

factories were destroyed. Five Rochdalers were shot to death and twenty-five were wounded before the rioting mob was dispersed.⁶⁷ Being the first political struggle of English workingmen along class-conscious lines and being one of the fountainheads of socialistic thought in contemporary England, Chartism came into prominence in the third decade and disappeared about the middle of the last century. Its ultimate aim was, in the words of G. J. Harvey, "social equality."⁶⁸ Due to improved conditions of labor (and particularly after the Corn Law repeal in 1846), Chartism entered into a period of decline. Yet before the decline set in the movement broke up into a number of factions, some of them disappointed in revolutionary methods of struggle and inclined to look for peaceful and conciliatory ways to solve their economic needs. It was around 1844, when the storm of revolutionary Chartism was temporarily receding, that twenty-eight Equitable Pioneers - all active Chartists of the moderate wing of this movement - started their famous consumers' store in Toad Lane. The humble admirers of Robert Owen - himself sympathetically inclined toward Chartism - after rejection of the revolutionary methods of Chartism, retained its basic philosophy and their fervor for social equality. They, in simple faith, believed that they had started a new economic organization designed to serve specific economic needs of underprivileged classes of society. Disillusioned in revolutionary action, they have found consolation in an almost religious belief that they discovered the secret of the peaceful transformation of the existing economic order through their cooperative store. The emotional socio-economic philosophy of Chartism diluted with narrowly conceived ideas of Robert Owen were transplanted by the Pioneers of Rochdale in their cooperative endeavor and thus was born the traditional doctrine of cooperation. This strange mixture survives in our time substantially in its initial form.

⁶⁷M. I. Tugan Baranovsky, *Promyshlennye Krisisy* (Industrial Crises). S. Petersburg, 1900. 2nd Ed., p. 218.

⁶⁸*London Democrat*, April 27, 1839.

Sociological Fallacy of Cooperation

As indicated above, there is a time-honored belief that cooperative association is a specific economic organization of the poor and underprivileged classes of society. Because it is a specific enterprise of poor men, so the assumption runs, it rejects the profit motive in its work, is based on the principle of equality of all its members, and generally speaking in its capitalistic body it has "a soul which is hostile to the capitalistic system."⁶⁹ All the students of this problem share this assumption in various degrees and some of them emphasize it as the basic test of a truly cooperative character of organization. We have seen⁷⁰ that among the tests of true cooperation were mentioned: labor's interests (Tugan Baranovsky and H. Müller), organization of underprivileged (Sombart, Fay, Schultze), altruistic spirit (Fay), elimination of profit (Gide), organization of workingmen (Cossa, Messedaglia). In the words of W. Sombart, cooperatives are "free unions of economically weak persons" which differ from "the cartels and syndicates" by this very feature.⁷¹ A similar statement is found in the book of Professor K. Ogata who separates the cooperatives from capitalistic syndicates and cartels on the same basis.⁷² If the basic economic characteristics of cooperative organizations (non-acquisitive nature, limited dividends, limited shareholdership, limited voting power, etc.), are the corollaries of their aggregate structure, as it is shown previously, the criterion of poverty of membership as the test of true cooperative organization is obviously untenable.

⁶⁹M. J. Tugan Baranovsky, *Socialnya Osnovy Kooperatsii* (Social Bases of Cooperation). Berlin, 1922, pp. 96ff.

⁷⁰See above, p. 29.

⁷¹*Der moderne Kapitalismus*. Vol. III, 2-te Halbband, SS. 986-987. Leipzig, 1928.

⁷²K. Ogata, *Cooperation in Japan*. London, 1923, p. 312.

Cooperative Association as a Specific Economic Organization of the Underprivileged

The idea of the membership's poverty as an intrinsic feature of cooperative association was inherited from the Pioneers of Rochdale. Few interpreters and propagandists of cooperation have ever questioned the validity of this assumption since 1844, and it is still recognized as an established and self-evident truth. Yet this assumption is in sharp contradiction with the actual experience of existing cooperative associations.

In spite of the proverbial penury of the Equitable Pioneers themselves, the general experience of the cooperative movement makes it undeniable that successful cooperative associations cannot develop normally if based on membership below a certain economic level, and that among pauperized socio-economic groups successful and stable cooperative organizations are impossible. This is strikingly obvious especially in cases of cooperative aggregates of enterprises (producers' cooperatives).

The statistical data on the economic status of membership in cooperative associations are very scarce and insufficient. The latest information available in the literature on cooperation relates to 1909, yet the data are highly significant and pertinent. These data describe the economic standing of the Danish farms participating in cooperative organizations of livestock breeders. The table on the following page shows that the cooperatives of hog raisers and sheep breeders are of smaller importance in Denmark than those of horse and cattle breeders. Yet in all these groups of associations the percentage of farms supporting cooperative associations declines sharply among the small farmers cultivating 15 hectares and less. In the group of farms with 5 hectares of tillable land and less, the percentage of farms participating in cooperative associations is negligible. Besides, we should not overlook the fact that these small farmers supporting cooperative associations account for a very small percentage of the membership in these associations. Thus, Danish cooperatives are preeminently the organizations of middle-class and well-to-do farmers.

Percentage of All Danish Farms Participating in Livestock Breeding Cooperative Associations, by Type of Association and Size of Farm*

Groups of farms by area in hectares	Percent of all farms participating in associations of breeders of:			
	Horses	Cattle	Hogs	Sheep
5 and less	1.0	3.3	0.9	0.8
6-15	3.9	14.8	3.2	0.6
16-30	21.4	26.9	6.5	0.9
31-60	39.4	30.4	8.1	1.3
61-120	48.6	29.0	7.7	1.4
121-240	42.0	18.7	4.8	0.8
240 and more	38.1	7.4	1.3	0.3
Total for all farms	14.5%	16.5%	3.8%	0.9%

- * M. Koefoed, *La cooperation dans l'agriculture en Danemark*. Etudes Monographique sur la cooperation agricole dans quelques pays. Rome, 1911, Vol. 1, p. 177.

Yet more pertinent to this point of view are the following data, describing the economic position of Danish farms that participate in Cooperative Control Societies (cow testing associations):

**Percent of Farms and of Cows Under Control
in Danish Cooperative Associations in 1909***

Groups of farms by acreage of tillable land	Number of		Percentage of total number of	
	Farms	Cows	Farms	Cows
Less than 1 acre	5	13	0.3	0.5
1-12 acres	579	1,796	1.1	1.4
13-36 acres	1,609	11,100	3.4	4.7
37-73 acres	3,984	47,280	11.2	14.8
74-147 acres	4,521	77,721	18.9	24.5
148-589 acres	1,445	53,937	21.1	34.4
590 and more acres	223	29,271	38.8	46.3
Total for Denmark	12,363	221,118	7.2	18.0

- * Harald Faber, *Cooperation in Danish Agriculture*. London, 1918, p. 118.

The table shows:

- a) that the percentage of farms with areas of 36 acres and less participating in the Cooperative Control Societies in Denmark is very low and for the group of farms with the area of tillable land of 12 acres and less is negligible;
- b) that, on the contrary, the percentage of participation increases steadily hand-in-hand with increase in size of holdings; and
- c) that the higher percentage for the animals under control than for the farms in all groups indicates that the wealthier farms in each group are supporting this type of cooperative associations.

Thus the analysis is conclusive that at least this type of the Danish cooperatives is an association of well-to-do farmers of Denmark.

An experience with cooperative organizations designed purposely to satisfy the desperate economic needs of pauperized groups of peasantry is still more persuasive. Before the war of 1914-1919 in some countries of Europe (Russia, Rumania, Italy, and others), strenuous and costly efforts were made to relieve the desperate economic position of peasants in overpopulated agricultural sections through organizing special types of cooperative associations of the tenants of arable land. *A priori*, the idea of such cooperative associations appears to be plausible: for the impoverished peasants through their collective lease of land from the landlords were seemingly capable of technically simplifying the procedure for themselves and for the land proprietors. They could offer to a landlord a collective guarantee of prompt payment of rent. They could increase reasonably the terms of lease. They could reduce costs by the elimination of unnecessary and costly middlemen and agents, always numerous in sections with such lamentable conditions of land tenancy. These associations, be it said, were, as a rule, organized with liberal financial support of government and under friendly state's administrative control, for the economically weak peasants were themselves unable to start cooperative work due to lack

of experience and still more to lack of necessary funds.⁷³ All such experimental associations have failed and almost without exception were able to exist only as long as the governments supported them.

Relative to the point under discussion is an experience of cooperative associations for the distribution of electrical energy in the countries of Central Europe. There were several thousands of such organizations functioning successfully in Czechoslovakia, Germany, and some other countries of Europe. This type of cooperative association was initiated in the small village Vekoshy in Czechoslovakia in 1906. The first steps of the Vekoshy association were highly instructive. There was in this village a small cooperative association of producers of sauerkraut. Mr. Jan Černý, the leader of this association, suggested the extension of their activities by the creation of a new association for the production of electrical power. According to his plan, a small power station was to be built for the needs of their cooperative sauerkraut factory and for general electrification of their village. The plan was approved and a special cooperative association for production of electrical energy was established in 1906. The initial capital of this association was 34,000 crowns, invested as follows:

1. Building for the station	Crowns	6,000
2. Inventory of the station (motor, etc.)	"	11,000
3. Distribution facilities	"	10,000
4. Agricultural machines with motor		
for lease	"	7,000
	<u>Total</u>	<u>34,000</u>

In 1910 the association had the following current expenses:

⁷³I. V. Emelianoff, *Kooperativnyia Organizatsii aredi Zemledeltsev* (Cooperative Organizations among Farmers). Praha, 1923, pp. 277-286.

