to establish a formal organization under the laws of the state. Stock or membership is sold to raise capital. Once the capital is raised, a store is rented, a manager employed, and a stock of goods laid in.

# WHAT THE COOPERATIVES OFFER

## Money Saving

PEOPLE join cooperatives for a number of reasons. Most of them are interested in saving money. Consumers' cooperation offers a method by which the profits of retailing, and frequently of wholesaling as well, can be saved for the consumer. The idealism behind the cooperative movement makes consumers willing to put in extra effort to get the goods, thus avoiding some of the costs of competitive distribution. Advertising and showy store fronts, for example, are unnecessary.

## Quality

OTHER persons are interested in the cooperatives chiefly as agencies for improving quality. The single consumer is almost helpless in the selection of most goods. Grading and labeling are often of little help. A survey by the Consumers' Advisory Board of the N.R.A. revealed that "U. S. No. 1 Cheese," which the ordinary consumer might consider the best quality, is actually a third grade. Above it are "U. S. Fancy" and "U. S. Extra Fancy." "Fancy" apples, on the other hand, are the highest grade, while a "Fancy" broom is second grade. "A 1"

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sounds reasonably good, but it is the lowest grade for silverware. And despite the efforts of the government to improve the grading situation, little actually has been achieved.

Cooperatives can afford to set up a mechanism for testing, and have sufficient bargaining power to insist on quality. Even where there is no money saving, the member of a "co-op" has a right to expect higher quality.

### A Yardstick

SOME join cooperatives because they feel the need of protection against monopoly prices of some large distributors. They look upon the cooperatives as a sort of yardstick by which the true costs of distribution can be measured, and as a means of holding prices down.

### A New Society

BUT A LARGE number of the members of the cooperatives look on their enterprise as something more than a store. To them "user ownership" represents the ideal form of social organization. They see even in the smallest of these stores the beginning of a new society based on the ideal of human cooperation. "Each for all and all for each" is the accepted motto. Some of the leaders go so far as to predict that the time will come when the cooperatives will have squeezed out all business based on profits. For them cooperation is a peaceful alternative to revolution as a method of attaining a more just and equitable economic system. It is not, however, a political movement. Republicans, Democrats, and Socialists are equally welcome as members of the cooperative societies.

## THE COOPERATIVE MOVEMENT

### Origins Abroad

THE CONSUMERS' cooperative movement is by no means a recent development. We find records of primitive consumers' societies as far back as 1769, when the Fenwick Weavers had such an organization near Glasgow. In the 20's of the 19th century, Robert Owen, a noted manufacturer and reformer,

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became interested in some cooperative societies. But the real fathers of the movement are usually held to be a group of 28 weavers who opened a store in Rochdale, England, in December, 1844.

The weavers had just lost a strike. They had virtually no money and few prospects. But they resolved to put aside a few cents each week until they had enough to start a store. In the course of a year they saved $140. With this as a start they rented the ground floor of an old warehouse in Toad Lane and opened a shop for trade on Monday and Saturday nights. This society is not only still in existence, but it has grown far beyond its founders' dreams. The original shop has been restored and serves as a Mecca for students of the movement. But it could not begin to house the present business. After 90 years of activity, the Rochdale society had 44,000 members and an annual business of around $3,300,000. In all it had turned back $19,500,000 in consumers' dividends.

The English cooperatives established their own wholesale society as early as 1863 and a banking department in 1872. The bank alone had assets of approximately $500,000,000 in 1937, while the share capital of the retail societies amounted to $750,000,000. The retail societies alone handled more than a billion and a quarter dollars worth of business in 1938—being about 10 per cent of the total retail trade of the British Isles. They had made a total savings of $150,000,000, of which $120,000,000 was returned to consumers in dividends on purchases.

## Present World Strength

COOPERATION is much stronger abroad than in the United States. The International Cooperative Alliance, which includes agricultural and industrial producers' societies, agricultural credit organizations, and cooperative banks as well as the consumers' cooperatives, has affiliates with a membership of more than 70,000,000 in 38 different countries. It is estimated that these cooperatives do about 20 billion dollars worth of business annually. Five countries reported business of more than $100,000,000 each. Outside of England and Scotland, where there are more than 8,000,000 members, the movement

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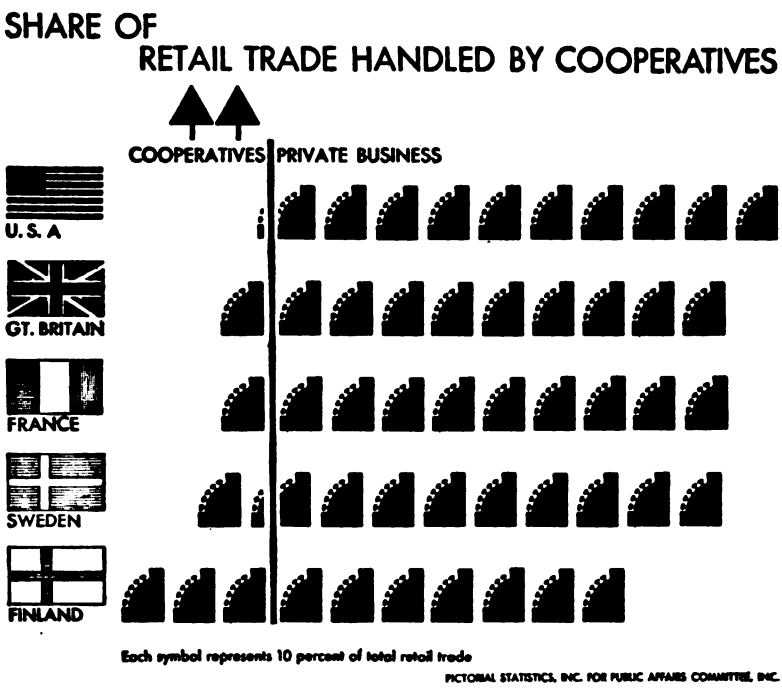
is strongest in the Scandinavian countries—particularly Finland, Sweden, Denmark—and in the Soviet Union.

