

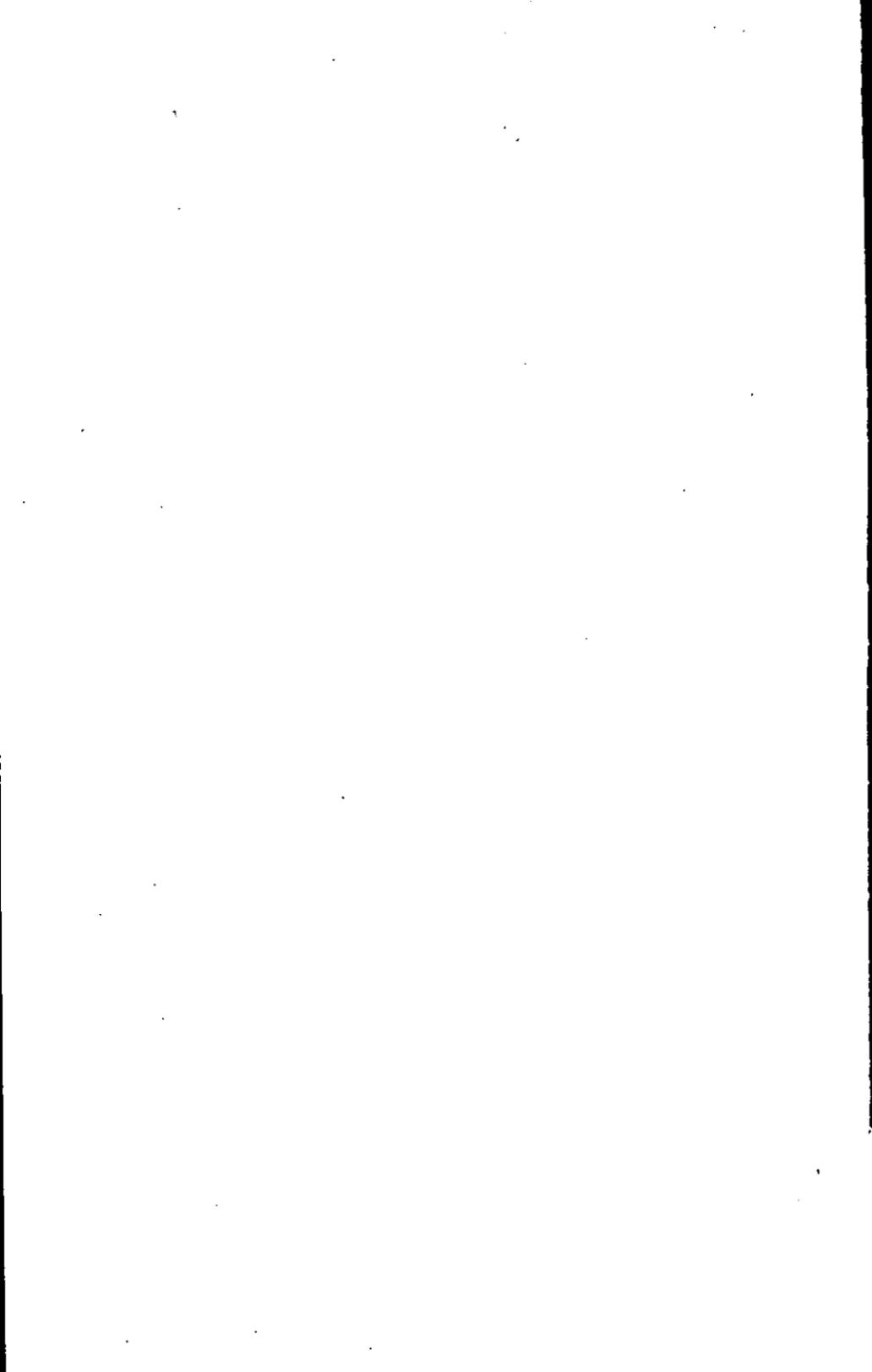
ECONOMIC THEORY OF COOPERATION

Economic Structure of Cooperative Organizations

IVAN V. EMELIANOFF

Washington, D.C. 1948

Reprinted 1995



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FOREWORD

Many individuals and organizations cooperated in the reissue of *Economic Theory of Cooperation*. This work would not have been started, much less completed, without the personal energy and thoughtfulness of Gene Wunderlich. We also had support from the USDA's Economic Research Service, Columbia University, Rutgers University, National Personnel Records Center, Agricultural Research Service Human Records Division, District of Columbia Superior Court Records, The Farm Foundation, Hinds-Rinaldi Funeral Home, St. Nicholas Russian Orthodox Church, Annette Lopes, Edward Skipworth, Donn Derr, Robert Greatt, Robert Shaeffer, and Philip Lando. We appreciate the encouragement for our undertaking from Richard Phillips, David Cobia, Robert Cropp, Michael Cook, and Randall Torgerson. James Baarda, Dwight Gadsby, and Yuri Markish reviewed the foreword, and Lorraine Maslow recomposed the entire book.

The recomposition consists of a change in font and omission of excessive underlining and spacing in the original which had been reproduced from typescript. We corrected a few spelling errors and updated the language (*ibid.* for *ibidem*, for example). Otherwise, the language is exactly as in the original. Type font and style were chosen to yield pagination very close to the original. For all practical purposes, this reissue is the same as Emelianoff's edition, just a little easier to read. We added a biographical foreword to acquaint the reader with the author.

Mahlon Lang, Director
Center for Cooperatives



Ivan V. Emelianoff
Ivan V. Emelianoff

EMELIANOFF AND THE ECONOMIC THEORY OF COOPERATION

By Gene Wunderlich

The decade of the 1990s began with a major restructuring of formerly socialist economies. The agricultural sectors of these economies altered their patterns of state landownership, collective farm management, and state and collective distribution and marketing. Some of the reforms, such as the privatization of landownership were swift and radical. In the conversion to individualistic, market-oriented, systems of production and exchange, some traditions in habits of work, interrelations of enterprise and social services, expectations about the role of government, and communal influences on decisionmakers were overlooked. Some reforms were delayed, redirected, or halted. Policymakers and researchers began to look to more refined forms of economic organization. In the process, the principles of cooperation were reopened for examination.¹

Economic Theory of Cooperation by Ivan Emelianoff is a classic expression of principles of cooperation, a view of economic organization linking turn-of-century Liefmann with mid-century Robotka and Phillips.² As the century closes, it is perhaps

¹For example, see: Csaba Csaki and Yoav Kislev (eds.), *Agricultural Cooperatives in Transition*, Boulder: Westview Press (1993); Klaus Deininger, *Cooperatives and the Breakup of Large Farms: Theoretical Perspectives and Empirical Evidence*, World Bank Discussion Paper 218, Washington DC: World Bank (Dec. 1993).

²The line of thought from Liefmann to Robotka and Phillips is described in David Barton, "Principles" in D. Cobia, *Cooperatives in Agriculture*, Englewood Cliffs, NJ: Prentice-Hall (1989) p. 31. See also: Andrew Condon, "The Methodology and Requirements of a Theory of Modern Cooperative Enterprise", p. 21, in J. Royer, *Cooperative Theory: New Approaches*, U.S. Dept. of Agriculture ACS Report 18 (1987).

appropriate to draw on the time-honored, democratic principles of cooperation to aid in the massive changes in economic and political reorganization. Ivan Emelianoff left Russia following the Bolshevik revolution; in 1945 he died in Washington, D.C., a civil servant of the United States government. His book was published posthumously by his wife, Natalie.

Economic Theory of Cooperation is widely cited, although copies of the book are relatively rare. This reprint was conceived as a timely way of calling attention to the principles of cooperation while making the book more widely available.

This note contains a brief biographical sketch of Emelianoff, drawn from information in Washington, D.C., Columbia University and Rutgers University. The small amount of information about him and his wife has been drawn from obituaries, court, death, and civil service records. These fragments were supplemented by immigration and naturalization data and some indirect clues from the Russian Orthodox Church of Washington, D.C., where Natalie had been active.

Ivan Vasily Emelianoff was born November 14, 1880, in Tobolsk, Siberia, son of Vasily Z. and Alexandra Emelianoff. Tobolsk, where he received his elementary and secondary education, is nearly 2,000 km east of Moscow. He studied biology at the University of Dorpat (Tartu, now Estonia) from 1900 and received a Bachelor of Science in 1904, and then economics at the Polytechnical Institute of Emperor Alexander II in Kiev (now Ukraine), receiving his Sc.B. degree in 1907.

In the period 1910-12, he was an economist with the American Economic Bureau of Ekaterinoslav Zemstvo. He headquartered in Minneapolis, Minnesota, and travelled in the Dakotas, Midwest, and New York, Massachusetts, and New Jersey. In 1912, he published a history of the Grange in America. From 1912 to 1916 he was Chief of the Economics Bureau,

Provincial Zemstvo of Kharkov (now Ukraine), then a member of the Board of that Zemstvo, and its President in 1919.

In February 1913, Ivan married Natalie, the daughter of Vasily and Alexandra Osviatinski of Kharkov. She was born August 26, 1890, trained in biological science at the University of Prague, worked in a biology laboratory, and had earned a Ph.D. before she came to America. In her later years, in Washington, D.C., she was a translator for Berlitz.