	<u>Crowns</u>
1. 5% interest on capital invested	1,700
2. Amortization expenses:	
a) 1% on Cr. 6,000 invested in bldg.	60
b) 8% on Cr. 11,000 in station	880
c) 5% on Cr. 10,000 in distribution	500
d) 7.5% on Cr. 7,000 in agric. machines	525
3. Current expenses (fuel, etc.) and repairs	5,857
4. Administrative expenses	<u>500</u>
Total Expenses (Crowns)	10,022

The current market price was charged by the Association for electrical energy produced and the receipts of the station for 1910 were as follows:

	<u>Number of KWH used</u>	<u>Receipts in Crowns</u>
1. Communal light	280	224
2. Domestic light	1,875	1,500
3. Power for local plants	1,700	850
4. Power for agr. machines leased	735	366
<u>Total</u>	<u>KWH</u>	<u>Crowns</u>
	4,587	2,940

A deficit of Crowns 7,082 forced the liquidation of this sagaciously planned and thriftily managed endeavor of Vekoshy's cooperators. They have found that under the conditions of their small community they were unable to obtain a sufficient patronage, since (a) the villagers needed electric light only for a few hours a day and hence the rest of the day their power station stood idle, and (b) the volume of energy required for local mechanical needs was distinctly insufficient to keep their power station at work. Jan Černý then reorganized the Association, since the cooperators came to the conclusion that their Association with a small number of economically weak members could not exist. The reorganized Association had very little in common with the initial form. It was an Association with a large number of members scattered over a considerable area. Several communities and some small municipalities were now included in the Association. Finally, several manufacturers (stock companies) also entered into the Association as its

regular members. Instead of being unoccupied as was the original power station, the new Association, due to overload, began to purchase electric energy produced by one municipal and several private power stations. Because of considerable heterogeneity of membership, the famous principle of equal voting could not be adopted in this reorganized Association, and therefore proportional voting (with some limitations as to maximum of votes per member) to economic participation of members in the activities of the Association was accepted. Reorganized on such a broad basis the Association became successful and served as a pattern for a spectacular growth of a new cooperative form, not alone in Czecho-Slovakia, but in other countries. The significance for our purpose of this type of cooperative association lies in the fact:

1. that it disproves the time-honored fallacy that cooperation is the specific economic sphere of poor men;
2. that it conclusively demonstrates the possibility, and in this particular case, the positive necessity of participation in cooperative organization of distinctly capitalistic member patrons. In fact, the capitalistic members of this Association soon became its most important supporters, as the following table shows:⁷⁴

Consumption of Electricity by Groups. Indices. 1912-100					Percent of Consumption by Groups			
Years	Municipalities	Villages			Municipalities	Villages		
		Light	Mechanical work	Factories		Light	Mech. work	Factories
1912	100	100	100	100	11	28	53	8
1913	99	150	120	75	9	33	53	5
1914	156	151	157	541	10	23	44	23
1915	575	179	173	1,208	21	17	30	32
1916	669	187	207	2,124	18	13	27	42
1917	656	216	195	3,150	16	12	21	51

⁷⁴Jan Černý, *Organizace opatření a dodávky elektrické energie konsumentům prostřednictvím okresu v. Čechách*. Praha, 1919.

A part of the stock companies subsequent to 1917 became predominant in the activities of these associations and because of the excessive heterogeneity of membership, the normal functioning and stability of these cooperative associations was endangered. The government took over control of these associations by purchasing fifty percent of their share capital. The cooperatives thus partly lost their independence and strictly aggregate structure, but were saved from almost certain transformation into regular commercial enterprises. Since the War, few countries have accomplished more in electrification of rural areas than did Czecho-Slovakia. In 1919 the Ministry of Public Works adopted a program for rationalizing the electric power industry. Twenty-four public utility companies were established with government, municipal, communal and private capital participating with the majority of the capital to be provided by the public agencies. The primary purpose of cooperative societies in such conditions consists in the establishment of secondary lines of distribution. At the end of 1935 there were 2,159 electrical cooperative associations in the Republic.⁷⁵ They were grouped into three types: (a) Associations producing and distributing electricity by their own means, about 30 in number, completely autonomous and independent. In 1930 they had 5,312 members and produced only 1.4% of the power generated in Czecho-Slovakia. This type of association tends to disappear on account of the growth of public companies. (b) Cooperative societies, comprising about 500 in number, which purchase energy from the larger establishments and represent the aggregates of consumers of electricity. (c) The third group, the most numerous and important, are the cooperatives for financing the low tension distribution networks. There are about 1,500 such associations and their number is still on the increase.

⁷⁵E. J. Coil, *Rural Electric Cooperatives in Europe*. Report of the Inquiry on Cooperative Enterprise in Europe, 1937. Washington, 1937, pp. 258-259.

In conclusion, one more significant fact may well be mentioned which reveals that cooperative organizations do not represent a specific economic form of the poor strata of society. If we survey the geographical distribution of the cooperative movement in various countries, we can easily find that in some countries the rural cooperatives are always supported by the state, while in the others such support is almost unknown. This support - financial, advisory, or protective - in some cases is extended to such a degree that the cooperatives are put in a position of semi-public organizations used by governments as a device for the enforcement of their economic policies. Under such conditions the cooperatives cease to represent independent aggregates of free economic units, but are the economic groups dependent upon the state, directed by the stock and used as tools for the state's economic policies. The table of tests of true cooperation quoted previously shows that some experts (Dr. Ed. Jacob) consider the state's support to cooperative associations necessary, while the others (H. Filley) reject its expediency. Roughly speaking, the state's support to cooperative associations is widely used in the countries where rural population is composed of peasantry, while in the countries of prevailing operator ownership of farms it is either negligible or entirely unknown. Yet among the countries of peasantry, certain differentiation may be traced. In the countries where agricultural production for market is well developed (Germany, Czecho-Slovakia, France, Italy), the state's policies toward cooperative associations are reduced to protection and advisorship. In the countries where the peasantry is still midway between a self-sufficient economic and an exchange economic (Russia, Rumania, British India), state help to cooperatives before the War was very extensive, and the control of associations was rather close and tutorial. Taking an extreme case, that of British India, we find this immense country in a period of liquidation of self-sufficing agricultural production and of transition into a phase of pecuniary agricultural production. The government of British India is endeavoring to relieve the pains of the transitional period of native peasants by means of the organization of more than one hundred thousand cooperative credit associations strongly and closely controlled by governmental agencies and widely subsidized by the state. On the other hand, the states where

agricultural production is generally operated by financially independent farmers (Canada, United States, Denmark, New Zealand) have no pressing need for close control of cooperatives, and state subsidization of associations has been, until recent times, almost unknown. Such a statement is not contrary to the latest developments in this country, for instance, with the unprecedented financing of agriculture through the cooperatives by the Federal Government. Such a change of policy but indicates that American farmers in conditions of the post-war crisis are losing their economic self-reliance and are slipping downward toward the economic level of peasantry.

Since state-supported cooperative associations do not represent the pure aggregates of independent economic units, and since such state-supported cooperatives abound among economically weak peasants and are unknown among the American type of farmers, obviously cooperation is not a specific organization for poor classes.

Cooperative Aggregates of Collective Economic Units

For an examination of this question, we must take as our point of departure the two inferences previously arrived at. These inferences are:

1. All the fundamental structural and functional characteristics of cooperative associations (the specific character of capital stock, of dividends on stock, of voting rules, of patronage dividends, etc.), reveal their aggregate structure.
2. Cooperative association is not a specific economic organization of the underprivileged groups of the population.

Aggregates of economic units are *a priori* conceivable in all socio-economic strata. In fact, they are scattered throughout all economic groups of society. For instance, the cartels and cartel-like formations (syndicates, trade associations, honourable understandings, gentlemen's agreements, corners, rings, etc.), fairly represent the range

of patterns of the aggregates of economic units. The aggregates of this group are usually more refined than the regular cooperative stores or marketing-purchasing cooperative organizations with all the Principles of cooperation explicitly expressed in their structure and strongly observed in their functioning. A detailed analysis of cartels and similar organizations is far beyond the scope of this study. Our task is reduced to finding out which fundamental economic characteristics are essential to such organizations of capitalistic economic units. They are as follows:

1. Like every ordinary cooperative association, cartels and similar organizations represent the aggregates of economic units (mainly the aggregates of acquisitive economic units).
2. Being the aggregates of economic units, the cartels, like other cooperative associations by themselves are distinctly non-acquisitive economic organizations.
3. Like other cooperative associations, the cartels and kindred formations are organized either as associations of the non-stock, non-profit type or as associations of the Rochdale pattern (capital stock associations).
4. Like other cooperative associations, the cartels are known either as informal bodies (gentlemen's agreements, honourable understandings, etc.), or as incorporated companies, as temporary groups for certain single purposes (corners, rings, and the like), and as lasting organizations.
5. In the incorporated cartels of the Rochdale type all the customary legal traits (capital stock, dividends on stock, stockholders, etc.) are just as conventional and just as deceptive as we have found them in the capital stock cooperatives.
6. As in every other cooperative association, the relationship of members in cartels is based on the principle of strictly observed proportionality.