The consumers' cooperatives of Finland handle about 30 per cent of the country's retail trade. No other country, except possibly Iceland, quite equals this record, although 12 per cent of the Swedish trade, 10 per cent of the British, French, and Danish trade, and from 10 to 12 per cent of that of




Switzerland flows through cooperative channels. The Danish societies control 17 to 20 per cent of the trade in articles dealt in by cooperatives.

Largest in membership and in trade of all the cooperative organizations is that of the Soviet Union. At the end of 1936, the Soviet consumers' cooperatives had a membership of 39,000,000 and did a business of more than 20 billion rubles. This was roughly half of the total retail trade in the country districts. The Soviet cooperatives are in a special category and can scarcely be compared with those in other countries.

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The city cooperatives have been absorbed into the state machinery of retail distribution, but in the country they retain their independence. The Soviet cooperatives are members of the International Cooperative Alliance and the International Cooperative Wholesale Society.

## SWEDEN

The Swedish cooperatives have been distinguished primarily by their successful struggle against price fixing by monopolies. Ordinarily, the cooperatives have sold their goods at regular prices and returned the savings to the members. In Sweden, however, it was found that this practice permitted the large trusts to fix prices as high as they wished. Consequently, the Swedish cooperatives have established prices somewhat lower than those which prevail in the private shops, and permit members and non-members alike to benefit by these prices. This means that the dividends returned to members tend to be somewhat smaller than in other countries, but the savings to consumers are probably higher. The achievements of the movement in restraining prices were acknowledged by a Swedish government commission appointed in 1922 to investigate middlemen's profits. The following is quoted from the report:

> It is clear that consumers' cooperation offers a vigorous defense against the tendencies of private trade to combine in order to keep up prices artificially. Many examples could be mentioned where large organizations of shopkeepers have been forced by the cooperative society to scale down their prices—an act which the trade associations . . . would have prevented.

Since 1922 the Swedish cooperatives have had a tenfold increase in productive activities.

## GERMANY

Before the advent of Hitler, Germany had one of the most prosperous and progressive cooperative movements in Europe. Consumers' cooperatives had a membership of more than 3,700,000 families in 1930—nearly one-fourth of the population—and did a retail business of approximately $300,000,000. The Nazi Government forbade the organizations from carry-

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ing on their normal educational activities, and stopped all patronage dividends. It also closed a number of the larger cooperatives and took over their assets. As a result the movement has been hard hit. By the end of 1937 membership had dropped to two million, and the total trade had fallen to less than 500,000,000 marks—a decline of three-fourths since 1929. This was only 1.7 per cent of the nation's trade as compared with approximately 5 per cent in the pre-Hitler period. The German cooperative movement is no longer affiliated with the International Cooperative Alliance, as it does not fulfill the necessary democratic qualifications.

## THE PHILOSOPHY OF CONSUMERS' COOPERATION

ALTHOUGH the cooperatives are business organizations, their strength does not lie entirely in their economic efficiency. The success and persistence of the movement is to be explained in no small part by the appeal of cooperation as a philosophy of life. Our present society, many leaders of the movement point out, is organized primarily on a profit basis. Work is glorified, not because it produces goods for use but because it piles up profits. The trader, the middleman, and the speculator have more prestige than the artisan or the farmer. People are giving their energy, not in doing things which would make life more worth while, but in trying to obtain more money than their competitors.

Cooperation, it is claimed, is based on a much more wholesome philosophy. Attention is concentrated on consumption, on the true business of living. Quality and service are emphasized rather than quantity and profits. A profit economy emphasizes differences and sets group against group. Consumers' cooperatives emphasize the common interest of all consumers. Moreover, since everyone is a consumer, cooperation is a more democratic form of organization. It has the advantage of instructing its membership in the duties and responsibilities of our present-day complex economic organization. Values such as these, cooperative leaders maintain, are much more vital than the saving of pennies.

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## The "Rochdale Principles"

IT HAPPENS that the 28 weavers who established their cooperative at Rochdale nearly a century ago had these ideals and a technique for making them work. Basically, they were more interested in economic freedom than in saving money. With this aim in mind they laid down for themselves a set of basic rules which have come to be known as the "Rochdale Principles," which have generally been accepted by the cooperative movement to this day. Expressed in modern language, these principles might be stated as follows:

1. Membership is open to all who wish to join in good faith.
2. Procedure is entirely democratic—each member has one vote and no more, regardless of the number of shares he may own. There are no proxies.
3. Interest is permitted on capital, but it may not be greater than the legal or current rate.
4. Savings are refunded to the members in proportion to their purchases, or may be used collectively for the common interests of the group.
5. Sales are for cash at market prices.
6. The societies devote part of their "earnings" to educational activities and expansion—with a view to achieving a new economic order.
7. The cooperative movement maintains complete neutrality on political and religious questions.

Most of these rules have been violated at one time or another by organizations calling themselves cooperatives. But in recent years the central cooperative organizations—such as the Cooperative League of the United States of America, and the International Cooperative Alliance—have come more and more to insist on the acceptance of the basic "Rochdale Principles." Exceptions are made, such as we have noted in the case of the Swedish price policy, but in general the acceptance of at least Numbers 1, 2, 3, and 4 is required for all member organizations. Experience has seemed to show the wisdom of the Rochdale pioneers, since most of the organizations which departed from their principles have failed.

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## Cooperation vs. Profit Seeking

By its very nature the consumers' cooperative movement is opposed to monopoly capitalism. It proposes an alternative, but the alternative is neither Socialism nor Communism. Some leaders of the movement make it quite clear that they do not desire state ownership of industry, though they may agree to public ownership of utilities under certain circumstances. They picture a type of society in which the consumers—who include everyone—are in control. Just as wholesale establishments, banks, and factories are now owned and controlled by consumers' cooperatives in England, they think of a society in which all business is consumer-run. The Rochdale pioneers liked this idea because it seemed to mean that everyone would be his own boss. Nowadays it is realized that it does not work out that simply. Our economic organization has to be complex. So some present-day leaders speak of organization through a "body of consumers and producers . . . interdependent with the . . . state." Others believe that the state will decline in importance as cooperation grows.