From 1916 to 1920, Ivan Emelianoff was a professor of economics in the Institute of Commerce, Kharkov. He studied economics at the University of Prague, Czechoslovakia, from 1921 until receiving his Magister in Economics in 1924. During the 1921-27 period he held a faculty appointment and was a professor of economics at the Institute of Cooperation, University of Prague, until they migrated to the United States.

In addition to his academic activities, Emelianoff was a member of the Council of the Moscow Narodny Bank (a bank of 38,000 cooperatives), and President of the Provincial Zemstvo Bank of Kharkov, in the period 1917-19. He was Director of Selosoyus, Ltd., agency of Russian Cooperatives in Western Europe incorporated in London, from 1920 to 1921, during which he made "considerable purchases for Russia, particularly from the International Harvester Company."

The Emelianoffs came to the United States in 1927. He had an appointment as visiting professor at Rutgers University. Staff directories show their residence at 77 Nichol Avenue, later 203 South Fourth Avenue, New Brunswick, New Jersey. A history of the Economics Department reported that Arthur Burns arrived about the same time the Ivan Emelianoff did. "In his course on Current Economic Theory, Professor Burns concentrated on Marshall's Principles of Economics.... Professor Emelianov's presence was taken advantage of by having him give a two term course in Problems of Economic History."

Emelianoff was a graduate student at Columbia University in the summer of 1932 and academic years 1932-33. He received his Ph.D. in January 1940. To meet his academic requirements he took 30 credit hours of work and transferred 30 other hours, presumably from his studies in Europe. Courses in which he enrolled included Economic Theory from Horace Taylor and W. C. Mitchell, Statistics from F. E. Croxton, Economic History (3 courses by Simkhovitch), and Industrial Relations from L. Wolman. His course work completed, Emelianoff began his dissertation on the theory of cooperatives which he copyrighted a decade after he began his graduate studies at Columbia.

On April 10, 1933, at the District Court of the United States in New York City, Ivan and Natalie Emelianoff became citizens of the United States. His appointment at Rutgers ended July, 1933, due to "sharp decline in appropriations for teaching staff" (quoted from the "reasons for leaving" column in Emelianoff's civil service application form). In the depth of the Depression, unemployed, they left for Washington, D.C.

He began working for the National Recovery Administration in October, 1933, on studies of the causes of economic depression in several countries and an extensive survey of labor problems in England, France, Germany, Italy, and Japan. In March of 1936, when the NRA was liquidated, Emelianoff transferred to the Works Progress Administration's National Research Project. At the NRP he analyzed the productivity of labor in the textile industry.

The project with NRP lasted less than a year and for several months Emelianoff was without work. Late in 1937, he was employed by the Bureau of Labor Statistics as an economic analyst on the Urban Study Consumer Purchases. In 1938-39, the Temporary National Economic Committee hired him to prepare reports on Cooperative Associations of Retailers in the U.S.A. and Cooperative Associations in Agriculture in the U.S.A.

He joined the Bureau of Census as an associate economic analyst in December, 1940. It was his first appointment as a civil servant despite a 7 year history of various jobs for the Federal government. His service records show continuing progress and promotions as an economic analyst until his death shortly after the end of World War II. Official records contain comments such as "His work is careful and of high caliber," "very satisfactory coworker, conscientious, cooperative, and generally well regarded by his fellow staff workers," "...in recognition of the excellent work he has been doing in connection with the current manufacturer's inquiries of the Bureau," and "Dr. Emelianoff is an economist of distinguished attainments."

Ivan Vasily Emelianoff died in Doctors Hospital of colon cancer at 5 am, December 17, 1945. Little personal information about him is available in official records. He spoke English, Russian, and Czech and could read 12 other European languages. A substantial portion of the Emelianoff estate was books. The only physical description of Ivan was on two forms that recorded him as 5'6" tall, 158 to 160 pounds, brown hair, and grey eyes. I found only one photograph of Ivan, none of Natalie. His photograph, enlarged and added as a frontispiece for this book, was attached to a 1935 job application. His age when the photograph was taken is unknown.

The Emelianoffs had but one address, 2707 Adams Mill Road, N.W., during their entire stay in Washington, D.C. Natalie died at that address on September 26, 1960. They had no known survivors. Indeed, as Ivan wrote on an application form, "I, and my wife, have some relatives in Russia but for many years, we have not any information from them and do not know whether they are living or not." Information and personal artifacts did not remain because Natalie died intestate; her belongings escheated to the District of Columbia. Their carpet, furniture, and books were sold at auction, including 90 copies of *Economic Theory of Cooperation*. Ivan and Natalie are buried in Rock Creek cemetery in Washington.

Although he produced "about 40 books and monographs in Russian" and a substantial number of publications in other languages, Emelianoff's most distinguished work is *Economic Theory of Cooperation*. His work for government, not surprisingly, remains largely anonymous. That book on cooperation, reprinted here, represents an important milestone in the theory of industrial organization. We are grateful for his contribution.

To

Dr. N. V. E.

this work is gratefully dedicated



PREFACE

The problem of cooperative type of economic organization is a problem of economic morphology. Economic functions performed in cooperative organizations are not peculiar to them but their economic structure is peculiarly their own. This explains why the cooperative problem still remains untouched by theoretical economics: this problem cannot be attacked in terms of recognized types of theoretical economics which are mainly concerned with the functional aspect of wealth getting and wealth using activities of men. Such a functional approach is so exclusive in economic science that even the cardinal morphological economic conceptions - such as the concept of enterprise - still remain uncertain and nearly unused in economic literature. However, such morphological economic concepts are the basic analytical tools in examining the economic structure of cooperative associations and the author has found it necessary to define them clearly for the use in this treatise.

The theoretical scheme outlined in this study differs sharply from the institutionalized economic philosophy of cooperation. This is not due to unorthodox tendencies of the author but to the hitherto untried line of approach chosen in this inquiry which in turn seemed to be dictated by the nature of the problem. Perfect consistency of the findings with the experiences of existing cooperative organizations, however, justifies such a choice.

This examination represents an analysis of the patterns of cooperative organizations without special emphasis on the variants of these patterns: it should not be misunderstood as evidencing a lack of regard on the part of the writer for the quantitative method of analysis in theoretical economics. It is rather the opinion of the writer that such a preliminary examination of the

economic essentials of the cooperative type of organization is necessary to make quantitative analysis possible.

In order to reduce the discussion of this highly complicated and deceptive problem to its fundamentals the experiences of cooperative organizations have in many cases been generalized and schematic of hypothetical cases have been employed for the purposes of analysis.

Since theoretical economics represents different types of approaches to economic problems which may to some extent be reconcilable but are not yet fully reconciled it is obvious that a theoretical analysis of the cooperative (or any other economic) problem can be made from a standpoint approximating to any one of the established schools. It cannot be attacked from all existing points of view at the same time. In this study the price economists' approach has been adopted and the author has followed most closely in this respect Prof. P. B. Strive and Prof. H. J. Davenport.

In the course of this work the author received generous support from economists and leaders of the cooperative movement in many countries. He is particularly grateful to Prof. P. B. Strive, Prof. V. A. Kossinsky, Prof. W. C. Mitchell, Prof. V. G. Simkhovitch, Prof. F. H. Knight, Prof. F. A. Fetter, Prof. J. M. Clark, and Prof. O. S. Morgan. He also acknowledges his indebtedness to Mr. R. H. Elsworth, Mr. F. M. Hyre, Dr. Ch. B. Howe, the late Prof. Charles Gide and the late Dr. G. H. Powell.

