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# ECONOMIC THEORY OF COOPERATION

**Economic**

**Structure of**

**Cooperative**

**Organizations**

**Ivan V. Emelianoff**

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University of California • 1995

Robert King

**ECONOMIC THEORY OF COOPERATION**

**Economic Structure of Cooperative Organizations**

**IVAN V. EMELIANOFF**

**Washington, D.C. 1948**

**Reprinted 1995**

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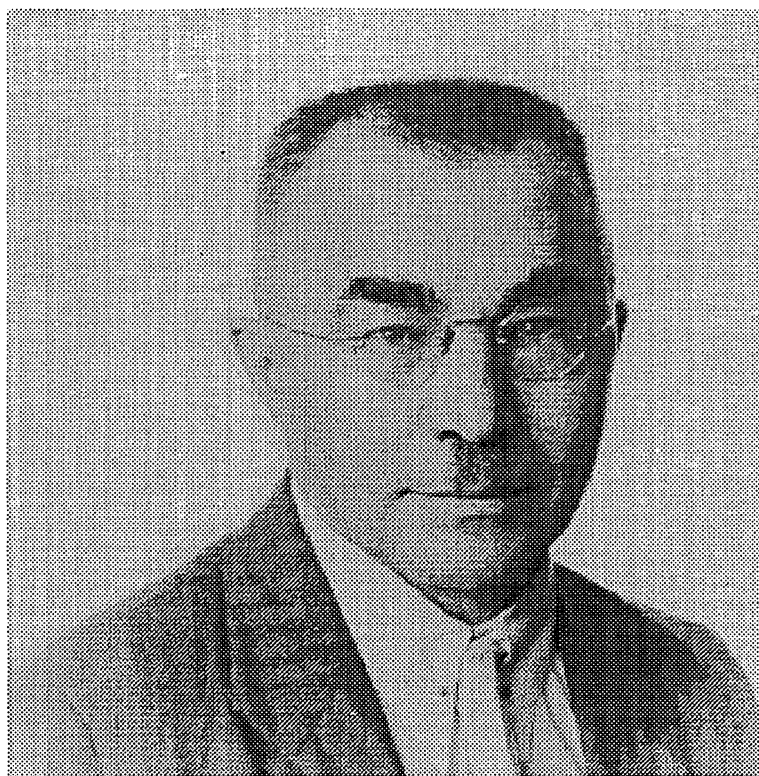
## FOREWORD

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

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

Mahlon Lang, Director  
Center for Cooperatives





*Ivan V. Emelianoff*  
Ivan V. Emelianoff

## EMELIANOFF AND THE ECONOMIC THEORY OF COOPERATION

By Gene Wunderlich

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

To

Dr. N. V. E.

this work is gratefully dedicated



## PREFACE

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

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

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

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

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

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

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

Ivan V. Emelianoff, 1942

**PART I. INTRODUCTION**

**SURVEY OF INTERPRETATIONS  
OF COOPERATIVE PROBLEM**

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

H. J. Davenport  
*Economics of Enterprise*

## PART I. INTRODUCTION

SURVEY OF INTERPRETATIONS  
OF COOPERATIVE PROBLEM

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

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

The Conference of the American Institute of Cooperation has left this question unanswered.<sup>2</sup>

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

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

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<sup>1</sup>*American Cooperation*, Vol. I, p. 165, Washington, 1925.

<sup>2</sup>*Ibid.*, pp. 151-182.

<sup>3</sup>*Ibid.*, p. 177.

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

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

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

### **Principal Trends in Interpretation of the Cooperative Problem**

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

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

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

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

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

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

### Socio-reformistic Interpretations

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

### Sources of Traditional Doctrine

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

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

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

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

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

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

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

But it was refused: he was "annoying. . . ." he "ever repeated the same things. . . ." <sup>4</sup>

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

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

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

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

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

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

Historically, however, the cooperative movement had no connection with the philosophy and activities of Robert Owen. The earliest beginnings in cooperation in England<sup>8</sup> and in other countries are discernible long before Robert Owen began his work.

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<sup>5</sup>G. J. Holyoake, *History of Cooperation*. London, 1906, p. 43.

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

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

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



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

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

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

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

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

<sup>10</sup>Quoted by Holyoake, *ibid.*, p. 142.

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

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

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

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

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

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

<sup>13</sup>Charles Fourier, *Association Domestique*, Vol. I, p. 466.

