

# COOPERATIVES: CONSUMER OR PRODUCER?

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THE great difference between Cooperatives and Corporations is the difference between economic democracy and economic dictatorship. Cooperatives are usually constituted on a "one share, one vote" basis, and no individual is allowed to possess more than one or two shares; so that in theory all shareholders have equal influence. It is hardly necessary to point out that the ownership of a share or two in a corporation usually implies no such thing.

But it is not generally appreciated that there is a gulf just about as wide between the two common forms of cooperatives, between the consumer and the producer types of such organization. The purpose of the first is always to supply goods to its members as cheaply as possible, eliminating profits or rebating them according to purchases: the purpose of the second is to sell the goods of its members to the best possible advantage. Their aims are thus diametrically opposed. Naturally, in view of the economic condition which has prevailed for many years, under which the seller usually goes looking for the buyer, the consumer type of cooperative has a tremendous advantage. Experience shows that the great consumer cooperatives of Europe have been definitely far more successful in achieving their aims and objects than the innumerable producer cooperatives of Canada and the United States. Every degree of combination among buyers gives them added purchasing power. But no such power accrues to sellers, simply because they have combined. They must still meet the prices at which competitors are offering their product.

Nor can there be any point in attempting to make a contact between producer and consumer cooperatives. For instance, a few years ago, when the Canadian Wheat Pool—having almost a monopoly of Canadian wheat on the British market—attempted to keep up the price above the world price, the English Wholesale Society, probably the world's outstanding cooperative and the largest millers of wheat in England, was very indignant and bought its wheat elsewhere. Successful cooperatives cannot permit sentiment to interfere with business.

A producers' cooperative is of value in assembling a primary product, packing it uniformly, storing and shipping it to better

advantage than would be possible if its members acted individually. In other words, it takes the place of a "dealer" or assumes the function of a middleman. If it is an efficient and well managed organization, it is a great asset to the membership, saving for them the middleman's profit. If it is not efficient and well managed, it is a liability to the membership, involving them in what would have been the "dealer's losses." Such an organization, even though well managed, starting without capital, often fails to acquire any, so that it continues to operate under the handicap of a large overhead which nullifies much or all of the advantage otherwise secured.

Unfortunately, probably the larger number of producer cooperatives in Canada and the United States are more or less in this position, and many have become badly involved financially, so that they have "folded up," like the Canadian Wheat Pool, or have been reorganized many times like the *Associated Growers of British Columbia*, the *Sun Maid Raisin Growers* or the *California Orange Growers*.

In fact the fertile valleys of the United States and Canada are strewn with the wrecks of cooperatives which were floated on a high tide of enthusiasm and expectation worked up by high pressure oratory, glowing promises and the support of government agencies. It is extremely important for the members of a cooperative to know what they can, and what they cannot, hope to achieve.

To paraphrase Professor Mears, lecturer in Cooperative Marketing at Leland Stanford:

Cooperation as applied to the sale of farm produce is not a panacea. It is not magic; not a cure-all for the deficiencies of our economic system; not a way of escape for the inefficient or marginal farmer; not a charm against misfortune or bad judgment; it does not affect the Law of Supply and Demand, and bitter experience has proved that it cannot raise prices.

In view of all this, it is rather difficult to understand the attitude of government officials, the press, the clergy and publicists generally, who seem under the impression that they are bound to be ardent supporters of any producers' cooperative to be mooted in their sphere of influence. It is significant that no word of warning is ever uttered as to the shoals which may lie ahead. In the latest government publications on the subject, both in Canada and in the United States, there is not even a reference to the fact that cooperatives are not always successful, and organizations long defunct or inactive are often still quoted as though they were actively carrying on.

On the other hand, consumers' cooperatives, curiously enough, seem to get little share of this advertisement.

One of the oldest and most successful of Canadian cooperatives is the *United Fruit Companies of Nova Scotia*. It has handled a large proportion of the Nova Scotia barrelled apple business for twenty years, and has never been forced to reorganize,—although, of course, there are plenty of critics in the trade who say that it should have been.