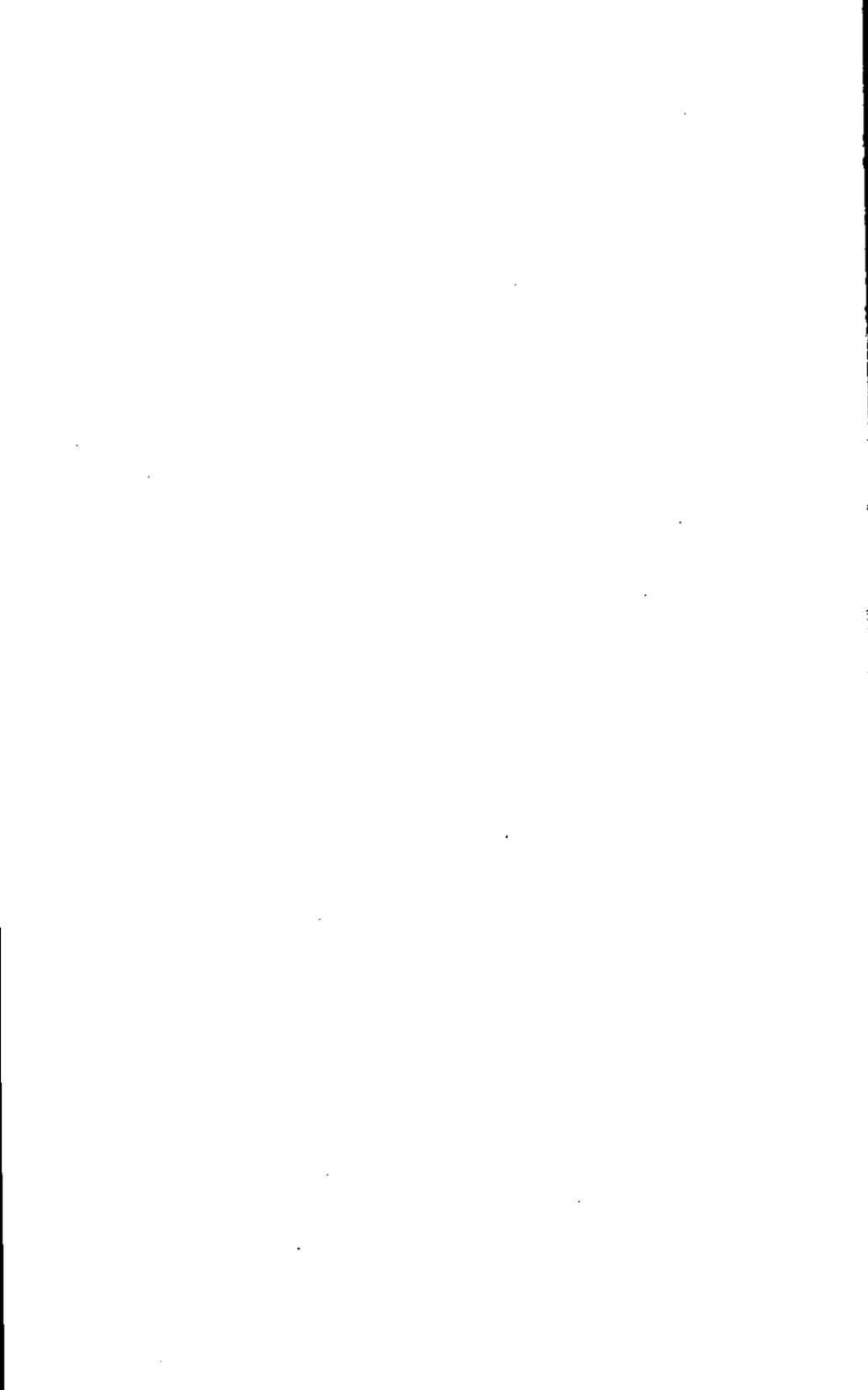
Ivan V. Emelianoff, 1942

PART I. INTRODUCTION

SURVEY OF INTERPRETATIONS OF COOPERATIVE PROBLEM

Our explanations will best run in terms of the process as it actually takes place. We ask not primarily what ought to be, but what is. . . . Defense, apology, or condemnation are not part of our business. For close thinking, science and art must be kept separate. . . .

H. J. Davenport
Economics of Enterprise



PART I. INTRODUCTION

SURVEY OF INTERPRETATIONS
OF COOPERATIVE PROBLEM

The late President of the American Institute of Cooperation, Mr. Richard Pattee, made the following statement at the Conference of the First Annual Session of this Institute:

I wanted to find out just what we have got to do to be entitled to be considered cooperative. . . . I am wondering if thought along this line has gone far enough to enable us to set up a definition that is fixed and standard and can be applied with exactness. . . .¹

The Conference of the American Institute of Cooperation has left this question unanswered.²

The literature on the cooperative problem is abundant and almost a century old, but we shall search in vain to find a clear and precise definition of cooperation in this literature. Many answers are offered, but none of them is either explanatory or generally accepted, while many of them are evasive, some without definite meaning, some contradicting or even eliminating each other. The cooperative problem still remains, as it has always been, in the words of Dr. J. Miller, "an attenuating nebulosity."³ Meanwhile, it is a problem of considerable theoretical interest and of tremendous practical importance.

Its theoretical significance is revealed by the fact that cooperative organizations represent a new and strikingly peculiar economic formation, profoundly different from regular business economic

¹*American Cooperation*, Vol. I, p. 165, Washington, 1925.

²*Ibid.*, pp. 151-182.

³*Ibid.*, p. 177.

organizations. They possess some enigmatic and sociologically fascinating features, such as "elimination of profit," "equality of members," etc. Besides, the role and functioning of "capital stock" in these associations is specific, the character of the "dividends on stock" is peculiar, etc.

The practical importance of this form of organization is widely recognized and may be illustrated by:

- a. more than 500,000 cooperative associations of various kinds now actively working in many countries,
- b. the uninterrupted growth of the cooperative movement,
- c. the astounding achievements of cooperation in many countries,
- d. the unmitigated failures of some cooperative beginnings accompanied by great economic and moral losses (the "productive associations" in various countries, for instance), and
- e. the socio-economic possibilities of the cooperative movement in the future.

Principal Trends in Interpretation of the Cooperative Problem

Three essential difficulties hinder the progress of scientific analysis of the cooperative problem.

First, the cooperative movement, originating over a century ago, has always been and still is in its infantile stage, and many cooperative forms even nowadays are distinctly in their *statu nascendi*.

Secondly, that portion of the science of economics (study of economic forms or economic morphology) in which a study of the cooperatives belongs is strikingly undeveloped, as is evidenced by the lack of clarity and definiteness in the use of some of the fundamental morphological economic concepts (the concept of enterprise, for instance); some terms necessary in examination of the cooperative problem have no definite connotations in current usage, whereas others

are applied to two or more dissimilar concepts and different authors use the same term with various and very often with varying meanings.

Thirdly, the cooperative movement affects widely different social groups and attracts attention as an instrument of political activities and propoganda. These circumstances explain the peculiar character of the literature on cooperation: this literature is full of legends and false evaluations, and is inexplicably lacking in theoretical economic studies. Three principal trends of treatment of the cooperative problem are nevertheless clearly discernible in this literature:

- a. traditional socio-reformistic,
- b. descriptive, and
- c. theoretical.

Socio-reformistic Interpretations

The socio-reformistic approach to the cooperative problem has always been -- especially in Europe -- decisively predominant among the interpreters of cooperation and has crystallized out in the course of a century in a sort of orthodoxy. Originated supposedly in the philosophy of Robert Owen and Charles Fourier, greatly strengthened by the authority of J. S. Mill, jealously nurtured and guarded by the Christian Socialists in England and by the so-called "School of Nimes" in France, this traditional doctrine has been gradually dogmatized into a set of kindergarten-truths or "Principles of Cooperation."

Sources of Traditional Doctrine

Declared "originator" of the orthodox doctrine on cooperation, R. Owen -- a successful entrepreneur in the midst of the Industrial Revolution, a passionate opponent of the entrepreneurial system, a cool-minded businessman and an obstinate social visionary -- was a fascinating and unique personality. He overlived his time and was doomed to see not only the failure of all his social experiments, but also at the end of his life a derisive attitude of his countrymen to his propoganda of a new social order.

"The failure of his experimental communes made Owen's last forty years tragic," says his contemporary

Alexander Herzen: "He was not only a martyr, but an outlaw. When again I saw Owen, he was eighty-five years old. His body was worn out, his mind became dim and wandering in the mystic sphere of phantoms and shadows. But his energy was as of old. His blue eyes were of the same infantile kindness and his faith in humanity was the same.

Incapable of feeling the past evils, he forgot all the old offences, was still the young enthusiast, the founder of New Lanark. . . .

Deaf, gray, and weak he was still the fighter and the prophet of the harmonious life based on common work.

It was impossible without profound reverence to look during the conference at this elder walking slowly and uncertainly to a speaker's platform where he enjoyed in the earlier days truly enthusiastic reception of the most chosen audiences and where now only thoughtless whispers and ironic laughter buffeted his yellowish gray head.

The old man with the seal of approaching death on his face stood requesting humbly an hour's attention. With his sixty-five years of blameless work he was entitled to such civility.

But it was refused: he was "annoying. . . ." he "ever repeated the same things. . . ." ⁴

Such unmerited humiliation of this great social dreamer in the last days of his life has been strangely compensated by his post-mortem undeserved glory as an inaugurator of the cooperative movement; no other man has been more esteemed and no other authority has been so universally recognized by the historians and the interpreters of cooperation as Robert Owen.

"There cannot be an adequate record of the cooperative movement without taking into account the influence of

⁴Alexander Herzen, *Byloe i Dumy* (The Past and the Medications). Petersburg, 1920. Vol. XIV, pp. 469-470.

Robert Owen's proceedings upon its fortunes," wrote G. J. Holyoake.⁵

"We may say that the cardinal principle of Robert Owen's New System of Society, the elimination of profit on price, has been realized in the modern cooperative movement," says B. Potter.⁶

"The cooperative association, with its system of no profit, will forever remain as Owen's most remarkable work, and this fame will forever be linked with the growth of that movement," declared Professor Charles Gide.⁷

Historically, however, the cooperative movement had no connection with the philosophy and activities of Robert Owen. The earliest beginnings in cooperation in England⁸ and in other countries are discernible long before Robert Owen began his work.

⁵G. J. Holyoake, *History of Cooperation*. London, 1906, p. 43.

⁶B. Potter, *The Cooperative Movement in Great Britain*. London, 1904, p. 243.

⁷Charles Gide and Charles Rist, *A History of Economic Doctrines*. New York, 1906, p. 43.