It is important to notice that the new cooperative society which these men are trying to build would not be brought in by a revolution, nor yet through the ballot box. Like most men, they oppose political revolution because of the destruction which would accompany it. Many of the cooperative leaders belong to the labor parties in countries like England, Sweden, and Denmark. But others have insisted that it was easier to supplant the capitalist system through the competition of the cooperative stores than to try to vote it out of existence. They look upon cooperation as the true democratic answer to existing injustice, and the only way to avoid the pitfalls of dictatorship.

There are still other leaders, however, who feel that cooperation is a reversion to the virtues of early capitalism. It blocks the trend toward monopoly and thus makes for competition. Every member is in a sense a capitalist in that he owns stock in his store and receives "profits" in the form of patronage dividends.

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# CONSUMERS' COOPERATION IN AMERICA

CONTRARY to the usual impression, cooperation is almost as old in this country as in Europe. The Shakers are said to have started cooperative buying as early as 1798, and the Workingmen's Protective Union had a store in Boston in 1845. Between seven and eight hundred consumers' societies were established before the Civil War, but most of these failed or were destroyed in the economic unrest of the period. They reappeared in the 70's and 80's; but during the 90's and early years of this century many of these cooperatives disappeared, victims of the growing wave of industrial expansion, though several hundred—chiefly farm and nationality societies—remained. More than nine-tenths of the existing organizations have been formed since 1920.

It was not until after the World War that the organized cooperative movement really began in the United States. In 1920 a whole series of cooperative enterprises were started. The farm organizations were in their heyday. This year also saw the establishment of a cooperative housing project and a chain of cooperative cafeterias in New York City, the rapid growth of cooperative stores among the miners of Illinois, and the founding of the Cooperative Grange League Federation Exchange of Ithaca. About this time the Cooperative League of the United States of America, which had been founded in 1915, began to exercise influence on the movement, although only a few of the cooperatives were actually members.

## Recent Growth

UNTIL 1934 progress was slow in the cities. Beginning with that year, however, the cooperative movement forged rapidly ahead. The depression taught the American people a new respect for small savings. It also raised doubts about some of the monopolistic features of the profit system, and turned many persons toward cooperatives. The year 1934 also brought new unity to the movement. By the beginning of 1939, the Cooperative League had 15 regional groups as members and there were 7 outside. Nearly 1,800 local associations,

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with over 950,000 patron-members, are represented in the League through membership in the regional organizations. Still outside, however, were far more than half of the total number of the nation's retail societies.

Since the 11th Biennial Congress of the Cooperative League in 1938, three steps have been taken which should insure it a much more active role in the movement than it has shown in the past: (1) Dues in the League have been made uniform for all member organizations on a per capita basis; (2) in order to insure close cooperation between the National Cooperatives, unifying the business activities of the cooperatives, and the Cooperative League, the movement's educational agency, directors of each have been named to the board of the other; (3) the National Cooperatives and the Cooperative League have opened joint headquarters in Chicago. Steps have also been taken for setting up a Washington office.

## Present Strength

ALTHOUGH consumers' cooperatives have been gaining rapidly in the cities in recent years, the great majority of cooperative organizations today are still to be found in farm areas. Most farm "co-ops" concentrate on the purchase of such things as feed, fertilizer, seed, gasoline, oil, baby chicks, articles which the farmer needs to turn out a crop. Some, however, add groceries and articles for personal use. The Farm Credit Administration estimates that 2,600 farmers' purchasing cooperatives, with 900,000 members, purchased $350,000,000 worth of supplies in the 1937-1938 season. This represented a gain of about 10 per cent in business over the previous year. Add to this the supplies bought by the marketing cooperatives, and the total purchases amount to $440,000,000.

The Department of Labor's figures on cooperative activity, covering both city and country, are somewhat lower. The total number of distributive and service cooperatives in 1936 is estimated as 4,100, with 830,000 members and a total business of about $190,000,000. Despite the recession, most cooperatives did more business and had larger earnings in 1937 than in any previous year. Retail business increased about 10 per cent over 1936. The "co-op" wholesales did even better.

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## Patronage Refunds

ABOUT four-fifths of the retail cooperatives reported profits in 1937, while about one-fifth suffered a loss. The oil "co-ops," because of their greater margin of profit, made the best showing and returned the most to their members in patronage refunds. In retail stores the refunds usually were between 2 and 6 per cent. In the oil "co-ops" they ran from 5 to 11 per




cent of the total sales. In 1936 the average refund per member in the stores was $13.42; for the oil "co-ops" it was $13.87. Slightly less than half the cooperatives made refunds. In most of the other "co-ops" the members voted to withhold their earnings so as to provide additional working capital to purchase new buildings or equipment or stimulate educational activities. Cooperative members also enjoyed considerable savings through purchase of "co-op" brand goods rather than the expensive, nationally advertised brands sold in ordinary stores.

Despite the evidences of vitality cited above, particularly in farm areas, even the heartiest supporter of cooperatives

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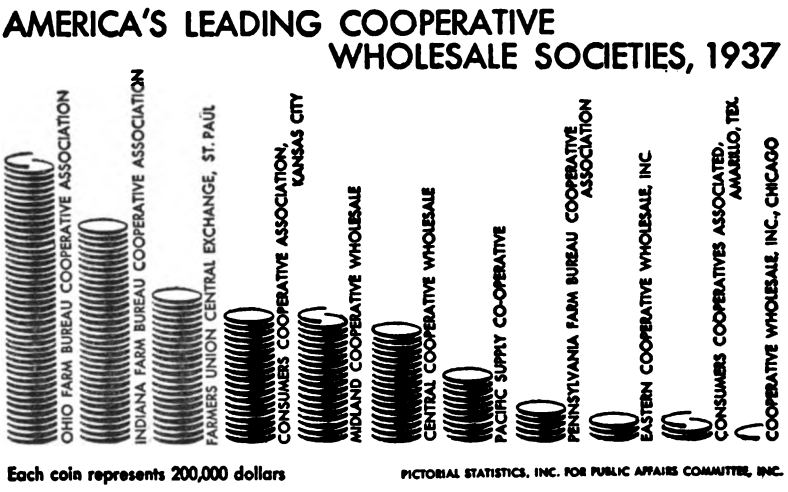
would have to admit that they have not yet fully arrived. We have seen that in countries like Finland and Sweden, the cooperatives do from an eighth to a quarter of the total retail trade. In the United States, the sales for all consumers' cooperatives in 1938 probably did not exceed $500,000,000. Total retail sales for 1938 are not available, but they were 49 billion dollars in 1929. This would indicate that cooperatives are not doing more than 1 or 2 per cent of the total business of the