7. Like the cooperatives, the cartels adopt the practice of patronage dividends when such payments are necessary under their proper and more descriptive terms of refunding, or final reckonings.
8. As in every other cooperative association, the voting power of participants in cartels is not based on common stock ownership, but is usually proportional to the economic participation of members in their common establishment, and in many of them the rule "one man - one vote" is followed.
9. All the Principles of Rochdale thus are inherent in cartels not less than in regular cooperative associations, and if the cartels were the aggregates of households and not aggregates of enterprises, a perfect compatibility of these Principles with cartels would be still more obvious.
10. Like every other cooperative association, the cartels are designed to offer their services at cost to their members.
11. Like all other cooperative associations, the cartels are distinctly "the children of distress and extreme necessity." Industrialists and businessmen appear to be just as individualistic as their cooperative brethren among the farmers and workingmen, when they attempt to organize their own cooperative aggregates. The British Ministry of Reconstruction in the Report of the Committee on Trusts quotes⁷⁶ a series of statements from businessmen on the hardships met in the process of the formation of their cartels. All these statements indicate that the movement toward cartelization has been dictated mainly by the negative considerations "to prevent cut-throat competition." Some of these statements follow:

⁷⁶Hilton, J. *A Study of Trade Organizations and Combinations in the United Kingdom*. Report of the Committee on Trusts, Ministry of Reconstruction. London, 1919, p. 16.

"Cooperation began among the manufacturers only after a period of severe depression and acute competition."

"Its immediate object was the removal of price-cutting which rendered unprofitable practically the entire industry...."

"The amalgamation was due to a combination of circumstances. Owing to severe competition and cutting of prices, the manufacturers were so reduced in their margin of profit that some step had to be taken to prevent disaster...."

"The industry, as a whole, has been very unremunerative for many years and had stood in danger of being crushed out of existence by foreign competition and by too much competition among manufacturers at home and it was realized that if the industry was to be saved at all the manufacturers would have to come together and form an association...."

"Competition was so severe - both among home manufacturers and from abroad - that no one could make anything out of trade. Manufacturers were producing more than was really required and were concerned only with cutting one another's throat. At first when association was discussed some objected to losing their freedom, but things became so bad that these objections were overcome...."

Most associations were born of dire necessity. It was seldom, indeed, that an association came into being until the trade was faced with all-round disaster if it did not combine...."

These and similar jeremiads of the British businessmen on economic conditions under which they discovered the mystery of cooperation thus differ little – if at all – from the lamentations of the Rochdale weavers before their famous store was initiated.

12. As in the case of every other cooperative aggregate, not only the procedure for formation of the industrial and commercial cooperatives is difficult, the task of holding them together is also no easy one. The centrifugal forces are also at work here, as in regular cooperative associations: disruptive trends and the proverbial lack of cooperative spirit are implicit to every cartel. According to the same Report of the British Ministry of Reconstruction, the President of one three-year-old cartel reporting on its current difficulties:

...laid great stress on the difficulties of the Executive, and stated that unless it was the unanimous wish of the Federation, they were not able to continue the business of the Federation. This also was the position of the various committees. Passive opposition was rendering all the work done nugatory. The only alternative was open competition, which would be disastrous to all concerned. It appears to him that the position they were drifting into, in January 1912, when this Federation was formed, had been forgotten. Some members had come to the conclusion that, as the Federation had not increased their profits, it was of no use for them. The Committee thought that a period of twelve months' open competition might put the matter in a new light. It was pointed out that the outside competition was the least of the troubles; most of the opposition was from within. The constant breaking of the rules in the spirit of refusal to give any information promptly and freely would be the real breakup of the organization.⁷⁷

⁷⁷Hilton, J., *op. cit.*, p. 18.

The instability of industrial cooperative associations (cartels) is astounding. As their whole history shows, cartels are always in a state of formation and dissolution. Relatively stable market conditions appear to be most favorable for the efficiency and stability of cartels. Sharp disturbances of economic conditions undermine the industrial aggregates by strengthening their centrifugal forces. In Germany, which is the classical country of cartels, they almost died out in a period of post-war inflation (1919-1924), but appeared again in the years of stabilized currency (1925-1929). With their high sensitiveness to market disturbances, cartels only within certain limits can be relied upon as a stabilizing factor in cyclical fluctuations. Sharp cyclical disturbances, especially in a period of recession, crush the resisting power of cartelized industries. An upswing of the business cycle is usually favorable for the recuperation of cartels, and their increase in number sometimes is considered a symptom of recovery.

Thus all the essential economic characteristics of cooperative associations are inherent in the cartels and cartel-like formations in industry, banking and commerce. Their aggregate nature and, therefore, their economic identity with regular cooperative associations of farmers and small-scale businessmen thus appears to be undeniable.

This inference sharply differs from the widespread belief that the cooperative association is a specific economic organization of middle and of underprivileged groups of society. It should be distinctly understood that in this recognition of the economic identity of the aggregate form of cooperative associations and of cartels, their numerous and important differences are not overlooked. On the contrary, the whole scheme of the aggregate economic structure of cooperative associations shifts the center of gravity from the organization itself to its members - the ultimate subjects of all economic activities performed through cooperative aggregates. Even within so-called cooperative associations, the differences are many and very significant. The cooperatives of peasants in China or British India have really little in common with cooperative dairies of wealthy New Zealand landlords or

of California fruit growers. Similarly, the cooperative chains of American retailers have not much in common with the socialistic cooperative stores in Belgium or the semi-communistic consumers' associations of Hamburg in pre-National Socialistic Germany. Difference between agricultural associations and consumers' cooperatives are so distinct that in the opinion of the Webbs⁷⁸ agricultural cooperatives should not be considered cooperative at all. All the differences between cartels and cooperative associations of middle classes - however numerous and important - are hardly wider than the differences between ordinary cooperative associations (e.g., between the cooperatives of producers and consumers). All dissimilarities between cooperative associations are dissimilarities between their membership; but they all have one characteristic in common, namely, their cooperative (aggregate) form. The difference between cartels and regular cooperative associations are due to the economic character of their membership and to different economic purposes pursued by their members; these difference are mainly sociological. There is a grain of truth in current opinions, that (a) the cartels are organizations of wealthy groups, while the cooperatives are those of relatively poor ones; (b) that cartels are working in the interests of few, while the cooperatives serve the interests of many; (c) that cartels are organizations of the favorites of distribution (Ghino Valenti) while cooperatives are weapons of its stepchildren; (d) that the cartels are sociologically offensive while the cooperatives are designed to protect all those who "labour and are heavy laden."

An offensive character of cartels calls for remark. This opinion is obviously based on the assumption of the capitalistic nature of cartels, yet the opinions of British industrialists just quoted and the whole history of cartels show (1) that the cooperative associations of manufacturers and of large-scale businessmen are primarily defensive and are held together only by pressure of dire necessity, and (2) that even successful cartels do not eliminate competition; they usually only shift it into another plane; they seldom succeed in controlling markets on a national, still less on a world, scale. The Damocles' sword of

⁷⁸See p. 11.

potential competition ever hangs over the heads of the mightiest cartels, and the case of the famous Potash Syndicate in Europe is highly instructive from this point of view. Since 1876 the Potash Syndicate in Germany has seemingly been invincible because of the natural monopoly of Strassfurt Salts resources. With the annexation of Alsace by France in the World War, the German monopoly was temporarily broken, but in 1924 it was restored through the organization of the Franco-German Potash Cartel. No sooner had this world monopoly been restored than new sources of potash-containing minerals were discovered in the United States, Russia, Spain, Poland, and other countries. The growth of potash production in these countries undermined the seemingly unchallengeable position of the Franco-German Cartel.

While the monopolistic achievements of cartels are somewhat exaggerated, the monopolistic trends and potentialities of cooperatives are usually overlooked. A transition from the individual economic functioning to that of coordinated group economic activities is one significant and consequential tendency within the modern economic society; such a trend is not confined to some special categories of economic units. Insofar as the trends toward coordinated actions of economic units may be described as a tendency toward monopoly, such a tendency is conspicuous in the aggregates of economic units in all socio-economic strata of existing society. This fact cannot be disproved by the higher efficiency of the concentrated action of aggregates (cartels) in industry, banking and commerce, especially where huge economic bodies (gigantic collective enterprises and their combines) already exist and are in a position to exercise their influence on market conditions even without the coordination of their work into aggregates. The whole national economy of Japan, for example, might be interpreted as substantially a single omnipotent cartel of a few industrial, financial and commercial magnates. The situation is entirely different with the millions of independent farmers or of urban consumers; for them the difficulties of far-reaching coordination increase progressively with the number of potential members. History of the American farmers' movement is the history of never-ceasing efforts to control market

through monopolistic cooperative associations. R. H. Elsworth,⁷⁹ speaking on the latest (but not the last) efforts of this kind in the early twenties makes the following remark:

Early in 1920 the farmers were given a new slogan, "commodity marketing." It was proposed that large-scale associations be created to handle the entire output of specified crops in the important producing regions. Back of the propaganda with which the idea was presented was the unmentioned but implied promise of monopoly control and monopoly prices. As the farmers caught the hint they became cheerful, at least for a year or two.