⁸The purchasing associations of the weavers of Fenwick, south of Glasgow, were organized in 1769 -- two years before R. Owen was born; the Cowan's cooperative association of weavers was established in 1777; in 1794 the cooperative was formed at Mongewell, Oxfordshire; in 1812 the cooperative store was established in Lennoxton, Scotland, which practiced patronage dividends; there were about five hundred of the cooperative associations in existence in England at the time when twenty-eight followers of Owen in Rochdale "discovered" their "Principles" in 1844. In Germany "Die Schlesige Landschaft" was initiated in 1769 and in some European countries the cooperatives were well known at the beginning of the nineteenth century (the credit cooperatives in the Baltic provinces of Russia in 1802-1803, Polish cooperative credit associations existed in 1825, etc.).

All the economic essentials of the cooperative organizations are not only distinctly different but diametrically opposite to the fundamentals of the communistic philosophy of Owen. The cooperatives were born and are growing in conditions of the individualistic economic system. Whereas a commune of R. Owen is the irreconcilable alternative of individualistic economic order.

It is no wonder, therefore, that Robert Owen himself not only was unwilling to assume any responsibility for the Rochdale society, but emphatically refused to consider the cooperatives as at all representatives of his New Moral World. According to Holyoake's testimony the shops of the Rochdale type seemed to Owen little better than charitable institutions, quite unworthy of his great social ideal.⁹ In Volume IV of "The New Moral World," November 1836, there is authentic testimony of Robert Owen himself showing how poor an opinion he entertained of cooperation and how uncompromisingly he rejected an identity or kinship of the cooperatives with his socialistic ideology. He related that on his journey to New Lanark he passed through Carlisle:

. . . devoting Tuesday and Wednesday to seeing the friends of the system and those whom I wish to make its friends; to my surprise I found there six or seven cooperative societies in different parts of the town, doing well, as they think, that is making profits by joint stock retailing. It is however high time to put an end to the notion very prevalent in the public mind, that this is the social system, which we contemplate, or that it will form any part of the arrangements in the New Moral World. . . .¹⁰

It is indeed hardly explainable that in spite of such a clear declaration of Owen himself, orthodox interpreters of cooperation persistently obtrude upon him the unwelcome "glory" of the fatherhood of the cooperative movement. The explanation of this paradoxical misinterpretation of the historical fact, however, is very simple, since all

⁹C. J. Holyoake, *History of Cooperation*. London, 1906, Vol. II, p. 215.

¹⁰Quoted by Holyoake, *ibid.*, p. 142.

the followers of the traditional doctrine on cooperation were not primarily interested in the economic analysis of the cooperative problem but were mostly concerned with propaganda of socialism. The frank admission of it is not difficult to find in the following statements of B. Potter and of S. and B. Webb:

"I will assume," says B. Potter-Webb, "in the remarks with which I propose to end this slight sketch of the British cooperative movement, that we, like the early cooperators, are socialists. . . . I should therefore advise the student who desires only a matter-of-fact statement of past and present events, or the philosopher who is satisfied with society as it at present exists to close the book. . . ." ¹¹

"To us the social and political significance of the cooperative movement," declare S. and B. Webb, ¹² "lies in the fact that it provides the means by which, in substitution for the capitalistic system, the operations of industry may be (and increasingly are being) carried on under democratic control without the incentive of profit making, or the stimulus of pecuniary gain. . . ."

Charles Fourier is second only to Owen in his influence on the established philosophy of cooperation, particularly with regard to contemplation of reorganization of the existing economic system through "productive" cooperative associations. The ideas of the voluntary character of associations and of the potential self-sufficiency of the associated groups are inherited by cooperators from Fourier. Some other representatives of the same socio-therapeutic approach to the cooperative problem laid a special emphasis on the productive associations. Fourier himself has remarked: ¹³

¹¹B. Potter, *The Cooperative Movement in Great Britain*. London, 1901, p. 224.

¹²S. and B. Webb, *The Consumers' Cooperative Movement*. London, 1921, p. VI.

¹³Charles Fourier, *Association Domestique*, Vol. I, p. 466.

The first problem for the economist to solve is to discover some way of transforming the wage earner into a cooperative owner.

But Fourier did not propose any particular type of cooperative association and the first outline of such association was made by the Saint Simonian Philipp Buchez in 1831. In his somewhat simplified plan of productive association the workingmen were advised to combine together their tools and their work and divide among themselves the profit which had gone hitherto to the entrepreneur.¹⁴ One-fourth part of the profit should be laid aside every year to build up "a perpetual inalienable reserve" which would thus grow annually.

"Without some such fund," says Buchez, "associations will become little better than other commercial undertakings. It will prove beneficial to the founders only and will ban everyone who is not an original shareholder, for those who hold a share in the concern at the beginning will employ their privileges in exploiting others."¹⁵

Thus the celebrated idea of an "inalienable fund" was initiated. Special stress has been put on the productive associations in the socio-economic program of Louis Blanc. Competition - as a source of poverty and degradation - seemed to L. Blanc to be doomed: it was equally dangerous and destructive to the vital interests of labor and to a welfare of bourgeoisie. A competitive economic order - in the opinion of Blanc¹⁶ - should be replaced by an economic system based on cooperation. The productive association of L. Blanc is the very common productive cooperative society without social pretensions of "New Harmony" or of the fascination of the Falangue. It is not a self-sufficient microcosm of a New Moral World, but only a social workshop

¹⁴Journal des Sciences Morales et Politiques, December 17, 1831.

¹⁵Quoted by Festy, *Mouvement Ouvrier au Debut de la Monarchie de Juillet*. Paris, 1908, p. 88.

¹⁶*Organization du Travail*, 5th ed. Paris, 1848, p. 77.

producing the goods which other people may need and buy. The state's benevolent support was necessary for such workshops, but only at the start, since otherwise, thought Blanc, the movement could not be started with sufficient vigor.

In 1848 Blanc was given an opportunity of wide experimentation with such associations. Since that time there were innumerable attempts in France and other countries to organize productive associations: they all were fruitless.

In the chapter "On Probable Futurity of the Labouring Classes,"¹⁷ J. S. Mill put special emphasis on the self-emancipation of labor through productive cooperative associations. Says J. S. Mill:¹⁸

This form of association, however, which if mankind continue to improve, must be expected in the end to predominate, is not that which can exist between a capitalist as chief, and workpeople without voice in the management, but the association of the labourers themselves on terms of equality, collectively owning the capital with which they carry on their operations, and working under managers elected and removable by themselves. So long as this idea remained in a state of theory, in the writings of Owen or of Louis Blanc, it may have appeared, to the common modes of judgment, incapable of being realized, and not likely to be tried unless by seizing on the existing capital, and confiscating it for the benefit of the labourers; which even now imagined by many persons to be the meaning and purpose of Socialism. . . . But there is a capacity of exertion and self-denial in the masses of mankind, which is never known but on the rare occasions on which it is appealed to in the name of some great idea or elevated sentiment. Such an appeal was made by the French Revolution of 1848. . . . The ideas sown by Socialist writers, of an emancipation of

¹⁷*Principles*, Book IV, Ch. VII. Ashley, ed., 1929, pp. 752-794.

¹⁸*Ibid.*, pp. 772-773.

labour to be effected by means of association, thrive and fructified. . . .

Mill helped to crystallize finally the traditional philosophy of productive associations and since his time no essential changes can be recorded in the development of this philosophy.

Among the modern representatives of this doctrine Professor Charles Gide and Professor Franz Oppenheimer should be mentioned. They both examine and propagate the cooperative problem from the standpoint of its socio-reformistic potentialities; yet contrary-wise to the previous interpreters, Ch. Gide¹⁹ insists on the priority of the consumers' cooperative movement in the socio-reformistic destinies of cooperation, while F. Oppenheimer²⁰ categorically rejects the possibility of comprehensive social reforms through the productive associations of the industrial workingmen or through the consumers' cooperatives. Instead he offers a program of socio-economic transformation of the existing economic order through the productive associations of the agricultural workers who represent the most oppressed and, therefore, marginal social group in the existing social order. An improvement of their economic standing, thinks Prof. Oppenheimer, will automatically lead to a real economic transformation of the entire society.

It is not our task in this study to go into detailed discussion of socio-reformistic literature on cooperation published in the course of a century; all such publications are contributed by social philosophers and have a distinctly propagandistic character. Protesting against such propagandistic spirit of traditional teachings on cooperation, the President of the American Institute of Cooperation said:²¹

¹⁹Ch. Gide, *La Cooperation*. Paris, 1909.

Ch. Gide, *Les societes cooperatives de consommation*. Paris, 1917.

²⁰Franz Oppenheimer, Prof. *Die Siedlungsgenossenschaft*. Leipzig, 1913.

²¹*American Cooperation*, Vol. I, p. 178, Washington, 1925.

The cooperative motive, so called, grows large and attracts public attention. It is highly important that the public understand the true meaning of cooperation, in order that its enemies may not, by ways with which they are familiar, and expert in the use of, attach to it, in the public mind, the stigma we attach to socialism. . . . I believe it would be highly desirable to the progress of this movement, if people got the right thought with respect to cooperation.