country. The ratio is much higher, however, for farmers. At least 12 per cent of all farm purchasing is done through cooperatives.

## Why Cooperatives Are Weak in the United States

A NUMBER of reasons have been suggested why the cooperative movement has not flourished in the United States to the extent that it has elsewhere. In the first place, competition is more severe than in some other countries. The American chain store, with its economies of bulk-buying, gives the cooperatives tough competition. This has been offset recently by federal and state price-maintenance laws and anti-chain store legislation which have helped the "co-ops." The cooperatives have also had to cope with advertising in magazines and over

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the radio for certain standard brands which they do not carry. The fact that these brands may be no better than the unbranded articles means nothing until that fact has been demonstrated to a sufficient number of persons. America's standard of living is also somewhat higher than that of Europe's, which may explain why Americans were unwilling, until the onset of the depression, to make the effort necessary to establish cooperatives merely to save a few pennies on every dollar. Not many people stop to realize how quickly pennies add up into dollars.

There have been many other special weaknesses in the American movement. In commenting on the cooperative movement in the early part of the present century, J. P. Warbasse, president of the Cooperative League of the United States of America, writes: "I realize I was associated with as impractical an aggregation of zealots . . . as are recorded in the annals of cooperation; most of the societies that they started failed within two years; but the leaders went to their little stores, carried home bags of groceries which they made themselves believe were heavenly essences, and looked upon their declining business as sputtering fuses about to blow up the citadel of capitalism."

Leaders of the cooperative movement admit that it has been hampered by poor management and internal strife. But they also lay blame on insufficient capital, and the fact that Americans have "little conception of the philosophy and social significance of a consumers' movement."

## Views of the President's Commission

ALTHOUGH THE report of the President's Inquiry on Cooperative Enterprise in Europe indicates that the group as a whole was impressed by the efficiency and strength of the European cooperative movement, individual members of the Inquiry differed somewhat regarding the future of cooperation in this country. While each member of the Inquiry filed a separate report, their views tended to fall into three groups: (1) Two members of the commission were skeptical as to the possibilities of the consumers' movement in this country, though they found clear-cut values in other forms of cooperation; (2) in

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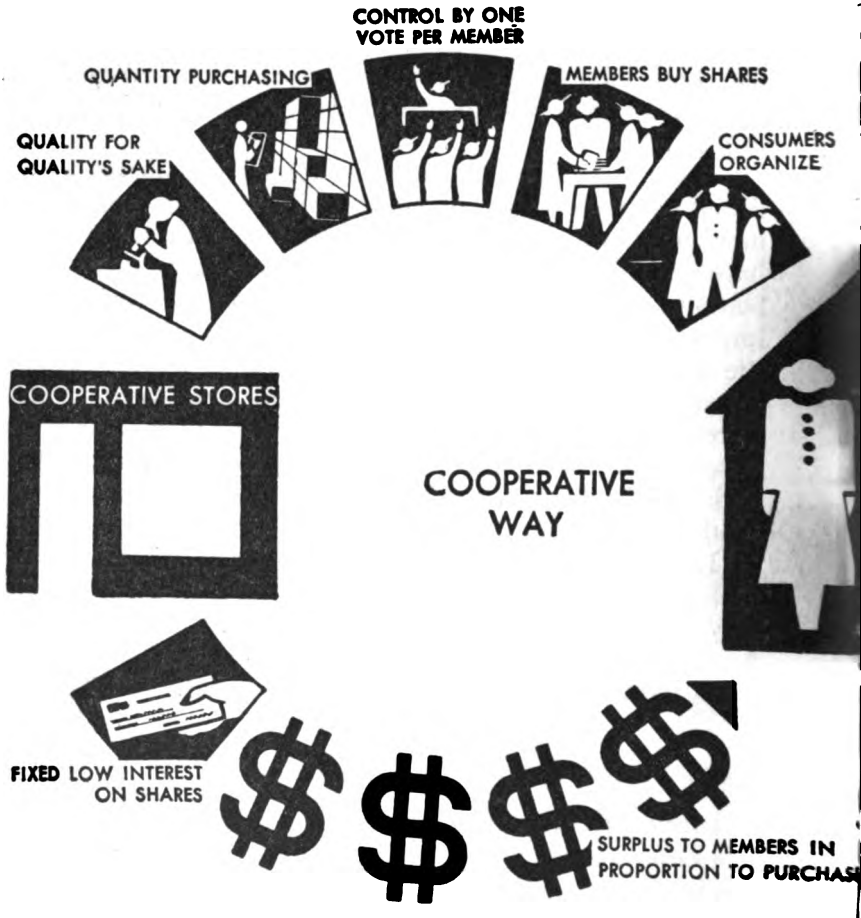
# A CONSUMERS' COOPERATIVE