The socio-economic groups, where the large-scale economic units and their combines are numerous, are in a better position to succeed through monopolistic aggregates. Economically dispersed sociological strata appear to be in this respect not in a favorable position. Notwithstanding that we should not blindly underestimate the monopolistic potentialities of the cooperatives of these groups. Occasionally the humble cooperative beginnings of peasants or farmers may step over their customary narrow borders and through their Unions and Federations may develop into such economic leviathans as the California Fruit Growers' Exchange in this country, the Moskow Narodny Bank in Russia, the Federazione Italiana in Italy, and put out unexpectedly the tiger's claws ... of the monopolist.

Other Supposedly Specific Characteristics of Cooperation

Some other tests are usually emphasized as characteristics peculiar to cooperative organizations. One such idea is that cooperative associations are designed to replace the institution of retailers in the existing mechanism of exchange (School of Nimes). The recent growth of the cooperative chains of retailers exposes the fallacy of this assumption. Another popular belief is that the cooperative movement brings into

⁷⁹R. H. Elsworth, *The Story of Farmers' Cooperatives*. Farm Credit Administration, Circular 23. Washington, 1939, pp. 17-18.

existing acquisitive society, based on egoism, a spirit of altruism, that it disseminates new cooperative ideals and that its mission is to create a kind of moral renaissance. Friedrich Raiffeisen – originator of rural banks in Germany – was convinced that his cooperative credit associations were nothing less than the realization of Christianity in our everyday life. The experience of the cooperative movement, however, shows conclusively that moral criteria cannot be mingled with purely economic analysis and that examination of the cooperative problem from the standpoint of ethical criteria should be kept separate. To begin with, moral principles and ideas cannot be reduced to nor confused with the problem of the economic form of organizations such as in this particular case the cooperative aggregate of economic units. On the other hand, it is a regrettable but undeniable fact that cooperative aggregates of economic units may be and actually are used for widely different purposes – ethical and unmistakably unethical, beneficial as well as destructive, for individuals or for society.

On the other hand, speaking of regular cooperative associations, it is difficult to see why or how, for instance, cooperative gasoline stations, cooperative chains of grocer-retailers, livestock breeding associations, cooperative laundries or cooperative bacon factories can lead this world to its moral regeneration.

Conclusion

We conclude this examination with the statement with which it was started: an economic analysis of the cooperative problem can be made adequately only if the problem is examined from the purely economic angle. All other aspects deviate markedly from the economic plane of analysis and overlap each other in many unexpected and unpredictable ways. The economist who attempts simultaneously to act as economist, sociologist, lawyer, technician, social philosopher and moralist most likely will not be able to perform properly any one of these functions. The economist's task is to do his particular work and clear the problem of economic confusions to lawyers, moralists, and

social philosophers and thus prepare a way for them to better perform their functions.

Pseudo-Cooperative Associations

In popular literature on cooperation, the terms "pseudo-cooperative" and even "quasi-cooperative" are common. Yet the true meaning of the term pseudo-cooperative is no clearer than the concept of true cooperative organization. All descriptions and characteristics of pseudo-cooperative associations are exceedingly loose, uncertain and usually relate to all organizations deviating from the Principles of Rochdale. The conception of the aggregate character of cooperative associations not only helps to disclose the economics of the pseudo-cooperatives, but also to define exactly the ways of pseudo-cooperative transformation of economic forms and the degree of their departure from the cooperative (aggregate) standards. Accepting the perfect aggregate structure of economic organization for the cooperative standard, we should obviously consider every deviation that distorts the aggregate structure of the cooperative body as a step toward the degeneration of this body. The basic characteristics of the aggregated plurality of economic units are:

1. A cooperative aggregate of economic units does not acquire nor spend by itself because it is composed of acquiring or spending units.
2. All the members are obliged and only the members are entitled to use the economic services of the aggregate.
3. All economic relationships of members within their aggregate are based on the irrevocable principle of proportionality of their economic participation in activities of the aggregate.

If cooperative organization is aggregate organization, then every deviation from these basic features will distort the aggregate and therefore will lead toward some pseudo-cooperative formation. Such

pseudo-cooperative trends in cooperative organizations can be most clearly detected in the following order:

1. Any tendency toward independent acquisition by an aggregate itself - which is inherently non-acquisitive - impairs the economic nature of the aggregate. The sources of potential independent acquisition within an aggregate might be twofold: an aggregate may act (a) as a recipient of interest or rent, or (b) as a recipient of residual (entrepreneurial) income. In both cases the clarity of the aggregate structure is disfigured, but the second case is more destructive for cooperative organization. It is more destructive and consequential, because while the possibilities of creditor's income are always limited, possibilities of entrepreneurial income are very wide and may lead to complete disintegration of the cooperative aggregate.
2. As long as all the members of an aggregate participate and only its members are allowed to participate in its current work, an aggregate remains impenetrable to outside deteriorating influences. This principle is the foundation stone of a perfect aggregate structure of organization: (a) non-patron members become only nominal participants of the cooperative association; in the cooperative of the Rochdale type they become recipients of interest and are qualified by the rank and file cooperators as capitalistic invaders into a cooperative field. (b) Participation of non-member patrons endangers more alarmingly the cooperative integrity of organizations. With the patronage of outsiders a cooperative association ceases to be tightly closed from independent acquisition. A potential entrepreneurial leakage appears now in the aggregate itself. It grows progressively with the increase of outside clientele. It is not important that at the first stages of participation of outsiders in the aggregate the elements of an acquisitive unit in the aggregate are infinitesimal and hardly traceable. Superlatively important, however, is the fact that from that moment a pure aggregate of economic units ceases to exist.

3. The third fundamental requisite of a distinctly aggregate formation – relationship based on proportionality of economic participation in economic activities of an aggregate – is also violated with admission of the patronage of outsiders. For such patron-outsiders are treated as the clients of the association, conforming exactly with the case of clients of any regular enterprise; and they do not possess any privileges within the aggregate proportional to their participation, nor do they bear any responsibilities prorated according to their share of work.

Thus the violation of these three principles of aggregated economic organizations necessarily produces irreparable dislocations in the aggregated bodies; it disrupts their cooperative integrity and introduces into the aggregate the essential elements (acquisition) of enterprise (acquisitive economic unit). The gradual, sometimes imperceptible, accumulation of such elements, if it goes on unchecked, leads toward complete replacement of an aggregate by an accomplished enterprise (acquisitive economic unit). Such a process of transformation of aggregates of enterprises into pure enterprises may be long and complicated or short and simple. Sometimes the process goes to its logical end. Sometimes it stops at some intermediate phase and the hybrid forms (partly enterprises, partly aggregates) become more or less stable and lasting. They are numerous among actually existing cooperative associations.⁸⁰ All such transitory links in this chain connecting the pure aggregates of economic units on one end and the pure economic units on the other represent the so-called pseudo-cooperative organizations. A process of transition of truly cooperative associations into pseudo-cooperative bodies is therefore a process of transformation of aggregates of economic units into economic units. In popular literature of cooperation, this process is usually described in terms of superficial structural changes, such as decline or disappearance of patronage dividends, violation of "one man – one vote" rule, restoration of unlimited dividends payable on stock, etc., yet all such external changes represent the symptoms and not the factors of this significant process.

⁸⁰See table on pages 150–151.

Among the actually existing cooperative associations, deviations from the cardinal principle of an aggregate - the patronage of all members and only of the members - are very common. Some groups of cooperative associations observe this rule very strictly; for instance, the cooperative credit associations, cooperative insurance and irrigation societies. And as well many cooperative organizations that bind their members by contracts usually limit their activities solely to their membership, while other associations freely violate this rule. We can find pertinent illustrations of such transitory forms among the cooperative associations of retail grocers in this country, surveyed by the Federal Trade Commission in 1929. The study⁸¹ covers 176 cooperative chains of grocers, of which 96 associations were retailers' controlled chains and 80 chains of semi-cooperative character sponsored by the wholesalers. The data on patronage of members and of outsiders in the chains are presented in the following table:

**Distribution of 176 Cooperative Grocery Chains
by Percentages of Sales to Members - 1929**

Percentage reported sold to members	Retailer-owned chains		Wholesaler-sponsored chains	
	Number of chains	Percent of chains	Number of chains	Percent of chains
Under 20%	1	1.0	5	6.3
20-40	1	1.0	30	37.5
40-60	2	2.1	18	22.5
60-80	10	10.4	16	20.0
80-99	26	27.1	5	6.2
100%	56	58.4	6	7.5
Total	96	100.0	80	100.0

⁸¹*Cooperative Grocery Stores*. Letter from the Chairman of the Federal Trade Commission, U.S. Senate. 72nd Congress, I Session. Document #12, p. 77. Washington, 1932.