The following highly illuminating declaration²² of two typical representatives of the traditional doctrine fully justifies the suspicions and the protest of the President of the American Institute of Cooperation:

As this book is avowedly about the consumers' cooperative movement the reader will not expect to find in it any account of other forms of combination, which have often been included in the term "cooperation." We make no attempt to deal with the various associations of manufacturing producers, or their experiments in "self-governing workshops," profit sharing agreements or "industrial copartnerships." Nor do we explore the extensive and extremely important developments in various countries, of combinations among agricultural producers, whether for the conduct of creameries, the buying of their requirements, or the marketing of their produce. We leave equally on one side the wide spread and in some countries extensive associations, mainly of producers, for cooperative credit. We must state plainly that these omissions do not imply, that we undervalue the really great achievements, mostly in Denmark, Germany, Ireland and India, of one or the other of these forms of associations of producers. But in our view they differ fundamentally in character from the associations of consumers, which have come to constitute ninety-nine percent of the British Cooperative Movement; and it seems

²²Sidney and Beatrice Webb, *The Consumers' Cooperative Movement*. London, 1921, pp. VII-VIII.

to us only to darken counsel to use the term "cooperation" to designate both forms of combination, the one aiming at taking production and distribution out of the hands of the individual profit maker and at the total elimination of profit, whilst the other is designated actually to strengthen the financial position of the individual producer, and to increase his pecuniary profit. We think that both associations of consumers and associations of producers will be more accurately understood, if they are separately studied and separately described. We mean, therefore, by cooperative movement, exclusively the associations of consumers for the purpose of superseding the capitalist profit-maker in the conduct of industries and services.

The attitude of the Webbs to the cooperative problem is fairly typical for all socio-reformistic interpreters of the cooperative organizations. The Webbs state that they are interested in the question of "superseding the capitalist profit-maker in the conduct of industries and services;" and only from such an angle do they examine the cooperatives. It is not their concern to disclose that economic nature and specific economic characteristics of cooperative bodies themselves. Hence they arbitrarily eliminate from their analysis all cooperative organizations which, in their opinion, do not fit their socialistic scheme. The other representatives of this trend likewise do not examine the cooperative problem in its entirety but also put misleading emphasis on the separate groups of cooperatives such as the consumers' stores (Ch. Gide, G. J. Holyoake and many others) or the "productive" associations of industrial (Ph. Buchez, L. Blanc, F. Lassale, Schultze-Delitzsh) or of agricultural workingmen (F. Oppenheimer).

There can hardly be any doubt, and the quotation from the Webbs persuasively shows it, that the plans and programs of combatting the socio-economic evils of our society belong to a different sphere than the scientific task of disclosing the economic character of cooperative organizations and that such scientific analytical function can be adequately performed only if it is not influenced by any, even best-intentioned reformistic aspirations. Since, indeed, "for close thinking, science and art must be kept separate" (H. Davenport).

Descriptive Literature on Cooperation

Descriptive publications represent the important and the most valuable part of the literature on cooperation. This is mostly the contribution of the American students of the problem. The American descriptive literature on the subject is concerned mainly with the aspect of the business efficiency of cooperative organizations and is strangely lacking in any analytical attempts. True - some purely empirical uniformities were stated by the representatives of this trend and certain "tests" of true cooperation were formulated, yet none of such uniformities or tests can endure under new developments in the cooperative movement or is sufficiently comprehensive to cover the whole range of existing cooperative forms. In view of the overwhelming predominance of the marketing cooperative associations in this country, the American literature on cooperation is ²³ substantially a literature on this particular group of the cooperatives.

The cooperative movement, generally speaking, is still in its initial stage and, therefore, in a stage of stormy fermentation: diversity of the cooperatives is kaleidoscopic and their variability is literally infinite. No sooner does a describer or codifier complete his painstaking task, than newly-evolved cooperative forms appear on the scene. Further, many cooperative organizations are constantly varying and eventually change their external structural shape and their functioning. Such a character of existing cooperative associations makes the task of the describer truly a Sisyphus' task.

Besides, as a methodological device for disclosing the economic nature of cooperative formations the description of their external and superficial traits is of little help, since there is not a single structural or functional characteristic of cooperative organization treated usually in the descriptive literature which is common to all cooperative forms. Even those features which are universally recognized by the students and by the laws as the specific characteristics of cooperatives are widely and irregularly varying and in many cases are replaced by the diametrically opposite traits. For example, "elimination of profit" by the cooperatives was declared almost a century ago to be an archstone of true cooperation, yet the Webbs them-

²³To be exact -- it has been until recent years.

selves²⁴ admit somewhat nebulously that in agricultural cooperative associations that members increase through associations their pecuniary profits. The "one man-one vote" principle appears to be just as indisputable a manifestation of true cooperation, yet very many marketing, purchasing and irrigation cooperative societies work successfully in this and in some other countries on the principle of voting power proportional to the volume of business done by individual members. Such proportional voting is pragmatically approved as the sound cooperative rule by Dr. G. H. Powell²⁵ - one of the outstanding experts of the problem. Then there is the well-known cooperative principle that genuine cooperative associations should maintain the practice of unlimited membership, but the cases are numerous in which certain cooperative associations can only work on the basis of closed or even fixed membership (irrigation societies, livestock breeders' associations, control societies, etc.). Further, while the patronage dividends are understood to be the unique characteristic of cooperative associations, there are many conspicuously cooperative formations which cannot and do not pay any patronage dividends, due to the very nature of their activities (credit cooperative association) or due to the fact that they have no receipts available for distribution in the form of patronage dividends (irrigation cooperative societies). There is the deeply rooted conviction among the interpreters of cooperation and among the rank and file of cooperators themselves that the cooperative economic form is the specific organization designed to serve the needs of underprivileged groups of society, but the well-known facts of the inability of poor classes to organize stable and normal cooperative associations are in sharp contradiction with this axiom. Finally, there is the time-honoured opinion, supported by a very large range of experts of the problem, from M. I. Tugan Baranovsky to the rank-and-file propagandists of cooperation, that the cooperative movement is primarily "anti-capitalistic." Opposing this dictum, there is an important and rapidly growing group of cooperative associations (European associations for distribution of electrical energy) which cannot effectively function unless large "capitalistic" enterprises offer them their patronage and, therefore, become their regular members. Whichever single descriptive characteristic of cooperative organization we take, sooner or later it

²⁴See above, p. 11.

²⁵G. H. Powell, "Fundamentals of Cooperative Marketing." An address on the National Agricultural Conference, January 25, 1922. Washington, p. 3.

disappears in some other avowedly cooperative association and is often replaced by another entirely different, if not opposite, feature. Thus cooperative organizations prove to be unsuited to description. A reputable student of cooperation – himself representing this very approach to the problem – came to the following conclusion:

If anyone can define what a cooperative marketing organization is, I am perfectly willing to let him do so. As far as I am concerned, I shall not attempt it. In my younger days I used to think it was not such a difficult thing to do, but the more I think about the problem, the more I come to the conclusion that a definition, after all, is merely laying down boundary lines for the purpose of classification, and after you have your definition of what constitutes a cooperative organization your fun starts, because immediately you are called upon to place this or that organization and indicate what line it belongs to....²⁶

Theoretical Studies

In all the literature on cooperation very few studies might be named as representing attempts at a theoretical approach to the cooperative problem; even these few studies have failed either to analyze the problem in its strictly economic aspect (Prof. Ed. Jacob, Prof. M. Tugan Baranovsky) or to cover the problem of cooperation in its entirety (Prof. Ghino Valenti, Mariano Mariani, Prof. Robert Liefmann and Dr. Hans Fuchs). Indeed it is remarkable how, in general, the students and interpreters of cooperation have evaded the theoretical analysis of this problem in its economic aspect.

Professor Edward Jacob's *Economic Theory of Cooperation*²⁷ does not in fact justify its title, being only a bare comment on the German "Cooperative Law" approved by the Reichstag in 1908.

²⁶American Cooperation, *Collection of Papers and Discussions*, Vol. I, p. 161. Washington, 1925.

²⁷Ed. Jacob, *Dr. Volkswirtschaftliche Theorie der Genossenschaften*. Berlin, 1913.

The book of M. Tugan Baranovsky, *Social Basis of Cooperation*,²⁸ is a distinctly sociological essay based on the economic postulates embodied in the axiomatic "Principles of Rochdale." In his conclusions, however, Tugan Baranovsky made an important departure from the established tradition, and, furthering the statement of the Webbs on the essential differences between consumers' associations and the cooperatives of "producers,"²⁹ he pointed out that at least three different "cooperations" should be distinguished - (1) a "proletarian" (workingmen's) cooperation, (b) a "cooperation of peasantry" and (c) a "cooperation of urban middle classes." According to Tugan Baranovsky, such distinguishing is necessary because these three groups of cooperative organizations differ substantially in the character of their organizations, in economic purposes pursued and - what is most important for Tugan Baranovsky - they have nothing in common in their "cooperative ideals."