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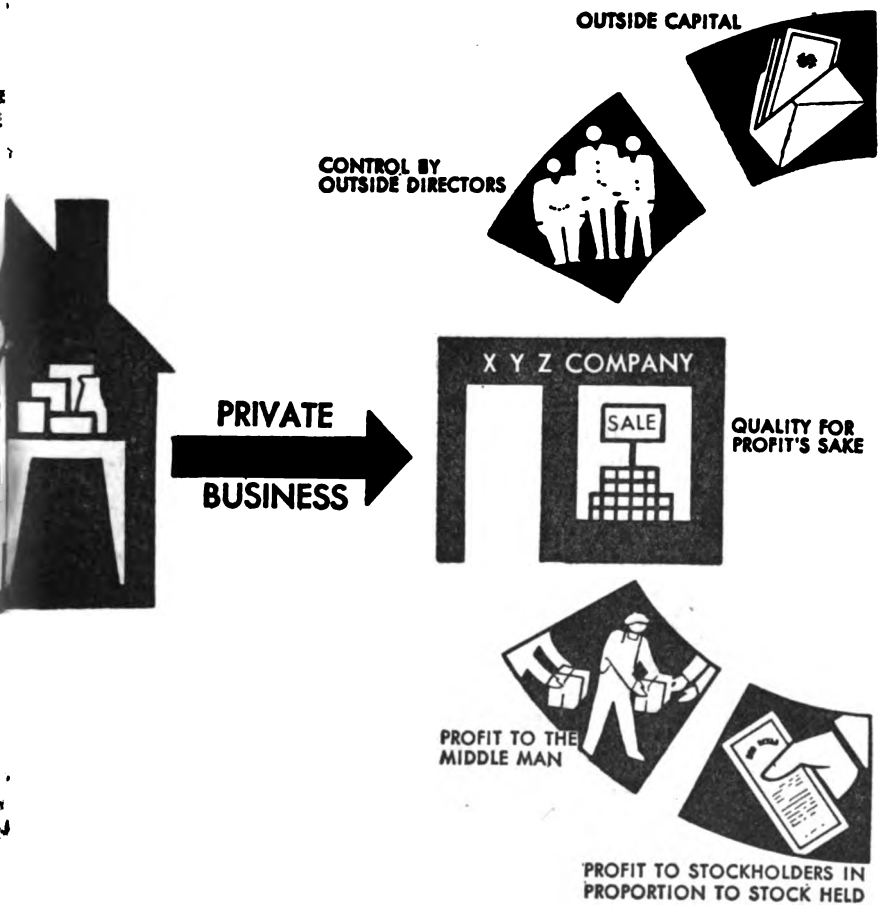
# A PRIVATE BUSINESS

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contrast, one member was fully convinced that consumers' cooperation was of basic importance to the country; while (3) the remaining three members believed that the movement was likely to grow, though they did believe the growth would be at the expense of private enterprise. Each of these positions deserves attention.

## Doubts Regarding the American Movement

IMPORTANT differences undoubtedly exist between the conditions in the United States today and those which prevailed in Europe during the growth of the cooperative movement. The system of retail distribution in Europe is generally inefficient, and in some regions it is almost archaic. The modern chain store was practically unknown during the period when the European cooperatives were making their greatest strides. Even today, "multiple" stores are strong only in England; much of the retail trade elsewhere is in the hands of small, inefficient units which cannot undersell the cooperatives. In the United States, on the other hand, the chain stores have already introduced most of the efficiencies of modern business methods which the cooperatives brought to Europe.

Since competition is bound to be more severe in this country than it was abroad, it is obvious that the movement can succeed only if it can obtain strong popular support. But here again the American cooperatives appear to be under a severe handicap. With a few notable exceptions, most European cooperatives are made up of working-class groups. They serve an important social and educational, as well as economic, function for these groups. In the United States class consciousness is relatively weak. Most American workers do not like to think of themselves as belonging to a fixed class. They tend to be more interested in making money than in saving it, and more concerned with the possibility of personal advancement than of group advancement. Moreover, the American people are not as closely knit as most European nationals, and they move around much more. It is also suggested that our anti-trust legislation and pure food and drug laws, weak though they may be, have removed an incentive for consumer organization. Sweden and several other countries where the

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cooperatives are strongest have no anti-trust legislation, and frankly depend on the consumers' societies to keep prices down.

Finally, the relative weakness of the American movement was felt by some members of the President's Inquiry to stand against it. Most European countries have prosperous central wholesale organizations which are in a position to promote new societies and assist struggling ones. Since savings for each person in this country would be relatively small and all transactions would have to be in cash, it would seem that cooperatives could exist only where the members of the organization were deeply enough interested to make up by enthusiasm and voluntary work the natural handicaps faced by the movement. The observers who take this position do not deny that consumers' cooperation may grow in certain regions in America, or that it may develop any place under especially favorable conditions, but they insist that it is unlikely to approach the European movement in vitality.

## Cooperation—"The American Way"

THESE negative conclusions are strongly challenged by at least one member of the President's Inquiry and are disputed in part by all of the others. The member who takes the strongest position in favor of consumers' cooperation cites figures to show that the American chain store is really no more efficient than its European counterpart, and that cooperatives can undersell the best of them because of the elimination of profits. A survey carried out in 1935 by the International Cooperative Alliance in seven countries showed that the total costs of cooperative stores tended to be from 1.5 to 9.5 per cent lower than in privately owned stores, if profits were taken into account. Even when profits were excluded from the calculations, the cooperatives were shown to be at least on a par with the private stores in efficiency. In England the margin between buying and selling prices was found to be greater in chain stores than in either independent or cooperative stores. The survey cites the American Census of Distribution, showing that costs in American chain groceries averaged 16.9 per cent of the total sales without any provision being made for interest on the capital invested in merchandise, fixtures,

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and accounts, or for profits. When all these items are included, the aggregate costs were about 20 per cent of the total sales. This is exactly the margin in the British "multiple shops," and is very close to that of other European chain stores; the average margin of costs for European cooperatives is approximately 13.5 per cent. A more recent study by the Harvard Graduate School of Business Administration showed the costs of "co-op" food stores to be about the same as for privately owned stores, but that the expenses of cooperative general stores were about 4 per cent less than those of private stores.