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

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

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

Thus the celebrated idea of an "inalienable fund" was initiated. Special stress has been put on the productive associations in the socio-economic program of Louis Blanc. Competition - as a source of poverty and degradation - seemed to L. Blanc to be doomed: it was equally dangerous and destructive to the vital interests of labor and to a welfare of bourgeoisie. A competitive economic order - in the opinion of Blanc<sup>16</sup> - should be replaced by an economic system based on cooperation. The productive association of L. Blanc is the very common productive cooperative society without social pretensions of "New Harmony" or of the fascination of the Falangue. It is not a self-sufficient microcosm of a New Moral World, but only a social workshop

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<sup>14</sup>Journal des Sciences Morales et Politiques, December 17, 1831.

<sup>15</sup>Quoted by Festy, *Movement Ouvrier au Debut de la Monarchie de Juliet*. Paris, 1908, p. 88.

<sup>16</sup>*Organization du Travail*, 5th ed. Paris, 1848, p. 77.

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

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

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

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

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

<sup>18</sup>*Ibid.*, pp. 772-773.

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

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

Among the modern representatives of this doctrine Professor Charles Gide and Professor Franz Oppenheimer should be mentioned. They both examine and propagate the cooperative problem from the standpoint of its socio-reformistic potentialities; yet contrary-wise to the previous interpreters, Ch. Gide<sup>19</sup> insists on the priority of the consumers' cooperative movement in the socio-reformistic destinies of cooperation, while F. Oppenheimer<sup>20</sup> categorically rejects the possibility of comprehensive social reforms through the productive associations of the industrial workingmen or through the consumers' cooperatives. Instead he offers a program of socio-economic transformation of the existing economic order through the productive associations of the agricultural workers who represent the most oppressed and, therefore, marginal social group in the existing social order. An improvement of their economic standing, thinks Prof. Oppenheimer, will automatically lead to a real economic transformation of the entire society.

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

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<sup>19</sup>Ch. Gide, *La Cooperation*. Paris, 1909.

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

<sup>20</sup>Franz Oppenheimer, Prof. *Die Siedlungsgenossenschaft*. Leipzig, 1913.

<sup>21</sup>*American Cooperation*, Vol. I, p. 178, Washington, 1925.

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

The following highly illuminating declaration<sup>22</sup> of two typical representatives of the traditional doctrine fully justifies the suspicions and the protest of the President of the American Institute of Cooperation:

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

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

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

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

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

## Descriptive Literature on Cooperation

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

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

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

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<sup>23</sup>To be exact -- it has been until recent years.



selves<sup>24</sup> admit somewhat nebulously that in agricultural cooperative associations that members increase through associations their pecuniary profits. The "one man-one vote" principle appears to be just as indisputable a manifestation of true cooperation, yet very many marketing, purchasing and irrigation cooperative societies work successfully in this and in some other countries on the principle of voting power proportional to the volume of business done by individual members. Such proportional voting is pragmatically approved as the sound cooperative rule by Dr. G. H. Powell<sup>25</sup> - one of the outstanding experts of the problem. Then there is the well-known cooperative principle that genuine cooperative associations should maintain the practice of unlimited membership, but the cases are numerous in which certain cooperative associations can only work on the basis of closed or even fixed membership (irrigation societies, livestock breeders' associations, control societies, etc.). Further, while the patronage dividends are understood to be the unique characteristic of cooperative associations, there are many conspicuously cooperative formations which cannot and do not pay any patronage dividends, due to the very nature of their activities (credit cooperative association) or due to the fact that they have no receipts available for distribution in the form of patronage dividends (irrigation cooperative societies). There is the deeply rooted conviction among the interpreters of cooperation and among the rank and file of cooperators themselves that the cooperative economic form is the specific organization designed to serve the needs of underprivileged groups of society, but the well-known facts of the inability of poor classes to organize stable and normal cooperative associations are in sharp contradiction with this axiom. Finally, there is the time-honoured opinion, supported by a very large range of experts of the problem, from M. I. Tugan Baranovsky to the rank-and-file propagandists of cooperation, that the cooperative movement is primarily "anti-capitalistic." Opposing this dictum, there is an important and rapidly growing group of cooperative associations (European associations for distribution of electrical energy) which cannot effectively function unless large "capitalistic" enterprises offer them their patronage and, therefore, become their regular members. Whichever single descriptive characteristic of cooperative organization we take, sooner or later it

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<sup>24</sup>See above, p. 11.

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

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

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

### Theoretical Studies

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

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

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

<sup>27</sup>Ed. Jacob, *Dr. Volkswirtschaftliche Theorie der Genossenschaften*. Berlin, 1913.