The table indicates that the cooperative chains controlled exclusively by retailers are closer to the standard of aggregate of economic units than the chains sponsored by wholesalers, since 58.4 percent of all chains of the first group are perfect aggregates, while only 7.5 percent of associations belong to that class in the wholesaler-sponsored chains. Forty-one and six-tenths percent of the retailers' chains represent the various degrees of pseudo-cooperative departures from the perfect type of aggregate, while in the second group the percentage of such associations increases to 92.5 percent. For the purpose of this study we can generalize these data and transform them into the following table, adding one corporate chain (collective enterprise) to make generalization complete:

Groups of chains by percent of sales to their members	Percent of sales to members as reported		Type of organization
	Retailer- owned chains	Wholesaler- sponsored chains	
I. Corporate chains	0.0	0.0	Pure enterprise
II. Cooperative chains:			Transitory (so-called pseudo-cooperative)
Under 20%	1.0	6.3	forms between pure
20-39	1.0	37.5	economic unit and
40-59	2.1	22.5	pure aggregate of
60-79	10.4	20.0	economic units.*
80-99	27.1	6.2	
100%	58.1	7.5	Pure aggregate

* These transitory forms are usually designated as pseudo-cooperative; obviously they might be described also as pseudo-economic units. Both terms, however, are utterly inadequate. The term pseudo-cooperative organizations is used in this study because it is strongly established in cooperative vernacular.

In this interpretation of pseudo-cooperative associations the fact is not overlooked that some associations allow patronage of non-members, but treat such non-member-patrons as members: such associations belong obviously to a pattern of perfect aggregate of economic units. The proceeds from transactions of association with

non-members represent the true entrepreneurial income (profit). Distribution of this profit among the members of the cooperative association cannot be continually made under the false title of patronage dividends, since patronage dividends are nothing but the specific method of reckonings on current transactions of the members of cooperative association. As soon as profits begin to dilute patronage dividends in the pseudo-cooperatives they break the harmonious functioning of the aggregate and produce tensions and discontents among members. These profits were received by members of the association as shareholders of an embryonic enterprise within an aggregate and not as the patrons of this aggregate. The more the association succeeds in its profit-seeking activities, the deeper grow these discontents. The tendency appears unavoidably, that the distribution of profits, to be justified, ought to be prorated to the shares of capital (which, in its turn, in pseudo-cooperative associations is gradually transforming into genuine entrepreneurial capital of enterprise). When entrepreneurial activities begin to predominate in pseudo-cooperatives the role of patronage payments declines and disappears, while the role of entrepreneurial dividends on stock grows, until it becomes all-inclusive. The important transitory phases of transformation of the pure aggregate of economic units into the pure collective unit (enterprise) may be outlined as follows:

- A. *Pure Aggregate of Economic Units.* All members and only members participate in its activities. Incidental outsiders are treated as regular members of the association. The form represents the associated economic units functioning without any element of its own economic entity or its own economic functions.
- B. *Transitory Forms (Pseudo-Cooperatives).*
 - a) Type (A) with gradually growing outside clientele. Possibility of independent functioning appears.
 - b) Type (a) with patronage dividends gradually transformed from intra-aggregate reckonings on current transactions into

a device for the distribution of entrepreneurial income under a false title.

- c) Type (b) with the gradual growth of dividends on stock, and an imperceptibly declining role of patronage dividends.
- d) Type (c) with volume of business with outsiders predominating in total volume of transactions; intra-aggregate interest reckonings (dividends on stock) diluted and finally replaced by distribution of pure profit in form of true dividends on stock: advanced fund of capital for business transactions of members step by step degenerates into true entrepreneurial capital of collective enterprise.
- e) Type (d) with volume of business with outsiders increased to such a degree, that members' volume of transactions becomes entirely insignificant; the dividends on stock become principal source of income; tendency to raise the maximum of dividends payable on stocks; patronage dividends decline in importance and economic justification.
- f) Type (e) with attempts to abolish any limitations of dividends on stock; final disappearance of patronage dividends; with capital of aggregate transformed into entrepreneurial capital and with dividends on stock representing true entrepreneurial profit, the members of the association lose their economic status of independent entrepreneurs composing an aggregate, and become component parts (fractions) of a collective entrepreneur; association now represents accomplished economic unit with some nominal remnants of aggregate.

C. *Pure Collective Economic Unit.* Type (f) with nominal survivals of an aggregate finally removed. All limitations abolished on dividends distribution, regulations on stockholding, limitations on voting, patronage dividends. Organization is working now with outside clientele exclusively; the members incidentally patronizing

association are treated as are other outsiders. Distinctly acquisitive economic units without any sign of aggregate.

Conclusions on Pseudo-Cooperative Associations

Pseudo-cooperative associations are associations representing various degrees of the transformation of non-acquisitive aggregates of economic units (pure cooperative organizations) into acquisitive collective economic units (enterprises).

The process of such a transformation can start with the introduction of non-members' patronage into the activities of a cooperative aggregate. It grows concurrently with the growth of business with outsiders and is completed when the work of the association with outside clientele becomes exclusive. Therefore, business transactions with outsiders is the basic factor of the degeneration of cooperative aggregates through pseudo-cooperative forms into collective enterprises. The violations of cooperative principles usually emphasized as the tests of pseudo-cooperative degeneration are only external symptoms of this significant process.

Productive Cooperative Associations

The history of efforts to organize the productive cooperative associations in various countries during the century past is the most disheartening chapter in the history of the cooperative movement. All such efforts have failed, usually with considerable financial and moral losses. Sidney and Beatrice Webb - two outstanding adherents of the traditional philosophy of cooperation - have made a special, unbiased and comprehensive survey of all experiments with productive associations and concluded their report on this study with the following remarks:⁸²

⁸²*New Statesman*. Special Supplement on Cooperative Production and Profit Sharing. February 14, 1914, pp. 20-21. London.

If we survey, as a whole, the past three quarters of a century of zealous and devoted work that has, in half a dozen different countries, been put into forming Associations of Producers which should themselves own the instruments of production and manage their own industries, it is impossible to avoid a feeling of disappointment. In none of the countries in which thousands of these societies have been started, do more than hundreds exist today; and most of those are still in the struggling stage. They are too, for the most part, in industries permitting of business on a small scale; and their enterprises neither employ any large number of workers, nor administer any considerable amount of capital. Moreover, those societies which have had any marked financial success, or have grown to any size, prove for the most part, to have departed considerably from the form of self-governing workshop - to such an extent, indeed, that it is not far from the truth to say that the chance for success seems to increase the further that form is left behind.

We cannot ascribe the failure of the associations of producers to the fact that they have had to depend on voluntary recruiting or that they were exposed to capitalistic competition or they were made up of the manual workers. For all these considerations apply also to the great and growing cooperative movement of consumers which has succeeded as markedly as the associations of producers have failed.

Indeed as far as financial and intellectual assistance from the other classes is concerned, the associations of producers, have at all times in all countries enjoyed much more help and encouragement than the associations of consumers. Similarly, of government favor, at least in France and Italy, they have had much more. In Great Britain where the government has done nothing for either

form of cooperation it is the associations of producers that have always been patronized, advertised and eulogized by the great industrial and political magnates as well as by the press.

It is these associations of producers that have always enjoyed, too, the sympathy, encouragement and support of those other industrial organizations, the Trade Unions.

Nor can we attribute the relative ill success of the associations of producers to the character of individual workmen who have taken part in them.

We are driven to conclude on the evidence, that the relative ill success of associations of producers is due to something in themselves to be sought for in that which is common to them all, whatever their trade or whatever their country.... We infer that it is the very form of association of producers that is adapted to survive.

Applied to the democratic control of industry such a form seems to suffer inherently from three leading disadvantages which may be seen militating against efficiency in practically all the recorded experiments. The group of workmen who make a particular commodity, though they may know all the technical processes of their industry, do not seem able, when they control their own enterprise, to secure in a higher degree either:

1. adequate workshop discipline, or
2. the requisite knowledge of the market, or
3. sufficient alacrity in changing processes....

The idea of productive cooperative associations had many enthusiastic supporters among radical philosophers of the French

Revolution of 1848. The President of the Constituent Assembly, Philippe Buchez, was the reputed "founder" of productive associations, and Louis Blanc, a member of the government in the new democratic and social republic, was a most consistent adherent of this idea. The Revolution of 1848 gave Louis Blanc an opportunity for wide experimentation with productive associations. Louis Blanc's bill for the appropriation of three million francs for the purpose was unanimously approved by the National Assembly because at the moment the idea was very popular among French workingmen, but by no means because it seemed rational to all members of the Assembly. On the contrary, the majority of the Assembly had been distinctly hostile to the idea and only made the concession to a revolutionary proletariat. Some of them supported the motives of A. Thiers⁸³ who made the following sardonic remarks about the bill:

Why did not you ask the Assembly for an appropriation of twenty instead of only three millions of francs? We would approve even twenty millions and I strongly believe that it would not be an excessive price for this persuasive experiment which should cure all of you of such grandiose delirium.