Besides numerous juridical essays³⁰ on cooperation, many value historical and descriptive publications,³¹ and a large number of the propagandistic pamphlets (sometimes designated as "theories of cooperation"),³² several original theoretical treatises were contributed by the Italian

²⁸M. I. Tugan Baranovsky, *Socialnya Osnovy Kooperacii*. Berlin, 1922.

²⁹S. and B. Webb, *The Consumers' Cooperative Movement*. London, 1921, p. viii.

³⁰Among other valuable publications, the following books may be mentioned: (a) Mancini, *Relazione del progetto definitivo del Codice di Commercio*, 1877; (b) U. Cobbi, *I caratteri giuridici della cooperazione*, 1894; (c) U. Cobbi, *Cooperazione e Codici di Commercio*, 1891; (d) Cesare Vivante, *Relazione sulla riforma delle società cooperative*, 1890; (e) Gustavo Bohelli, *La società cooperative e il Codice di Commercio*, 1899; (f) U. Manura, *La società cooperative nel vigente Codice di Commercio Italiano*, 1899; (g) Leone Bolaffio, *Società commerciale e società cooperative*, 1900; and others.

³¹Such as: Ugo Rabbeno, *La cooperazione in Inghilterra*, 1885; U. Rabbeno, *La cooperazione in Italia*; U. Rabbeno, *La società cooperative di produzione*, 1889.

³²Such as: L. Wollemborg, *La teoria della cooperazione*, "Giornale degli economisti", Vol. II, 1887.

economists, mostly by the followers of Maffeo Pantaleoni. Prof. Pantaleoni himself³³ published a short discourse on the "theoretical essentials" of cooperation, disclosing the hedonistic nature of the cooperative movement, and disavowing, therefore, the ascription to the movement of a spirit of altruism associated with cooperation by all its socio-reformistic propagandists.

Prof. Ghino Valenti's book³⁴ is a weighty contribution to the literature on the cooperative problem. Prof. Gh. Valenti states, after Pantaleoni, the hedonistic nature of the economic behaviour of cooperators. Valenti also points out with considerable emphasis that the cooperative movement is an organic part of the existing system of exchange economy, and not an alien socio-economic ingredient designed and destined to replace this system. The crucial point of the theoretical scheme of Valenti is that the cooperative problem in its economic aspect is primarily a problem of distribution. In the first chapter of his book he outlines "the laws of distribution" of income in conditions of the existing system and points out deficiencies, of which the fundamental one is that "a capitalist and owner of the natural factors of production is remunerated in the distributive process more and a workingman receives less than is adequate for their respective parts in production."³⁵ There are five "natural correctives" to overcome the deficiencies of distribution, according to Valenti, namely:

- a) the charitable institutions which are especially important when no other correctives can be used;
- b) a co-partnership which does not pretend to displace the wage system but only serves as a stimulant for more industrious workingmen;

³³Maffeo Pantaleoni, "Esame critiche dei principi teorici della cooperazione," *giornale degli economisti*, March-May 1898.

³⁴Ghino Valenti, *L'associazione cooperativa contributo alla teoria economica della cooperazione*, Modena, 1902.

³⁵*Ibid.*, pp. 33-34: "Il capitalista e il possessore del' elemento naturale della produzione precepiscono nello scambio distributivo una remunerazione que e al di sopra del costo e il lovatore una remunerazione inferiore a tale misura."

- c) the trade unions which may be dangerous, however, if they strive for the monopolies for labor and if they fail to eliminate violence from their practices;
- d) so-called "previdenza" organizations - very numerous in Italy - such as the mutual aid societies, pension associations, etc., and
- e) the cooperatives which represent "the most complicated and highest kind of corrective."³⁶

Then he points out the distinctions of cooperation from the other "correctives": (a) the egoistic motives underlie cooperative work, while charity is based on altruistic principles; (b) the cooperatives are organized by laboring groups without direct participation of the capitalists, which is necessary in co-partnership; (c) from the trade unions the cooperatives differ, being basically peaceful organizations, using their capital exclusively for productive purposes; (d) all the "previdenza" organizations are interested primarily in savings, while the cooperatives are distinctly engaged in production of new goods.

Identification of the cooperative associations with socialistic organizations and particularly with the schemes of Robert Owen and of other social reformers of the beginning of the Nineteenth Century, is due, according to Valenti, either to misunderstandings or to ignorance, since while all the socialistic schemes are incompatible with the free individualistic society, cooperation is only a supplementary institution within such a society and is based on the assumption of economic individualism.³⁷ Valenti then illustrates his scheme by a detailed survey of many existing cooperative forms,³⁸ and in conclusion of this survey makes the following definition of a cooperative association: "A cooperative association is an economic institution which within the existing system of free competition aims to correct wholly or partly the natural imperfections of the distribution

³⁶Ghino Valenti, *L'associazione cooperativa contributo all teoria economica della cooperazione*, Modena, 1902, pp. 34-36.

³⁷*Ibid.*, pp. 53-72.

³⁸*Ibid.*, pp. 73-252.

of wealth."³⁹ Functioning as correctives to the imperfections of distribution, the cooperatives, Valenti further states, organize "collective enterprises" as their weapon against "the ordinary enterprises, individual or collective, based on speculation...."⁴⁰ This quite coherent theoretical outline of Prof. Valenti led him to some unexpected conclusions for which, however, he had assumed complete responsibility. With his basic point of departure that cooperation is "a corrective to the imperfections of the existing system of distribution of wealth" he recognizes the cooperative character of those associations only, which in their actual work compete with the "capitalistic" or "speculative" enterprises. The consumer's stores are cooperative to Valenti, inasmuch as they correct the economic advantages of retailers and of wholesalers; the marketing associations are cooperative as the opposing bodies to other "capitalistic" agencies in the market; the purchasing associations reveal their cooperative character as opposing the private dealers on the modern market, etc. But he decisively refused to recognize the cooperative character of such organizations as livestock insurance cooperative societies, cow testing associations and some other similar cooperative organizations for the single reason that in their respective fields "capitalistic" or "speculative" enterprises do not operate and therefore there is no actual conflict of interests. In the words of Valenti himself, "there is no antithesis which determines a cooperative function."⁴¹ Thus the methodologically coherent theoretical outline of Valenti ends in perplexing inferences: in most lines of their economic activities cooperative associations do not actually compete with "capitalistic" enterprises. Besides the livestock insurance and livestock control associations mentioned, there is not a trace of "capitalistic" competition on the part of the cooperative credit associations, for instance, with the commercial banks. The credit cooperatives among peasantry arise – and they comprise approximately two-thirds of all existing cooperative associations – rather because the modern

³⁹"L'associazione cooperativa e un istituto economico, che nell 'attuale sistema della libera concorrenza, ha per i scopo di correggere, in tutto o in parte, le naturali imperfezioni della distribuzione della ricchezza." *Ibid.*, p. 236.

⁴⁰"Imprese collective . . . in contrapposto alle imprese ordinarie individuali o collective esercitate a scopo di speculazione." Ghino Valenti, *L'associazione cooperativa contributo all teoria economica della cooperazione*, Modena, 1902, p. 236.

⁴¹*Ibid.*, p. 207.

machinery of credit is not adjusted to work among such midget and peculiar clients as the peasants are and actually the commercial banks do not work among them. Let it suffice to cite the case of British India with her more than 100,000 rural cooperative credit associations. Further, the gigantic cooperative unions of dairymen in Western Siberia, New Zealand, and Australia arose without the slightest competition of the "capitalistic" agencies. The same is true with the California Fruit Growers Exchange in all stages of its spectacular growth. The cooperative organizations which grow and operate without any "antithesis which determines" – according to Valenti – "a cooperative function" represent in fact an overwhelming majority of the existing cooperatives and only a small part of them may unreservedly qualify as cooperative organizations in terms of his definition. It thus reduces the working value of his theory.

The theoretical outline of the cooperative problem by another Italian economist, Mariano Mariani,⁴² was undeservedly ignored even in Italy when his book was published and later was entirely forgotten. Meanwhile, his work is in some respects unique in the literature on cooperation, because (a) it is a comprehensive theoretical interpretation, and (b) it is a presentation of the problem in its economic aspect with all the sociological shades distinctly separated. Hedonistic postulates underlie the theoretical scheme of this follower of Pantaleoni and his two immediate predecessors, Gh. Valenti and Ugo Rabbeno.⁴³ M. Mariani believes that the economic behaviour of cooperators is dictated by considerations of the immediate economic benefits from participation in the cooperative associations compared with the economic sacrifices of membership involved. The fact that common needs are satisfied with common means in the cooperatives does not disprove the individualistic character of the cooperative movement.⁴⁴ Experience shows, according to Mariani, that organizations without immediate tangible economic gains can be organized on a basis of constraint only. Meanwhile, all cooperative associations arise and grow normally

⁴²Mariano Mariani, *Il fatto cooperativo nell'evoluzione sociale*, Bologna, 1906.

⁴³Gh. Valenti, *op. cit.*; Ugo Rabbeno, *La società cooperativa di produzione*, 1889.

⁴⁴Mariani, *op. cit.*, p. 21.

without any outward dictation or orders. The secret of their existence and vitality is in the free individual wills of their members. Their decisions are influenced by the direct economic benefits expected from the organization.