It is significant that this organization is also, in large part, a consumer cooperative. It not only packs and sends forward apples—mostly on consignment—it also buys supplies for its members. In this field it handles large quantities of flour and feed and fertilizer, chemicals for spraying, farm machinery and packing supplies. In cheapening costs to the farmer, this cooperative has rendered magnificent service to the communities which it serves. As a collective purchasing agency, it acquires the power to buy at the lowest prices. On the other hand, it is extremely doubtful if it has ever been able, in any degree, to influence the market price of apples. While very often it has been able to save a dealer's profit for the rank and file of its membership, its handling charges have been sometimes a little higher, and perhaps quite often it has passed along to its members a loss that otherwise a dealer would have assumed.

It may be that the popularity already referred to, of producer cooperatives, is due largely to the much cited example of Denmark. Of course the term "producers' cooperative" is almost synonymous with "farm cooperative." We hear so much about Denmark in this connection that we hardly dare to dispute the thesis that we can repeat the rural achievement of that country if only our farmers will duplicate her cooperatives. Any such reasoning is based on a promise containing only a germ of truth. For example, cooperatives did not give Denmark her supremacy in the butter markets of the world, although they helped her to attain this position.

A single illustration should make this obvious. The latest Danish figures credit the average cow with a production of 8000 lbs. of milk per year. Most recent Canadian figures place the yield of the average Canadian cow at 4000 lbs. of milk per year, and the record for American cows is approximately the same. Now, no marketing system on earth can squeeze any profit out of a 4000 pound cow. Conversely, under the usual competitive marketing system, an 8000 pound cow will return a profit to any good farmer. This really tells the whole story. High production is

the key to Danish agricultural well being, and most commentators miss the point when they place all the emphasis upon marketing. Production comes first. Cooperation in Denmark is not so much a cause as a result. The movement grew out of the forces which have carried agriculture, in that country, to a level which sets a high mark for the rest of the world, but it did not initiate those forces.

Not very long ago I discussed with a friend an impending lecture by a noted Dane. The friend was interested primarily in cooperative marketing, and expected the Dane to devote his talk to this subject. I said "I'll bet he hardly mentions cooperative marketing."

I was right. The lecturer probably never realized that he was expected to devote most of his time to this topic. For he was primarily interested in *adult education*. Anyone who visits Denmark cannot fail to be impressed with the fact that in outlining the development of rural life in his country, the well informed Dane goes back beyond the rise of the cooperatives, to Bishop Gruntvig and the "Movement" he began, a movement which is very inadequately expressed by the term "folk-schools."

It was much more than that. It was a renaissance, an agricultural revolution parallel to the industrial revolution in England, and a religious revival, all rolled into one. One recalls that a few generations ago Europe was in the economic doldrums, exhausted after devastating wars. Denmark was even worse off than many of her neighbours, for she had been deprived of Holstein-Slesvig, the richest part of the country. England abolished her corn laws and tariffs, and grew prosperous, thanks to her industrial revolution. But Denmark had no coal, no resources, no riches. Only her soil and climate, and a miserable agriculture! Then the movement attributed to Bishop Gruntvig was born, a desperate effort of an impoverished people to make the best of what they had. The seeds of modern Danish agriculture were sown at that time, and out of the movement cooperative marketing was a natural, almost an inevitable development.

One gets the idea that present Folk-Schools in Denmark are but a pale memory of what those early schools must have been. They taught the Danes to be better farmers many, many years before their competitors, some of whom on this side of the Atlantic are still a couple of generations behind, struggling with cows yielding 4000 lbs. of milk per year.

It is well to remember that the first cooperatives in Denmark were of the consumer type. Group buying is a natural corollary

of community effort. And the Rochdale weavers had long set them an example. The business started by those poor workers of Manchester in 1844 has grown to be one of the largest in the world, with a turnover last year of \$400,000,000 and numbering among its membership the heads of nearly every second family in England. Yet even that "other half" in England probably associate the term "co-operation" with Denmark rather than with the C. W. S. of the *Cooperative Wholesale Society*. This illustrates the curious point already referred to, the tendency to advertise producers' cooperatives and ignore consumers' cooperatives. These last seek to eliminate profit. But the members of producer organizations have no quarrel with the profit system. True, they expect the organization to make no profit upon its service in handling the commodities delivered to it, although they do expect the cooperative to sell such commodity at a price which will return a profit to them for growing it.