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

Besides numerous juridical essays<sup>30</sup> on cooperation, many value historical and descriptive publications,<sup>31</sup> and a large number of the propagandistic pamphlets (sometimes designated as "theories of cooperation"),<sup>32</sup> several original theoretical treatises were contributed by the Italian

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<sup>28</sup>M. I. Tugan Baranovsky, *Socialnya Osnovy Kooperacii*. Berlin, 1922.

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

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

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

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

economists, mostly by the followers of Maffeo Pantaleoni. Prof. Pantaleoni himself<sup>33</sup> published a short discourse on the "theoretical essentials" of cooperation, disclosing the hedonistic nature of the cooperative movement, and disavowing, therefore, the ascription to the movement of a spirit of altruism associated with cooperation by all its socio-reformistic propagandists.

Prof. Ghino Valenti's book<sup>34</sup> is a weighty contribution to the literature on the cooperative problem. Prof. Gh. Valenti states, after Pantaleoni, the hedonistic nature of the economic behaviour of cooperators. Valenti also points out with considerable emphasis that the cooperative movement is an organic part of the existing system of exchange economy, and not an alien socio-economic ingredient designed and destined to replace this system. The crucial point of the theoretical scheme of Valenti is that the cooperative problem in its economic aspect is primarily a problem of distribution. In the first chapter of his book he outlines "the laws of distribution" of income in conditions of the existing system and points out deficiencies, of which the fundamental one is that "a capitalist and owner of the natural factors of production is remunerated in the distributive process more and a workingman receives less than is adequate for their respective parts in production."<sup>35</sup> There are five "natural correctives" to overcome the deficiencies of distribution, according to Valenti, namely:

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

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

<sup>34</sup>Ghino Valenti, *L'associazione cooperativa contributo all teoria economica della cooperazione*, Modena, 1902.

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

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

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

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

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<sup>36</sup>Ghino Valenti, *L'associazione cooperativa contributo alla teoria economica della cooperazione*, Modena, 1902, pp. 34–36.

<sup>37</sup>*Ibid.*, pp. 53–72.

<sup>38</sup>*Ibid.*, pp. 73–252.

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

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

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

<sup>41</sup>*Ibid.*, p. 207.

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

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

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<sup>42</sup>Mariano Mariani, *Il fatto cooperativo nell'evoluzione sociale*, Bologna, 1906.

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

<sup>44</sup>Mariani, *op. cit.*, p. 21.

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

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

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

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

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<sup>45</sup>Mariani, *op. cit.*, p. 24.

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

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



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

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

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

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

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<sup>48</sup>M. Mariani, *op. cit.*, pp. 137-178.

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

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

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

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

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

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

<sup>50</sup>*Internationales Handwörterbuch des Genossenschaftswesens*. Berlin, 1929, §111.

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

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

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

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

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

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

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

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

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

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

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

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<sup>52</sup>Prof. Robert Liefmann, *Die Unternehmungsformen*. 3 Auflage. Stuttgart, 1923, §81.

or to complete acquisitive or consuming activities of their members.

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

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

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

### **Tests of Cooperations**

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

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

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<sup>53</sup>*Ibid.*, p. 81.

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

<sup>54</sup>Ch. Gide, *La Cooperation*. Paris, 1900.

<sup>55</sup>H. Schultze Delitzsch, *Schriften und Reden*. Berlin, 1909–1913.

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

<sup>57</sup>Prof. F. Staudinger, *Die Konsumgenossenschaft*. Berlin, 1927.

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

<sup>59</sup>Dr. Ed. Jacob, *Volkswirtschaftliche Theorie der Genossenschaften*. 1913.

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

<sup>61</sup>Prof. C. Fay, *Cooperation at Home and Abroad*. London, 1925.

<sup>62</sup>Prof. J. D. Black, *Introduction to Production Economics*. New York, 1926.

<sup>63</sup>*American Cooperation*, Vol. I. Washington, 1925, pp. 151–182.

<sup>64</sup>Prof. H. Filley, *Cooperation in Agriculture*. New York, 1929.

<sup>65</sup>G. H. Powell, *Cooperation in Agriculture*. New York, 1913.

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

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

<sup>66</sup>W. Sombart, *Der Moderne Kapitalismus*, Vol. III, p. 2. Leipzig, 1928.

<sup>67</sup>Prof. L. Cossa, *Economia sociale*. Milano, 1899.

Prof. A. Messedaglia;<sup>68</sup> and (c) theoretical – Dr. H. Fuchs,<sup>69</sup> Prof. R. Liefmann,<sup>70</sup> Prof. M. Tugan Baranovsky,<sup>71</sup> Prof. Gh. Valenti<sup>72</sup> and M. Mariani.<sup>73</sup>

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

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

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

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

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

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

<sup>70</sup> Prof. Robert Liefmann, *Die Unternehmungsformen*. 1923.