Two groups of economic formations should be discerned, according to Mariani:⁴⁵ (a) productive or entrepreneurial, based on the production of economic goods for profit, and (b) "only distributive" interested only in the increase of their share in the distribution of national income. The cooperatives, the trade and professional unions, cartels and syndicates belong to a second group. The marketing associations appear to be an intermediary link connecting the "distributive" economic formations with the entrepreneurial or "productive" organizations. The cooperatives being "distributive" economic bodies are working, according to Mariani, primarily in a sphere of exchange and represent organizations either of buyers, seeking to decrease the prices of goods they purchase, or of sellers striving for an improvement of prices for goods and services they alienate to a market. "Cooperation is nothing but a peculiar way of purchasing and of selling," emphasizes Mariani.⁴⁶

This is a general definition of the cooperative formulated by Mariani in the conclusion of his discourse:

A cooperative association is a voluntary association of the purchasers or sellers of labor and of other goods with the aim to improve the purchasers' and sellers' prices, and achieving it by an organization of their own enterprise respectively for buying or for selling.⁴⁷

⁴⁵Mariani, *op. cit.*, p. 24.

⁴⁶"Alla cooperativa non e che un modo tutto speciale di vendere e di comperare." *Ibid.*, p. 67.

⁴⁷"L'associazione cooperativa e un associazione economica consensuale di compratori o di venditori di forza di lavoro o di altre merci che ha per iscopo di migliorare i loro prezzi di acquisto o di vendita, e che raggiunge tale scope assumendo l'impresa gia propria del loro rispettivo venditore o compratore." *Ibid.*, p. 132.

In Chapter V of his book, Mariani discusses the changes which cooperation is bringing about in the general economic system of existing society. His conclusions may be boiled down to the following: The forces of economic differentiation are inherent in existing economic system. This differentiation is "functional" within single enterprises, and "industrial" or "professional" between them. The differentiation separates the consumers from the producers and leads to an autonomy of various economic functions. The mission of the cooperative movement - says M. Mariani - is to counteract the extremes of economic differentiation in different lines and in various degrees. For instance, the members of cooperative credit associations concentrate the functions of the organizers and of the patrons of credit; in marketing associations the functions of manufacturing are fused sometimes with the functions of producers of raw materials and of middlemen; the consumers; cooperatives, with complete potential restoration of production for consumption in some lines of activities at least, can bring in the most radical change of this kind.

Cooperation, believes Mariani, is also capable to a certain degree of softening and of abbreviating social conflicts which result from economic differentiation. Economists, remarks Mariani, usually emphasize the advantages of economic differentiation and underestimate its drawbacks. Meanwhile, every act of exchange is in some sense a conflict of two egoisms; all the social conflicts between capital and labor are nothing but a struggle between buyers and sellers of labor's services. Free competition can restrict, to some extent, these defects of economic differentiation, but cannot eliminate them. Legal control is also helpless. Socialism, supposedly, has to eliminate them, however, at too high a price: it brings in an omnipotent bureaucracy and, along with social conflicts, eliminates every sign of individual initiative and freedom.⁴⁸

Probably the most important part of the theoretical outline of the cooperative problem offered by Mariani is his emphasis on cooperative organization as an organization of buyers or sellers; nobody else stated it with such clarity.

A refined theoretical interpretation of the cooperative problem in distinct nonconformity with the usual treatment has been offered recently by

⁴⁸M. Mariani, *op. cit.*, pp. 137-178.

the German economist, Hans Fuchs.⁴⁹ His theory covers only and exclusively the so-called productive cooperative associations. The concept of "productive association" is extraordinarily nebulous and indefinite in general usage: at least three entirely different types of organizations are usually designated as the productive association, according to Dr. Fuchs, namely:

- a) an organization of workingmen producing goods for market in their own establishment,
- b) an organization of independent artisans with the purpose of manufacturing or finishing their products made in their individual shops, and finally
- c) the establishment of consumers' cooperative associations for production of stipulated goods, which are to be sold only to their memberships.

Since the last organization named is not an independent economic formation, but a branch of a cooperative organization of consumers, only the first and the second groups may be designated as representing a type of so-called "productive association." The cooperative organizations of agricultural workingmen may also be included in this type, provided they represent a form of Oppenheimer's "Siedlungsgenossenschaft." Thus limiting the concept of productive cooperative association to the organizations of workingmen and of artisans for the purpose solely of acquisition through production of the tangible goods, Fuchs does not eliminate entirely either technical or sociological colors from his concept. He makes, then, the following definition of the productive association:

A productive association is an acquisitive enterprise owned by any closed number of workingmen or artisans, in whose establishment all the owners and only the owners (the associates) are occupied.⁵⁰

⁴⁹Dr. Hans Fuchs, *Der Begriff der Productivegenossenschaft und ihre Ideologie*. Köln, 1937.

H. Fuchs, "Theorie und Bedeutung der Productivegenossenschaften." *Internationales Handwörterbuch der Genossenschaftswesens*. Berlin, 1929, §§. 709-711.

⁵⁰*Internationales Handwörterbuch des Genossenschaftswesens*. Berlin, 1929, §111.

Two ever-recurring assumptions underlie the generally professed ideology of the productive associations, says Dr. Fuchs:

- a) emancipation of labor from the yoke of capital through productive associations, and
- b) the securing by the workingmen of the "whole product of their labor" after elimination of the capitalistic entrepreneur in the productive associations.

The productive association, therefore, is assumed as representing an industrial form of the coming economic era; it is "an anticipation of the future." Further, productive associations have always played an extraordinary role in the interpretations of cooperation and a miserable part in actual life. Ninety years of experimentation and thousands of trials in different countries have proved, beyond any possibility of doubt, that productive cooperative associations are doomed to die sooner or later. Those few which survive change their economic character so radically that no sign of the cooperative association can be found in the new body. "The law of transformation" of the productive cooperatives formulated by F. Oppenheimer is perfectly justified by a history of productive associations, says Dr. Fuchs,⁵¹ and this law declares: It is exceptionally seldom that a productive association lives till the blooming season and if it survives till this age it ceases to be a productive association."

Three "lacks," accordingly, explain such a sad destiny of the productive associations:

- a) the lack of capital,
- b) the lack of successful marketing, and
- c) the lack of discipline.

Therefore, for the purposes of economic analysis, the productive association may be taken, in the words of Fuchs, only as being in its *statu nascendi*.

⁵¹H. Fuchs, "Theorie und Bedeutung der Productivegenossenschaften," *Internationales Handwörterbuch des Genossenschaftswesens*. Berlin, 1929, §710.

The cooperative associations of consumers are inherently profitless, Dr. Fuchs says further, while the productive associations, being acquisitive enterprises" (Erwerbsunternehmungen), work for profit, as do other enterprises. The most essential economic feature of the productive cooperative association is that all its owners are employed by the association and all its employees are its owners. If some of the members (owners) of the association do not actually work and remain its shareholders only, or if, on the other hand, not all the persons working for the association are its regular members (owners), but some of them are only wage earners, then, Dr. Fuchs says, there is not any real economic difference between such an association and a regular stock company. The productive cooperative associations, like every other enterprise under certain conditions, has a definite optimum volume of employment and hence cannot be based, obviously, on the principle of unlimited membership: it is, therefore, of necessity, a cooperative with closed membership.

Thus, the findings of the refined theoretical analysis of the productive associations made by Dr. Fuchs are diametrically opposite and are completely irreconcilable to the two hitherto undisputed and universally recognized "axioms" of cooperative doctrine: (1) to the principle of elimination of profit as an inherent characteristic of the cooperatives, and (b) to the principle of unlimited membership of cooperative associations. Among the numerous contradictions and inconsistencies in existing interpretations of the cooperative problem the conclusions of Dr. Fuchs are, while most important, also most confusing. Furthermore, the analysis of Dr. Fuchs relates only to "productive" associations and is, therefore, not helpful for orientation in the cooperative problem in its entirety.

This survey of the theoretical analyses of the cooperative problem would be incomplete without including some interesting and highly suggestive remarks of Prof. Robert Liefmann on the economic nature of cooperatives. This foremost student of economic forms takes the cooperative problem under examination in its structural aspect. His "strictly economic" definition of a cooperative organization is:⁵²

The cooperatives are the economies (Wirtschaften), which endeavor through a common business establishment to further

⁵²Prof. Robert Liefmann, *Die Unternehmungsformen*. 3 Auflage. Stuttgart, 1923, §81.

or to complete acquisitive or consuming activities of their members.

Whether the cooperative is a peculiar form of collective enterprise or any other economic form is a matter of expedience, says Prof. Liefmann, but in the interests of better economic understanding he recommends that it be considered as a special form which is "essentially different from enterprise." He does not say, however, what is the economic nature of the cooperative, if in the interests of expediency it is considered as "a form essentially different from the enterprise." Further, Liefmann concludes:

It is important to state in the interests of better understanding of the cooperatives, that they belong to a different sphere from the forms guided by the individualistic motives of getting profit. We should not, therefore, consider them as a variety of collective enterprise and in the main their study is not a part of the chapter on economic forms.⁵³

It is a characteristic of the cooperative, points out Liefmann, that all its members belong to a certain economic group, and in relation to the economic purposes of association they all are in a similar position; hence there is a certain economic homogeneousness of membership in cooperatives. Finally, since the cooperative is inherently furthering or completing the economic activities of its members, all the members of cooperative associations necessarily participate in the economic work of the associations.