The more moderate wing among the workingmen of France under the leadership of Buchez adopted the principle of voluntary and state-free productive associations, having suspicions about the easy way to start associations with state's support. The other sector of labor, headed by L. Blanc, did not believe in the possibility of effectively organizing associations otherwise than on a large scale and on the basis of control by, and help from, the state. Later there was in Germany an identical struggle between Dr. Schultze Delitzsch - partisan of cooperative organizations independent from the state - and Ferdinand Lassale, originator of state's socialism. The enthusiasm of Louis Blanc for the idea of his "ateliers nationaux" cannot be properly conceived if we overlook his entire social program to guarantee the livelihood of workers

⁸³As quoted by M. I. Tugan Baranovsky, *Socialnya Osnovy Kooperacii* (Social Bases of Cooperation). Berlin, 1922, p. 222.

by work and to prepare⁸⁴ a plan for the permanent elimination of unemployment. Very soon after this work was started, L. Blanc was forced to resign and was not reelected. His "Commission de Luxembourg" was then ignored and his "ateliers nationaux" were put under the control of a special Committee presided over by the Minister of Agriculture and Commerce, one of the political enemies of L. Blanc. This Committee adopted a constitution and by-laws for productive cooperative associations eligible for the state subsidies. In a very short time more than 600 applications were received from newly organized associations with a potential membership of about 60,000 workingmen. Only 61 associations (32 of them in Paris) received the state's subsidies, but in a few years there were very few survivors among them and these survivors degenerated into prosaic stock companies. France has unceasingly worked since the middle of the nineteenth century to organize successful productive associations, but these efforts have, to date, continued without any tangible positive achievements. In the eighties a new flash of the productive societies took place in France when Mr. Rampal bequeathed to the City of Paris one million four hundred thousand francs for financing new experiments with productive cooperatives. One hundred twenty-seven loans were made from this fund to various associations, but no experiment succeeded and most of the loans were never repaid. Despite such discouraging inefficacy of efforts to organize product associations and despite their present condition as described by the Webbs,⁸⁵ the idea of productive associations has never been completely dead and has shown surprising recuperative power. In the popular literature on cooperation, the productive societies and their socio-reformistic potentialities have always been a favorite theme. They are described as an archstone crowning and completing the efforts of social reformers to change, in due course through cooperatives, an acquisitive society as we know it into an economic order without profits, without exploitation of man by man, with emancipation of labor from the yoke of capital and with the

⁸⁴Through the famous "Commission de Luxembourg" - forerunner of the contemporary "soviets."

⁸⁵See pp. 230-232.

whole product of labor guaranteed to the toiling classes. The productive associations were always interpreted, according to Dr. H. Fuchs, as "an industrial form of the coming economic era," as "an anticipation of the future."⁸⁶ If the traditional cooperative doctrine has an explanatory value or justification, the experience of productive associations and their destinies represent, indeed, its final and only conclusive test.

Analysis of Productive Cooperative Associations

To begin with, we state plainly that the idea of productive cooperative associations, notwithstanding the ever-recurring attempts to initiate or revitalize them, and regardless of the never-ceasing propaganda on behalf of their socio-economic significance, is a perfectly dead economic scheme. Students of the problem who have attempted to explain this anaemia of productive societies usually describe only the superficial symptoms of dormancy of these associations. Such analysis creates more questions with regard to this singular type of cooperative formations than it solves. In this study, discussion of productive associations was purposely postponed because of the special complexity and intricacies of this question. The Webbs⁸⁷ with the backing of their wide survey of productive associations came to the conclusion that such associations fail to function due to their inability to secure in a higher degree -

1. adequate workshop discipline,
2. the required knowledge of the market, and
3. a sufficient alacrity in changing processes.

⁸⁶H. Fuchs, *Wirtschaftliche Theorie und Bedeutung der Produktivgenossenschaft*. Internationales Handwörterbuch des Genossenschaftswesens, Berlin, 1928, p. 111.

⁸⁷See above, pp. 230-232.

Dr. Fuchs⁸⁸ in his inquiry, reduces the reasons for the hopeless standing to three lacks:

1. lack of capital,
2. lack of successful marketing, and
3. lack of discipline.

The lack of discipline among the membership of cooperatives is the most common negative characteristic in all groups of cooperative associations and yet it does not prevent the success of hundreds of thousands of them in other fields. The question of why this common deficiency of cooperatives is unsurmountable in productive associations calls for further examination. Thousands of existing cooperative marketing associations show a need of better orientation in conditions of marketing, but are working in this and other countries with well-deserved and steadily growing success. It remains to be discovered, therefore, why insufficiency in market orientation does prevent the very existence of productive associations. The same weakness in various degrees is common to all cooperatives; hence why is it fatal for productive associations? The Webbs and Fuchs do not answer these questions, yet in these questions an explanation of the secrets of the non-viability of productive associations can be looked for.

Insufficiency of capital is felt very often among cooperative associations of all kinds; in many cases it is detrimental to their efficiency and normal development; in certain rather exceptional cases, it leads to the liquidation of associations. However, easy credit facilities are widely and successfully used by the cooperatives to overcome this obstacle. In the light of these well known and easily verifiable experiences of other cooperative associations, the emphasis on the lack of capital as an explanation of the impossibility to organize and maintain productive associations is not convincing.

Insufficient alacrity in changing processes is also a common characteristic for all cooperative associations. This trait is so typical of

⁸⁸H. Fuchs, *op. cit.*, p. 23.

cooperatives that they actually exist only in established and routinized lines of economic activities. In all branches of economic life where long-time entrepreneurial planning is required, and responsiveness to rapid changes is essential to success, the cooperative associations either do not exist or their existence and stability are precarious. The Webbs, stating this interesting fact from experience of productive associations, fail to find out, however, why the productive associations are so prominently helpless in this respect as not to be able at least to maintain their existence.

Since the reasons just mentioned for the feebleness of productive associations do not explain their gloomy fate, we shall look for light on their destinies from the standpoint of their aggregate nature.

Pattern of Productive Association

Since productive cooperative associations do not exist as stable forms, we shall take for our examination only the hypothetical type of such an association, or may conceive the productive association (after Dr. H. Fuchs) in its *statu nascendi*. If the assumption of the aggregate structure of a cooperative body may be employed in this case, we must assume this hypothetical productive association to be an aggregate of acquisitive economic units (enterprises). Conceived of as aggregated plurality of economic units, this productive association, therefore, cannot be confused with varieties of socialistic economies which represent a species of economic unit and are functioning as such. Structurally, in spite of all their differences in distribution and disposal of acquired income, the socialistic communities are closer to collective economic units than to aggregates of such units.

- a) Assumed as an aggregate of independent economic units (enterprises) productive cooperative associations ought to be recognized as a unique type of cooperative organization, departing substantially from all other cooperative patterns. This fact has a vital bearing upon the economic character of productive associations. If we survey the entire range of existing cooperative

associations, we find one economic feature common to all of them without exception, namely, every member of a cooperative association has his own economic unit to which his economic activities as a result mainly confined. For instance, in farmers' associations, every farmer-member is proprietor and operator of his own farm, every member of cooperative associations of retailers is independent retailer, every member of a cartel is an independent manufacturer, banker, merchant, etc. Likewise, every participant of a cooperative store, bakery, or laundry has his own household, and so forth. Only a part of the economic activities of the membership is performed through their cooperative organizations: this part is usually a small part of all the economic activities of the individual members and in most cases is subsidiary in character.

The economic position of members in productive associations is entirely different in this respect. It is understood that the membership of productive associations is confined to workers engaged in production of tangible goods. Many successful cooperative associations are known among servicemen in different fields, e.g., such as associations of cashiers, of accountants, of truckmen, of porters, etc., but these associations were never identified with the productive cooperatives and they differ radically in all essential points from this pattern. The workmen members of productive associations are thought of as persons without their own individual enterprises or establishments they independently operate. A productive association is an assumed aggregate of economic units, deprived of their own establishments and, therefore, its members confine their acquisitive activities to a collective establishment controlled by the aggregate itself. Such an establishment (shop, plant, factory, etc.) is not a subsidiary one, as is the case with all regular cooperatives, but the only place where all economic activities of associated enterprises (worker-members) are concentrated.

It has been repeatedly pointed out in previous sections of this study that every cooperative aggregate of economic units by its

very nature is saturated with centrifugal forces: only those associations are capable of a lasting life which reduce to a minimum frictions and jealousies among their membership. It is a point of fateful significance for productive cooperatives that their members are economically and psychologically in the position of independent representatives of their individual economic units; they are not fractions of a collective enterprise employed under stipulated conditions as are the regular employees of regular business units. In productive associations thus conceived possibilities for internal frictions are not reduced to a minimum; on the contrary, they are so abundant that the productive cooperatives seemed to be doomed to disruption sooner or later from their very start.

For thorough orientation in this delicate question of discipline among workmen in their own collective cooperative establishment, it is useful to recall that many regular cooperative associations and their unions have establishments for certain technical work. This is true for small plants, e.g., grading plants of fruit marketing cooperatives, creameries and cheese factories of dairy products cooperatives, grain elevators of grain growers' associations, wine cellars of wine producers' cooperatives, stores and gasoline stations of consumers' associations, their bakeries, laundries, etc. Likewise, it is true in large plants, such as plantations of the English Cooperative Wholesale Society, numerous factories of Scandinavian cooperative unions, fertilizer factories and steamers of the Federazione Italiana dei Consorzi Agrari, etc. But in all such establishments hired labor is used and the employees are subordinated to managerial rules as in other business enterprises. Experience shows that in such conditions there is not any lack of discipline in productive establishments controlled by cooperative associations. This lack manifests itself instantly in the productive cooperatives where workmen-members are assembled in one establishment and are put in a position of independent entrepreneurs functioning as employees. It is proverbial that housewives cannot continuously work together harmoniously in one kitchen. Exactly for the same reason the

lack of discipline appears in the productive cooperatives from their very start.