But the consumers' cooperative wants to eliminate profits all along the line, since its whole object is to supply the wants of its members as cheaply as possible. So ultimately such an organization reaches out, not to make a contact with a producers' organization, but actually to become a producer itself. Thus the C. W. S. own and operate thousands of acres of farm land in England; they own farms and elevators in Western Canada, and thousands of acres of tea plantations in the East. They own their own bacon factory in Denmark, their own trawlers and fish-curing premises in England. They are the largest millers in England, and besides they operate 139 miscellaneous factories. In short, this powerful cooperative does not seem to make a practice of meeting producers' cooperatives; on the contrary, it eliminates them.

But in spite of their success in Europe, consumer societies have never made much headway on this side the Atlantic. Most of the cooperative effort has taken the form of producer societies, and the launching of these has been showered with the blessing and good will of pulpit, press and government officials. Consumer societies have been the "Cinderellas" of this economic phenomenon. They go their way unhonoured, unsung and unadvertised. There are many thousands of such organizations in Canada and the United States, and in a modest way perhaps most of them are proceeding successfully.

However, in many European countries these organizations virtually dominate the retail trade. They were even very powerful factors in the economy of such countries as Russia, Italy, Spain and Germany, in the days gone by, when those nations were more

orthodox. Hence it strikes one as being rather curious that the movement has never made any really important contribution to the economic fabric on this continent.

But this is not really surprising. A little thought on the subject brings one to the conclusion that consumer cooperatives are based upon a mode of life quite other than that which has characterized America in the past. The elimination of any profit motive, for instance, is rather foreign to its conception. Sticking together in groups, for the sole purpose of keeping somebody from making a profit on the sale of herrings or bacon, betokens a class consciousness and habit of domestic economy generally lacking in the New World, where people do not feel that they are bound to stay in any place, in any class or in any category.

And there are as many other factors as there are points of difference in the modes of life of Europe and America.

Recently an anonymous writer in a current magazine described the experience of a study group in a small city, who suddenly became imbued with enthusiasm for the idea of consumer cooperatives. They studied the movement as it has grown abroad, and they analyzed its possibilities at home. They decided they were all for it, and began to discuss organizing.

Then new points began to crop up. They realized that the idea would not be as popular with the merchants of the town as they might wish. The young lawyer of the group realized that some of his best clients would resent his participation in the scheme; the young minister began to wonder what the big grocer who was his leading parishioner, and the leading contributor to his church, would say; the teacher began to consider how he would stand with the schoolboard and the good solid conservatives of the community, if he were to take an active part in assisting the formation of such a society. And the upshot was that each declined to take the initiative. Such a group really wanted to have their cake and eat it too. They wanted to retain their fatter-than-European salaries, ignoring the fact that these were made possible by those very profits they talked of eliminating.

It is not among such people that the British Cooperative Societies find their chief support. It would probably be found that a very large proportion of the membership of the C. W. S. were also members of a trade union, and had little hope of improving their financial status except by making incomes go farther. The annual cooperative dividend looks big to them. But the American housewife would be less likely to stay in line because of a nebulous dividend promised six months hence, if the store around the corner offered eggs at one cent per dozen less.



Finally, while the cooperative store idea is perfectly logical and sound, it is nevertheless not easy to get it started with definite assurance of success. Overhead, slovenly management and lack of capital, can demand every bit as large a share of the consumer's dollar as is exacted in profits in some other establishment. The great C. W. S., and similar organizations, emerged victorious after many years of privation, self-sacrifice and hardship on the part of supporters devoted to a principle. The movement developed among a different type of people, and at a period when the exploitation of the consumer was much more of a policy than it is in this country at present. In this era of up-to-date merchandizing, the cooperative store alone can have little advantage over its competitors unless it is connected with the chain that goes right back to the production and manufacture of the articles sold in a vertical combination that makes the producer and consumer virtually one. This is the advantage of the *Cooperative Wholesale Society* in Great Britain and of the *Konsum* stores in Sweden. But it takes generations to build such economic structures as these, and we in America must learn to acquire much more patience and much more consideration for "little savings" if we would develop them.