Considerable stress is also placed on the stabilizing value of consumers' cooperatives. A leading industrialist in Sweden is quoted as saying: "The large-scale purchasing of consumers' cooperative enterprises places the producer in a position to obtain a fair price while at the same time preventing him from taking advantage of any opportunity to charge an excessive or uneconomic price. It thus results in a just price at which neither producer nor consumer is exploited." It is also pointed out that, despite the allegations of critics, the problem of obtaining capital has been readily solved abroad. In countries where consumers' cooperation is well established, there is a tendency toward an over-accumulation of capital. This capital is not only obtained inexpensively but, as reserves accumulate, much of it is wholly noninterest bearing.

This member of the President's Inquiry felt, moreover, that the spiritual satisfactions of cooperation were fully as important as its economic efficiencies. He held that cooperation assures a greater consideration of human standards in production and distribution, "because consumers have no interest in exploiting themselves as workers." Similarly, it engenders a feeling of social responsibility, and provides the average citizen with a greater understanding of the economic problems of present-day life. Even more important is the movement's contribution toward stabilizing democracy. A number of reasons are listed why cooperation is generally regarded by European statesmen, including many of its enemies, as a "bulwark of democracy." It is wholly voluntary and democratic in its organization, and depends for its growth and existence on the freest of possible competitive conditions. Cooperation has undermined monopolies and restored com-

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petitive conditions in a field where it was rapidly disappearing. In so doing, it has reestablished some of the automatic controls of prewar capitalism, and thus moderated the ups and downs of the business cycle and reduced the demand for violent political change. Cooperatives must of necessity oppose all government regulation; their whole influence is against all types of totalitarian organization. As an embodiment of the American ideal of freedom and democracy, it is urged for consideration "by all seeking to perpetuate the American idea which is today gravely threatened by powerful forces in a rapidly changing world."

## The Middle Ground

THE OTHER members of the commission are agreed that the cooperative movement will grow very rapidly during the next generation. One of them points out, for example, that certain characteristics of modern industry and business—such as chain stores and mass production—have developed to a greater extent in this country than abroad; but that others—including universal tourist and holiday accommodations and cooperatives—happened to get a head start in Europe, and he sees no reason to believe that American cooperatives will not catch up with those in other countries. It is generally agreed, moreover, that the growth of cooperation need not eliminate or even weaken private business. No one can say exactly what functions in our modern economy can best be carried out by cooperation, what ones can best be performed by private business, and what ones can most suitably be discharged by government enterprise. The chairman of the Inquiry, Mr. Jacob Baker, suggests that we may ultimately attain a more or less equal division. For the present, at least, he feels that farming and heavy industry are not suitable for cooperative organization, just as certain other activities, notably the water supply, are not appropriate for private enterprise. On the other hand, he suggests that private business is particularly adapted to those segments of the economic structure where the speculative element is largest, and that government enterprise is well fitted for cases in which security of continued activity is all-essential.

We have noted a number of reasons why consumers' coop-

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eration may have difficulty adapting itself to American conditions. Against these may be placed a number of factors which seem particularly favorable to cooperative development at this time. Farm and labor groups appear to be more active than ever before in sponsoring cooperative groups; many church leaders have given their support; while independent business men who have been squeezed out by the chain stores can be counted on to be favorable to the growth of cooperation. A further fact that works for cooperatives in regions where local feeling is strong is that they, in contrast to the chain stores, tend "to keep money at home" instead of allowing it to be drained off by "outsiders."

## Government Aid to Cooperatives

NO RECOMMENDATIONS were made by the President's Inquiry for government assistance to the American cooperative movement. On the contrary, the members of the group were unanimous in their agreement with cooperative leaders that government aid is unwise, if not actually dangerous. The Secretary of the Cooperative Party of Great Britain told the commission that the cooperatives were the only business in England that did not go to the government for aid during the depression. Elsewhere the picture was much the same. As a rule, consumers' cooperatives have neither asked nor obtained any advantages over the private stores in taxation, although their rebates are commonly exempted from a member's individual income tax. In some instances cooperative education is partially subsidized by the government, and there is general satisfaction with the outcome. Many governments have made special arrangements for extending credit facilities to cooperatives, though the terms are usually no better than those enjoyed by private business.

In the United States, until the past few years, little or no government aid has been given to cooperatives, except as a means of improving the condition of the farmers. Farmers' cooperative groups—provided that the membership is restricted to actual farmers, that at least a majority of the business is transacted with the members, and that the association fulfills other requirements of the Farm Credit Law—can obtain loans under certain terms from the Farm Credit Ad-

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ministration. Associations with the above characteristics are also exempt from the provisions of the Federal Revenue Act of 1928 (income tax law). As many of the farmers' cooperative associations are also consumers' associations, they would also benefit. A measure which would have enabled consumers' cooperatives, not composed of farmers, to borrow money from federal funds, was introduced in a recent session of Congress but never got farther than the hearings' stage.

Again with the idea of aiding the farmer, cooperative electrification associations (which are consumers' organizations) can obtain federal loans at low interest rates under the Rural Electrification Act. About the only assistance which urban consumers' associations have received from the federal government has been in the way of information and educational material.

# OTHER TYPES OF COOPERATION

## Credit Unions

CREDIT UNIONS might be described as baby banks conducted on the same basis as consumers' cooperatives. Members of a credit union buy shares of stock in their bank; in some states they may also make deposits from time to time. The money thus obtained is used to make small, short-time loans to such members as may need them. Credit unions enjoy many advantages over a commercial bank or small-loan society, and are usually in a position to lend much more cheaply. The credit union movement started in this country about 1921 to offset the high interest rates charged by most credit agencies. It has made rapid progress. It came through the depression with extraordinarily few failures. Since 1934 credit unions have been able to obtain federal charters through the Farm Credit Administration. By 1939 there were 6,500 organizations, with more than a million members. Over 3,000 of these unions had federal charters. Although operating in a field which is distinct from the ordinary consumers' cooperatives, the principles of the credit union are similar, and it is not unusual for a group organized as a consumers' cooperative to form a credit union. The two are supplementary.