Tests of Cooperations

This survey of interpretations of the cooperative problem, cursory as it of necessity is, is nevertheless complete in the sense that it covers all the essential trends and shades known in the literature on cooperation.

Since every interpreter of cooperation has attempted to summarize his findings in the short definitive formula of his concept of the cooperative association, we cannot better conclude this survey than by a review of such definitions offered by the representatives of all three approaches to the

⁵³*Ibid.*, p. 81.

problem: (a) socio-reformistic - Prof. Ch. Gide,⁵⁴ H. Schultze-Delitzsch,⁵⁵ Dr. H. Kaufmann,⁵⁶ Prof. F. Staudinger,⁵⁷ Prof. A. Anziferoff,⁵⁸ Dr. E. Jacob,⁵⁹ Dr. H. Müller,⁶⁰ and Prof. C. Fay;⁶¹ (b) descriptive - Prof. J. D. Black,⁶² R. Elsworth, Dr. Ch. Holman, Dr. J. Miller, and R. Pattee,⁶³ Prof. H. Filley,⁶⁴ Dr. G. H. Powell,⁶⁵ Prof. W. Sombart,⁶⁶ Prof. L. Cossa,⁶⁷ and

⁵⁴Ch. Gide, *La Cooperation*. Paris, 1900.

⁵⁵H. Schultze Delitzsch, *Schriften und Reden*. Berlin, 1909-1913.

⁵⁶Dr. H. Kaufmann, *Des Wesen der Genossenschaften und die Definition des Begriffes*. 1908.

⁵⁷Prof. F. Staudinger, *Die Konsumgenossenschaft*. Berlin, 1927.

⁵⁸Prof. A. Anziferoff, *Cooperation in Agriculture in Germany and France* (Russian). 1907.

⁵⁹Dr. Ed. Jacob, *Volkswirtschaftliche Theorie der Genossenschaften*. 1913.

⁶⁰Dr. H. Müller, "Zur Kritik der Genossenschaftsbegriffs, *Conrad's Jahrbuch*. 1923.

⁶¹Prof. C. Fay, *Cooperation at Home and Abroad*. London, 1925.

⁶²Prof. J. D. Black, *Introduction to Production Economics*. New York, 1926.

⁶³*American Cooperation*, Vol. I. Washington, 1925, pp. 151-182.

⁶⁴Prof. H. Filley, *Cooperation in Agriculture*. New York, 1929.

⁶⁵G. H. Powell, *Cooperation in Agriculture*. New York, 1913.

G. H. Powell, *Fundamentals of Cooperative Marketing*. Washington, 1922.

G. H. Powell, "Principles and Practice in Cooperation." *The California Citograph*, 1920.

⁶⁶W. Sombart, *Der Moderne Kapitalismus*, Vol. III, p. 2. Leipzig, 1928.

⁶⁷Prof. L. Cossa, *Economia sociale*. Milano, 1899.

Prof. A. Messedaglia;⁶⁸ and (c) theoretical – Dr. H. Fuchs,⁶⁹ Prof. R. Liefmann,⁷⁰ Prof. M. Tugan Baranovsky,⁷¹ Prof. Gh. Valenti⁷² and M. Mariani.⁷³

Each definition contains certain basic characteristics, tests, or principles of true cooperative organization: forty-six such fundamentals of cooperative associations are mentioned in twenty-three definitions offered by the authors named above. Most parts of the tests are pointed out by one or two authors only, and very few of them are emphasized by more than five interpreters each, as the table on the opposite page shows.

This list of basic characteristics of cooperative organizations calls for some remarks:

a) This list of economic essentials of cooperative bodies is only the summary of the fundamental traits stressed by the authors named above in their definitions of true cooperative organizations. Such characteristics are roughly summarized here with the sole purpose to illustrate an extreme disarray of opinions among the students of cooperation with regard to the economic nature of cooperative organizations.

⁶⁸ Prof. A. Messedaglia, *L'economia politica in relazione colla sociologia*. Roma, 1891.

⁶⁹ Dr. H. Fuchs, *Der Begriff der Productivgenossenschaft und ihre Ideologie*. Koln, 1927.

Dr. H. Fuchs, *Wirtschaftliche theorie und Bedeutung der Productivgenossenschaft*. 1928.

⁷⁰ Prof. Robert Liefmann, *Die Unternehmungsformen*. 1923.

⁷¹ Prof. M. I. Tugan Baranovsky, *Socialnyia Osnovy Kooperazii*. Berlin, 1922.

⁷² Prof. Gh. Valenti, *L'associazione cooperativa*. Modena, 1902.

⁷³ M. Mariani, *Il fatto cooperativo nell'evoluzione sociale*. Bologna, 1906.

The principal economic characteristics of true cooperative associations stressed by 23 authors in their definitions of these associations

Number of authors mentioning the trait in their definitions

1.	The cooperative is enterprise	10
2.	The cooperative is union of persons	6
3.	Voluntary character of associations	6
4.	Unlimited membership of associations	5
5.	Equal voting principle	3
6.	Equal rights and responsibilities of members	3
7.	Mutual assistance feature	3
8.	Cooperative associations were originated by the weak	3
9.	Membership might be restricted in cooperative associations	2
10.	Equality is basic principle of cooperation	2
11.	Services are performed at cost in cooperatives	2
12.	Labor's interests are basic in cooperative associations	2
13.	Cooperatives secure savings for their members	2
14.	Use of large-scale business methods is aim of cooperation	2
15.	Cooperative - specific organization of workers and small businessmen	2
16.	Self-management is essential feature of the cooperatives	2
17.	Cooperative is operated for its patrons	2
18.	Cooperative organization is social unity	1
19.	Dividends paid by the cooperatives are limited	1
20.	No dividends on stock are payable in the cooperatives	1
21.	Proportionality is basic principle of cooperation	1
22.	Proportional voting is cooperative principle	1
23.	State's support is rejected in principle	1
24.	State's support is assumed for the cooperatives	1
25.	Elimination of profit - mission of cooperation	1
26.	Profit seeking is inherent feature of productive cooperatives	1
27.	Unselfish spirit is basic characteristic of cooperation	1
28.	Hedonistic motives underlie economic behavior of cooperators	1
29.	Common interests of membership in cooperative associations	1
30.	Joint trading - feature of cooperative associations	1
31.	The cooperatives are organizations of buyers, sellers	1
32.	Members only are entitled to use services of associations	1
33.	Number of shares owned by individual member is limited	1
34.	Improvement of prices is the aim of cooperative associations	1
35.	Primary function of cooperative association is furthering of economic work of its members	1
36.	Equitable principles are basic in cooperative associations	1
37.	Aim of cooperative associations is to offer services, not to seek profits	1
38.	Basic function of marketing association is stabilization of production	1
39.	Function of the marketing cooperatives is stabilization of marketing	1
40.	The cooperatives represent the corrective of existing system of distribution	1
41.	Earnings are divided proportionally to volume of business done by individual members of association	1
42.	The cooperatives are operated by the patrons	1
43.	Patronage dividends - basic feature of cooperative associations	1
44.	All members are occupied in the cooperatives	1
45.	All the occupied in the cooperatives are their members	1
46.	Patrons get benefits and bear losses in cooperative associations	1

b) There are many contradictions in the features included in the list. At least seventeen features are contested by other recommended "essentials" and "principles" of the list; it is highly significant that among the contested "tests" there are some widely recognized "axioms" of cooperation, such as (1) "elimination of profit," (2) "equal voting," (3) "equality" as a basic principle of cooperation, etc.

c) For the most part, the "essentials" represent partial generalizations from the experience of certain groups of cooperative organizations and therefore they do not cover the cooperative problem in its entirety. Thus the tests propounded by the American economists relate primarily to the marketing associations; those of French and English interpreters are inspired by experiences with the consumers' stores, while Russian, German and Swiss students quoted deduced their "principles" mostly from the organization and work of the cooperative credit and purchasing associations predominant in their respective countries. Hence, almost inescapable one-sidedness and incompleteness of the concept of cooperative association described in the definitions under discussion; in most cases such incompleteness is due not so much to biases, as to lack of actual knowledge and to an insufficient field of observation.

d) While the term "cooperation" is used in the definitions without any confined meaning and despite wide diversity of angles under which the concept is treated all definitions examined do not cover the secondary (unions, federations) but are so construed as to characterize only the primary or elementary cooperative organizations, not their "unions" and "federations."

e) In the existing literature on cooperation, and particularly in the treatises included in this survey, no indisputable and generally recognized basic theoretical criterion for orientation among the "essentials" of cooperation can be found. It is impossible, therefore, to find a way out of the accumulated contradictions. There is no guiding idea to judge what is right or what is wrong in all the "tests" suggested.

f) With the diversity of points of departure among the interpreters, with the partial character of their generalizations, and with the confusion of aspects employed in their comment on cooperation, a wide different and dispersion of the "essentials" of cooperation ought to be expected in advance. The actual dispersion, however, surpasses all the allowable