- b) Homogeneity of membership in productive associations is, of necessity, violated. The members here are compelled to promote some of their own ranks to foremanship and managership in their own plants. Such managers and administrators cannot have real power to control the work of their fellow members and – be it not overlooked – they are in the most cases lacking in managerial ability and experience. Even an able manager of a cooperative plant would be unavoidably handicapped by distrust and discontent among members about favoritism and injustices in the distribution of duties among workers, in the appraisal of the efficiency of individual members and about their remuneration. There are not available in productive associations such objective units of productivity as a bushel of grain, a pound of butter, a box of fruits, etc., used in regular cooperative associations as a basis for reckonings. All measurements of individual efficiency in productive associations are subjective, therefore, debatable.
- c) All such frictions – innumerable as they are – grow progressively with increase of membership in the productive associations. The chances for survival, very slim in small associations, rapidly decline and completely disappear with the growth of the group: a productive association can have any chance for success only as a very small manufacturing unit but in most branches of manufacturing industries in our time there is no room for economic midgets.
- d) A lack of capital in productive associations mentioned by H. Fuchs is not a cause of their ill success but a symptom of their innate ability to function normally in modern conditions: their subnormal size and small chances for survival undermine their credit capacity.
- e) Members of productive associations, as the term is here used, are persons who are habitually employed as manual workers, the hired

participants in economic units of others, unaccustomed and often incapable of assuming responsibilities and the strain of entrepreneurial acquisition, and recipients of contractual income. But in productive cooperatives they find themselves in the position of entrepreneurs without any stipulated remuneration, with all the uncertainties of residual income and with a limited capacity to wait for irregular and uncontrollable payments. Thus the important and customary advantage of the wage-earning group - stipulated remuneration for hired labor - is lost to members of productive associations.

- f) From still another angle, the members of productive associations, being transformed into the position of independent entrepreneurs, soon discover that they are deprived of a most alluring feature of entrepreneurial acquisition. Their income in associations depends entirely and exclusively upon the productivity of their manual work and therefore is limited. Experiments with productive associations show conclusively that the profits of productive associations very rarely exceed the amounts ordinarily imputable to workers in the form of wages. Therefore, the workingmen - members of productive associations - are doomed to bear all the hardships of entrepreneurial and wage-earning positions without the advantages of either.
- g) Finally, the worker members of productive associations, being customarily only wage earners, economic fractions in the enterprises of their employers, do not fit psychologically into the task of independent acquisition. They are poor entrepreneurs and very weak managers; hence their lack of orientation in market conditions and insufficient alacrity in changing processes. That this inference is not merely a nicety of theoretical deduction we can see from the fact that the same workers are very successful as cooperators when they are acting in their own customary spheres, either as the economic fractions in trade unions, or as independent householders in cooperative associations of consumers.

Productive Association – An Acquisitive Economic Unit (Enterprise)

This examination of productive cooperative associations cannot be concluded without reference to the distinctly non-orthodox conclusions of H. Fuchs⁸⁹ previously mentioned, that the productive associations represent nothing but collective enterprises working for profit. This conclusion not only sharply contradicts current opinions on cooperation (elimination of profit), but also it cannot be reconciled to the assumption of an aggregate structure of cooperative associations, underlying this analysis, since an aggregate of acquisitive economic units is by itself an absolutely non-acquisitive form.

That a productive association is not an enterprise follows from the fact that the following irrevocable economic characteristics of collective enterprise cannot be traced in such associations and are incompatible with their pattern:

1. their capital stock – if there is such – is not dissociated into anonymous, transferable shares;
2. there is no limited liability of shareholders;
3. stockholdership is not unlimited;
4. voting power of members does not depend upon stock owned;
5. productive cooperatives do not serve an outside clientele.

That a productive associations is an aggregate of economic units identical with all other cooperatives structurally is revealed by the following facts:

⁸⁹*Wirtschaftliche Theorie und Bedeutung der Produktivgenossenschaft*. Internationales Handwörterbuch des Genossenschaftswesens. Berlin, 1929, pp. 111ff.

1. the shares of stock – if there is such capital stock – are strictly personal, they might be allowed to the elected members only and cannot be transferred without permission of the association;
2. the entrepreneurial liability of members is implicitly unlimited;
3. volume of shares that can be owned by one member is explicitly limited;
4. voting power of members is based on the participation of every member in economic activities of the association and is usually equal;
5. productive associations are associations of member-patrons,⁹⁰ i.e., they are, by themselves, incomeless economic formations.

These characteristics are deduced from the assumed pattern of productive cooperatives but are descriptive of the short-lived experimental productive cooperatives; they followed these rules in their practice.

From the foregoing the conclusion is inescapable that any surpluses of productive cooperatives – if there happen to be such surpluses after advanced payments of wages to the members of the association cannot be interpreted as a profit of the association itself, but only as the accounts payable to its membership. A productive association in this case is functioning only as an agency of clearing house for reckoning among the members, similar to the identical reckonings in all other recognized cooperative organizations.

The fact that the productive cooperative associations by themselves are not profit-seeking economic units (enterprises), but the aggregates of enterprises is consequential and is the primary cause of

⁹⁰Member-patrons in productive associations are the member-active participants in activities of these associations.

their sad destinies: it makes their whole economic structure inharmonious.

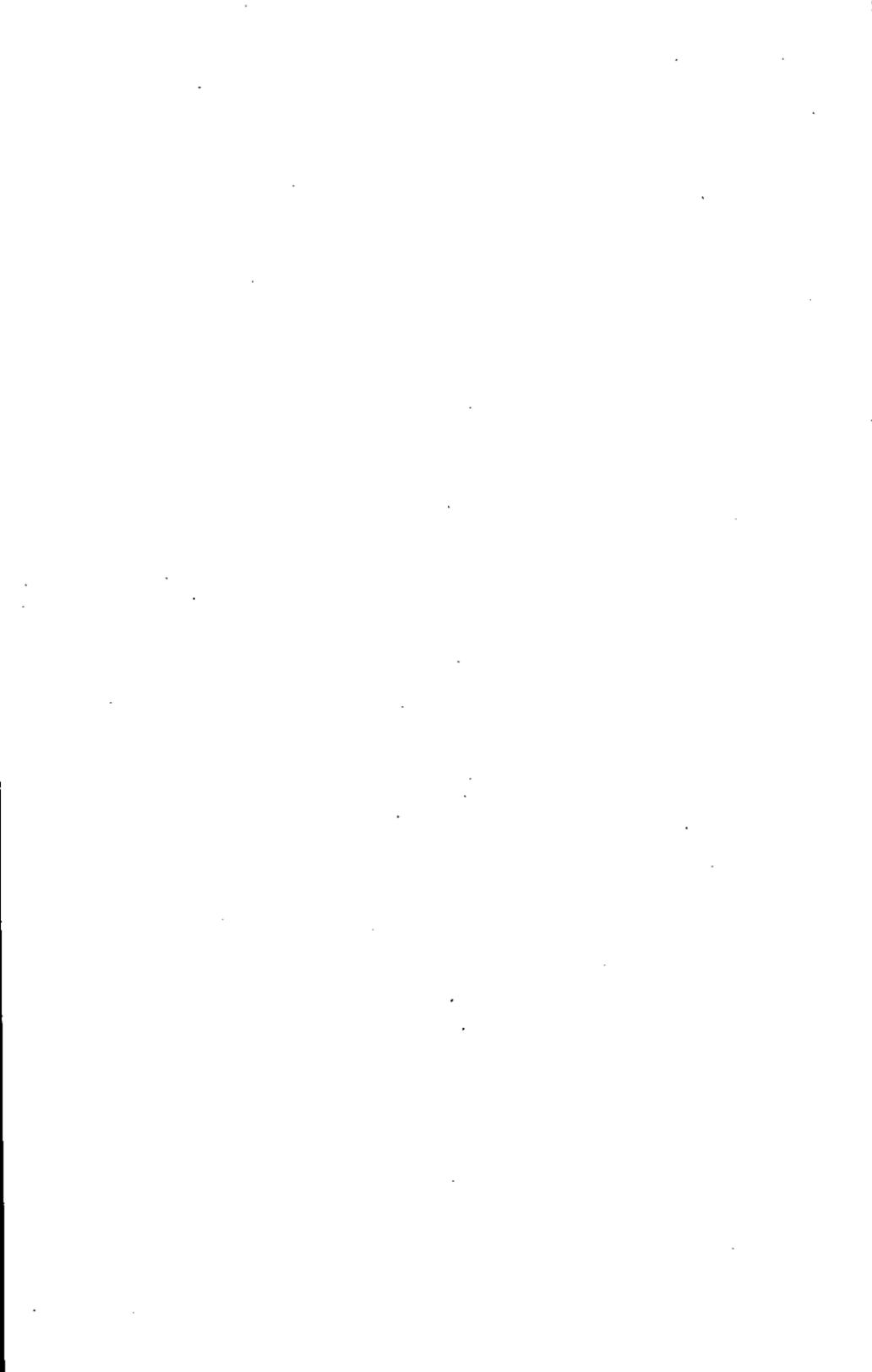
The productive cooperatives can correct such structural deficiency only by the introduction of the elements of enterprise into their cooperative aggregate. Such a transformation of productive aggregates into acquisitive economic units is possible – as in all other cooperative organizations – with admission of outside clientele (non-member-patrons), i.e., of hired workingmen in this particular type of cooperative association. This compromise, however, puts the productive cooperatives on a slide toward degeneration into enterprises: that was the way of all experimental productive cooperatives which survived.