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## Cooperative Insurance

THE PRINCIPLES of consumers' cooperation have also been applied in the field of insurance. The oldest cooperative in this field—the Workmen's Mutual Fire Insurance Society of New York—dates back to 1872 and now has nearly 70,000 policy holders and over $87,000,000 in policies. The Farm Bureau Mutual Auto Insurance Company, of Columbus, Ohio, ranks as the fifth largest mutual auto insurance company in the country. The Farm Bureau Life Insurance Company has over $24,000,000 of life insurance in force. Over 300,000 policies of various types were written by the cooperative organizations in 1936.

## Cooperative Medicine

CONSUMERS' COOPERATION is being widely discussed as a possible approach to the difficult problem of providing adequate medical care for the American people. Cooperative health associations are already in existence in a number of states. In Wisconsin, a federated plan is in operation in which local retail cooperatives rather than individuals are members. Under this arrangement, medical care is provided for volunteer members of these cooperatives at regular monthly rates. Washington, D. C., has a strong Group Health Association which has been working well for several years. The Bureau of Cooperative Medicine, with headquarters in New York, devotes its attention to the promotion and development of group medicine for the prevention as well as the cure of disease. Although medical cooperatives have been bitterly fought by the American Medical Association, that organization no longer opposes the spread of a semi-cooperative plan for hospital care, widely known as the 3-cents-a-day plan.*

## Marketing Cooperatives

THE MARKETING cooperatives might also be described as an allied movement, although they are often based on principles unlike those of the consumers' movement. At present market-

* For details see Doctors, Dollars, and Disease, Public Affairs Pamphlet, No. 10. Revised. 1938.

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ing cooperatives are more common and more powerful than consumers' cooperatives in the United States. They are to a large degree straight business organizations. Altogether there are some eight thousand of them. While they have decreased slightly in number in recent years, they have gained in size and in the average amount of business carried on.

For years farmers were squeezed by middlemen in marketing their products. Individual farmers rarely have an opportunity to sell their goods directly to the consumer. They do not have time to compare prices in different markets. They have no bargaining power by themselves, and frequently neither storage space nor financial resources to hold their crops for better prices. Consequently, they have found it advantageous to band together in order to sell their products to the best advantage. We find marketing cooperatives among the fruit growers of California, among the cotton planters of the South, among the milk producers of New York and elsewhere, and the grain and livestock farmers. In general they have been successful, and the federal government has made it a matter of policy to encourage and stimulate their growth.

## Producers' Cooperatives

OF QUITE a different order are the cooperative farms. These are genuine producers' cooperatives. In such cases a number of farmers have banded together to run one large farm. Work is shared according to the ability of each man, and the earnings are divided equally. The Farm Security Administration has sponsored a few such projects as experiments.

Producers' cooperatives may also be found in industry, but here the difficulties are much greater because they must concern themselves with the problem of production as well as that of distribution. Comparatively few cooperatively run industries have lasted any length of time. However, the industrial cooperatives are more likely, as is so conspicuously the case in Nova Scotia, to have the same idealistic principles that dominate the consumers' movement. Few of the agricultural marketing organizations profess such ideals. Rarely do they set aside money for educational work or expansion unless, as often happens, they branch out into consumer "co-op" activ-

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ity. Frequently the marketing agencies discard their cooperative features, apart from the name, and become ordinary enterprises seeking profit.

The producers' cooperatives face the same problem as the capitalist producer: that of finding someone to buy their goods. Here the consumers' cooperatives have an advantage. They start with an assured market. When they establish factories, they are usually prepared to purchase the entire output.

# RELATED MOVEMENTS

## Consumers' Testing Organizations

ALTHOUGH not directly linked with the cooperative movement, consumers' testing organizations such as the Consumers Union of the United States have aided the movement to a considerable extent. They test the goods of both cooperative and private organizations and thus stimulate the cooperatives to place greater emphasis on quality. In making people more conscious of their role as consumers, they have undoubtedly helped in the growth of the cooperative movement.

## "Co-ops" and Labor

WE HAVE seen that the Rochdale experiment was started by workers. In most countries the cooperative movement has derived its strength chiefly from organized labor and farmers. It is only natural, therefore, that it should ally itself with the trade unions on many matters. Higher wages normally mean greater consumer buying-power, and a strengthening of the consumers' movement. Both movements represent an effort, through collective bargaining, to eliminate or reduce profits in our economic system.

But the cooperatives are also employers. In Great Britain no less than 336,000 men and women are employed by the various consumers' organizations. In the United States there are at least 10,000. This naturally raises difficulties. In Britain about half of the employees are members of the National Union of Distributive and Allied Workers. In the United States there is now no strong general union for cooperative

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employees. Many workers have joined unions affiliated with the C.I.O. or A.F. of L. Cooperative employees have protested from time to time because they have had no share in management. A cooperative is subject to democratic control as far as its members are concerned, but its relationship to its own workers is of necessity similar to that of a profit-making enterprise. Cooperative leaders point out that the worker in a cooperative-owned industry has the same right as anyone else to a control in the management through membership in a consumers' cooperative. In some countries employee-members are eligible to minority membership on the board of directors of the consumers' societies. But the cooperatives have always insisted that the control remain in the hands of the consumers, for it is the consumers' interests that are being served in production for use. As workers, it is agreed that the employees should have every protection through independent trade unions. A resolution was adopted at the 1938 Congress of the Cooperative League of the U.S.A. recognizing the right of cooperative employees to organize and bargain collectively and calling upon labor to recognize the unique position of the cooperative movement in making its demands.

In Great Britain and certain other countries there is a Joint Committee by which all disputes are arbitrated which has apparently worked out satisfactorily. It is claimed that wages in the industries owned by cooperatives tend to be somewhat better than in corresponding private industries, but the evidence on this point is fragmentary, except in a few countries where cooperatives are exceptionally strong. In the United States the problem of the employees is complicated by the lack of a strong trade union movement in the retail field.

## Political Organizations

IN MOST COUNTRIES the cooperative movement has maintained a strict political neutrality. This was true in Great Britain until 1918, when a Cooperative Party was established to safeguard the interests of the cooperative movement against postwar discriminatory legislation. About two-thirds of the cooperative membership are enrolled. In 1935 the Coopera-

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tive Party elected nine members to the House of Commons. It has always worked closely with the Labour Party and has opposed the National Government, particularly on tariff policy. In Denmark the cooperative organizations will blacklist any candidate known to be inimical to their interest, but they are not affiliated with any particular party.

The experiences of the cooperative movement in Germany have caused some leaders of the cooperative movement to modify their attitude toward politics. Previously they had argued that politics were unimportant; that the cooperative economy would gradually swallow up the less efficient profit-making economy. Not much attention was paid to Mussolini when he gradually absorbed the cooperatives into the machinery of the state. The movement had never attained full roots in Italy. But Germany was one of the show countries of consumers' cooperation. Practically one-fourth of the families of the country were members of retail cooperatives. Wholesale cooperatives, owned and controlled by the retail shops, operated 46 factories in 1930. The membership was thoroughly steeped in the principles of cooperation. Yet within a period of six years the movement has been all but destroyed. Educational activities have long been suspended, and many of the stronger establishments have been taken over by the all-embracing state. A political movement, backed by terrorist methods, has undone much of the painstaking, gradual development of decades. The Austrian movement suffered a similar fate in 1938, as did the Czech societies in 1939.

These experiences have compelled the movement to abandon its traditional political neutrality as far as Fascism is concerned. Since the German, Austrian, and Italian organizations have become virtually a part of the state mechanism, they have been excluded from the International Cooperative Alliance. The notion of all power to the state does not fit with that of consumers' sovereignty. In Spain, the National Union of Cooperative Societies offered, as early as July 20, 1936, to aid the Republic in its battle against the fascist uprising. Although this meant a temporary suspension of the normal functioning of the cooperative societies, the action was sympathetically recorded in the official organ of the International Alliance. Those societies have now all been destroyed.

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The president of the Cooperative League, J. P. Warbasse, does not share the general cooperative position on Fascism. In the introduction of the 1939 Cooperative League Yearbook Dr. Warbasse urges complete neutrality and non-resistance toward Fascism lest the cooperative movement be destroyed as it has been in Germany, Italy, and Spain. Dr. Warbasse's position on this issue has received no support from other cooperative leaders.

## "Co-ops" and Socialism

THE RELATIONSHIP between the cooperative movement and Socialism is somewhat complicated. While the goal of the two movements is in some ways similar, there are important differences in philosophy. Socialism makes for an expansion of governmental activities; cooperation makes for fewer such activities. Socialists are, as a rule, willing to concede that consumers' retail societies might have a place, as they do in the Soviet Union, in a socialist state. They usually insist, however, that the control of industry should be by producers rather than consumers. Some of the leaders of the cooperative movement, on the other hand, look upon government ownership as a somewhat dubious compromise with the ideal. Despite these doctrinal differences, many Socialists, as well as members of other parties, are active members of cooperative societies.

## Cooperatives Not a Panacea

A PRIMARY weakness in the cooperative movement from the point of view of practical, realistic Americans is to be found in the tendency, noticeable among some of the more enthusiastic supporters, to regard voluntary cooperation as a cure-all for our social and economic difficulties. In the past many such persons have tended to ignore other progressive movements in the belief that the consumers' movement offered the only method of eliminating all of the unjust features of our present-day society. This type of fanaticism, which has long held back the American movement, is apparently on the wane. Recent developments in Europe have shown the folly of believing that the cooperatives can gain power without arousing opposition. As the state grows in strength, politics becomes increasingly important. The future may show that the cooperatives have

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been wise in avoiding partisanship, but it is at least an open question whether or not they have erred in spurning all political activity.

In general, the consumers' cooperative societies have been most successful in the distribution of food, and—in this country particularly—in the sale of gasoline and oil, fertilizers, feed, seeds, and other supplies for farmers. Their success in the grocery field may be attributed to the fact that a relatively small number of families are required to support a food store and food is a universal necessity. In the case of oil, fertilizer, feed, and seed, the cooperatives had the advantage of competing with monopolies which had deliberately tried to peg prices at uneconomic levels, and benefited from the fact that the farmers were already banded together in producers' units. There are other services, however, in which many economists feel voluntary cooperation to be out of the question. This would apply particularly to the railroads, the water supply, or the utilities, where overlapping would be extremely undesirable. For such services, "obligatory cooperation" through public ownership or control would seem more logical. Where a large amount of capital is required, as in the steel and automobile industries, consumers' cooperation would be extremely difficult under any circumstances. The cooperative idea becomes more difficult to apply, moreover, in the case of large department stores where tens of thousands of consumers are involved. True democratic control is essential for the integrity of the movement, but this becomes difficult if the organization is too unwieldy. When a consumers' organization reaches the point where democratic control ceases to function, it becomes almost indistinguishable from any other large corporation. Educational activities are constantly necessary to keep the democratic ideal alive.

Given efficient management and a solution of its labor difficulties, we may expect the cooperative movement to undergo a rapid growth in the United States. The widely advertised idea that it represents a "middle way" between Communism and Fascism appears to have captured the imagination of large sectors of the population that had previously shown little interest in cooperation. Nevertheless, many people will doubtless remain hostile or indifferent. Small

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merchants and business men are likely to oppose the cooperatives even though it is not clear that existing merchants have ever been seriously injured by cooperative enterprise. The wealthy will not be interested because the savings will seem relatively unimportant. And it will prove difficult to enroll any considerable number of the very poor, despite the fact that cooperation would mean more to them than to any other group. Many of this class have been so demoralized by poverty that they have no desire to save and no knowledge of how to go about it. Finally, there will doubtless be large numbers of middle-class Americans who will not wish to break from their established habits of consumption. The difficulty of getting participation from these groups may prevent the complete fulfillment of the cooperative ideal. But it will not prevent its growth. The movement has already demonstrated tremendous vitality, and has shown that within certain areas—yet to be fully defined—it meets a genuine need.

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Further information on cooperatives may be had from the Cooperative League of the U. S. A., 167 West 12th Street, New York, N. Y.

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