Such conclusions based on the examination of the abstract pattern of productive cooperative associations is justified by the findings of Sidney and Beatrice Webb admitting after their survey of productive associations, that

those societies which have had any marked financial success, or have grown to any size, prove for the most part, to have departed considerably from the form of the self-governing workshop, to such an extent, indeed, that it is not far from the truth to say that the chance for success seems to increase the further that form is left behind.⁹¹

⁹¹See above, pp. 230-232.

CONCLUSIONS



CONCLUSIONS

The cooperative problem has a bewitching power: it hypnotizes those who approach it. It has many zealots and few students. Having always been reverently treated, it appeals to emotions more than to reasoning. The attitude of the European interpreters toward cooperation has been nearly sacred and even the description of the cooperative movement has been customarily done in the Biblical terms: to wit, cooperation has its Apostles and Fathers, its Bibles and Gospels, its Creed and its Revelation. Such an emotional approach has had a certain bearing even upon the leading economists who since the time of J. S. Mill attempted to touch the cooperative problem - Alfred Marshall pointed out merely the great faith embodied in the cooperative movement but otherwise passed over this problem; Prof. Ch. Gide devoted all the efforts of the "School of Nimes" to propaganda of a somewhat foggy philosophy of cooperatism; Prof. Franz Oppenheimer reduced his interest in the problem to emotional glorification of the *Siedlunggenossenschaft*, and Prof. M. I. Tugan Baranovsky did not hesitate to discern the mortal body of cooperative organizations from their immortal soul. Many other outstanding economists have made more or less cursory remarks on cooperative associations repeating unquestioningly the established opinions on the subject with all their misleading and confusing implications. It may be said that such an emotional and such a non-critical approach to the cooperative problem, with emphasis on its socio-reformistic mission, is institutionalized in Europe.

American students of cooperation being comparatively free from emotionalism made a considerable contribution to the knowledge of the economics of cooperation with almost exclusive emphasis, however, on the business efficiency of these organizations.

Neither of these two avenues of approach can lead to the disclosure of the economic character of the cooperative body, i.e., neither can throw light on the distinguishing characteristics of its structure and its functional peculiarities. Hence, the Conference of the reputed economists and authoritative experts in the field of cooperation – probably the most authoritative body of students ever engaged in a discussion of this problem – was amazed in 1925 by the question of the late President of the American Institute of Cooperation: "What have we got to do to be considered cooperative?" And the Conference was not ready to answer this question.

In this study we have attempted to find the answer. The difficulties of such an attempt are many. But the most serious impediments consist in freeing the inquiry from the habitual emotionalism and in getting clear of accumulated inconsistencies of the traditional teachings. The following course of analysis was adopted in this study:

- a) It was necessary to examine the problem in its purely economic aspect and consistently maintain this approach throughout this study. The cooperative problem is a many-sided one and can be interpreted by lawyers, sociologists, social philosophers, moralists, political scientists, as well as by economists. The failure to isolate the distinctly economic aspect of cooperative organizations has filled all the interpretations of this problem with innumerable inconsistencies. Such isolation of the economic side of the problem from its other aspects does not imply that they are neglected or overlooked.

On the other side in the field of theoretical economics in its present state we have different types of approach to economic problems; these different attitudes of economists might be reconcilable to a certain extent at least, but they are not completely reconciled. Every such approach has its own merits and its particular limitations. These different aspects are in a sense complementary to each other and none of them, taken alone, can possibly exhaust the problem. The cooperative problem thus

may be theoretically examined by the neoclassical economist, by the institutional economist, by the welfare economist, by the price economist, etc., but obviously it cannot be attacked from all these points of view at the same time. It appears to be undebatable, however, that in the analytical work all these aspects should be kept separate and not be confused. In this study an attempt has been made to analyze the cooperative problem in terms of price economists.

- b) Only cognitive purposes were pursued, in other words, an exclusively theoretical approach was adopted in this study. The analysis has centered around two cardinal questions:
1. which are specific characteristics of the economic structure of cooperatives in contradistinction to other non-cooperative organizations, and
 2. what bearing this specific economic structure has upon the peculiarities of economic functions performed through cooperatives.

Since the task of analysis was reduced to these basic points only, exclusively primary cooperative organizations were examined; discussion of the derived forms of primary associations (unions of cooperatives, their federations, etc.) would not add anything essentially new to the clarification of these principal questions. Such a setting of the problem, in fact, is hitherto untried line of attack on the cooperative problem, and it explains many peculiarities of its treatment in this discourse.

- c) The theoretical setting of the problem dictated an expansion of the field under discussion to such a degree as to cover the entire range of cooperative formations. It is not, therefore, an examination of consumers' cooperatives, marketing organizations, rural banks, productive associations, nor of any other single group of the cooperatives in which all the existing interpretations of the

problem are commonly based: it covers all existing cooperative forms.

The conclusions of the study may be formulated as follows:

1. The cooperative movement within the Post-Industrial Revolution economy, contemplated as a system of interdependent economic (acquisitive and spending) units, represents one of the currents of the significant and far-reaching processes of economic integration.
2. There are three principal channels of economic integration in the existing economic system:
 - a) an expansion of functioning economic units (exclusively functional integration),
 - b) fusion of economic units (mainly functional, but partly structural integration), and
 - c) coordination of activities of economic units which maintain their separateness and economic individuality (mainly structural integration). The product of integration in the first case is an expanded economic unit, in the second case it is either a derived economic unit (in case of complete fusion) or a combination of economic units (in case of incomplete fusion), and the product of coordination is designated in this study as an aggregate of economic units.
3. Cooperative organizations represent the aggregates of economic units. The conception of an aggregate of economic units can be characterized as follows:
 - a) An aggregate of economic units is a plurality or group of these units coordinating their activities but each fully retaining its economic individuality and independence.

- b) An aggregate of economic units finds its perfect embodiment in the cooperative associations of member-active participants (of member-patrons) in their common work.
 - c) An aggregate of economic units may be described as a center of their coordinated activities or as an agency of associated economic units, owned and controlled by them, through which they conduct their business activities.
 - d) The true economic nature of such an agency can be thoroughly understood only if we clearly keep in mind that the cooperative represents the associated economic units in their functioning and not their association as a separate economic identity; an association or aggregate is functioning only as a branch or part of associated economic units; in that respect it is perfectly identical with the special departments or branches of single economic units.
4. The aggregate nature of cooperative associations is clearly discernible in the embryonic forms of such associations (groups of farmers organized for a single transaction, corners, rings, gentlemen's agreements, etc.). It is traceable in lasting but informal associations, but is beclouded in all incorporated cooperative organizations particularly in the cooperatives of Rochdale pattern (capital stock associations).
5. The legal vestments of incorporated cooperative associations do not correspond to their economic character. The legal unit of incorporated associations conceals their plurality and cloaks their economic structure to such a degree that the law-givers as well as the economists treat cooperative aggregates as the economic units - acquisitive (in cases of so-called capital stock associations) or spending (in cases of so-called non-stock, non-profit cooperatives). Such a misapprehension is partially supported because external structural features of incorporated capital stock associations strikingly imitate the customary legal form of collective economic units. This discrepancy of the

economic character of cooperative aggregates and their legal embodiment is one of the principal sources of confusion and inconsistencies in existing interpretations of cooperative organizations.

6. A lack of fine distinction between the concepts of enterprise as an acquisitive economic unit and of an establishment as a producing (technical) unit is the other factor contributing to the confusion of the cooperative aggregate of economic units (having some establishment) with a collective enterprise.
7. Every cooperative aggregate of economic units is inherently saturated with centrifugal disruptive forces, since every economic unit participating in the aggregate is designed for individual existence and individual functioning. Hence, the formation of cooperative aggregates takes place only under the pressure of dire necessity and their duration as cooperative aggregates depends upon unrelenting and efficient efforts to maintain methods of activities fitting the aggregate nature of organization and successful appeasement of all forces of discord (membership relations problems) within the aggregate.
8. Since disruptive centrifugal tendencies are at work in all cooperative aggregates of economic units, one of the imperative prerequisites of their stability is the economic homogeneity of their members (unwritten law of cooperation) reducing to a minimum potential frictions and suspicions within the aggregate. This requisite is just as essential to the duration of cooperatives as compelling need for coordinated action is necessary for their formation.
9. External and superficial features of vas (especially of incorporated associations) only indirectly and remotely reveal their ultimate economic character of aggregates of economic units and may vary indefinitely. Hence, the widely employed efforts to classify and interpret cooperatives by their external traits (capital stock versus no-capital stock associations, Rochdale type versus non-profit