<sup>71</sup> Prof. M. I. Tugan Baranovsky, *Socialnyia Osnovy Kooperazii*. Berlin, 1922.

<sup>72</sup> Prof. Gh. Valenti, *L'associazione cooperativa*. Modena, 1902.

<sup>73</sup> M. Mariani, *Il fatto cooperativo nell'evoluzione sociale*. Bologna, 1906.

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



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

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

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

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

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

expectations: 29 tests out of 46 of the list are propounded by one author only and are not mentioned by any other expert. Out of 8 characteristics recommended by two authors, 4 tests contradict some of the other "essentials." Only 4 features are pointed out in three definitions, yet 2 of them are contested by other tests and the remaining 2 (mutual assistance, originated by the weak) help little in explanation of the problem. The only test acceptable to five authors (unlimited membership) contradicts the rule of restricted membership supported by other experts and the practice of some cooperatives. Out of two tests stressed by six authors one (voluntariness) has little explanatory value, and the other (union of persons) represents a misleading and, therefore, unfortunate substitute for the concept of enterprise.<sup>74</sup>

There is only one descriptive characteristic common to all cooperative associations in the opinion of ten authors out of twenty-three included in this survey. If the identification of two other formulas (union of persons, social unity) with this test is allowable, then fifteen experts out of twenty-three assume that a cooperative organization is an enterprise. As will be shown in the second part of this study, it is in this very assumption that students of the cooperative problem fatally err.

## Conclusion

This review leads to the seemingly indisputable conclusion that excepting Prof. Gh. Valenti, M. Mariani, Dr. H. Fuchs and Prof. R. Liefmann, no economist under survey endeavored to examine the cooperative problem as the problem of theoretical economics free or isolated from considerations of its practical significance (American interpretations) or its socio-reformistic potentialities (overwhelming majority of European interpreters of this problem) and strictly separated from the sociological (Prof. Tugan Baranovsky), ethical (the Webbs, Prof. Ch. Gide and many others) or legal (Ed. Jacob) implications. Gh. Valenti and M. Mariani were interested in the role of cooperative associations in the general structure of existing economic society without preliminary inquiry into the economic character of the cooperative organization itself. Prof. R. Liefmann has made far-reaching and highly suggestive remarks on the economic character of a cooperative body. He did not offer, however, a completed and coherent system of interpretation: his remarks, moreover, are conspicuously

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<sup>74</sup>See pp. 87-91.

indecisive and partly contradictory. Finally Dr. H. Fuchs' theoretical outline covers only the "productive" associations, which actually do not exist.

Thus the cooperative problem in its entirety still remains almost untouched as a problem of theoretical economics. And as long as it remains in such a state the simple question of President R. Pattee, as to what an association has to do to be considered cooperative, cannot be answered.

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## PART II

### COOPERATIVE ORGANIZATION AS AN ENTERPRISE

The modern economic order is built around the concept of enterprise, the correlate of which in income is profit.

G. H. Knight  
*Profit*

Our science is suffering with regard to the fixation of conceptions and terminology, from the state of dissolution which may most nearly be described as a state of anarchy.

Gustav Cassel  
*Fundamental Thoughts in Economics*

## PART II

## COOPERATIVE ORGANIZATION AS AN ENTERPRISE

## Setting of the Problem

The fundamental errors of the surveyed interpretations of the cooperative problem are primarily methodological:

- a) indeterminateness of approach
- b) confusion of different aspects of the cooperative problem and
- c) incompleteness of the field covered by the interpretations, which leads to non-comprehensiveness of the conclusions.

Each of these three errors taken separately is sufficient to obscure the interpretative value of an inquiry, while their combination leads nowhere but toward a cumulative maze of confusions and contradictions well illustrated by the "tests" of true cooperation listed above.

A refined theoretical analysis of the cooperative problem is indispensable and the only possible avenue of approach if an explanation of the economic nature of cooperative organizations is pursued. Any practical considerations – however important – are absolutely out of place at this stage of treatment of the cooperative problem. All the socio-therapeutic doctrines either inherited from Owen or offered in our days by the Webbs, Prof. Ch. Gide, Prof. F. Oppenheimer and others are quite incompatible with the theoretical approach to the problem. If an economist in his treatment of cooperation endeavors, even with the best intentions, to direct economic behaviour, to make proposals for the cure of existing socio-economic evils or in any other way to express his views on matters of economic policies,<sup>1</sup> he necessarily departs from the

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<sup>1</sup>Even in descriptive literature on cooperation, the writers are inclined to lay certain emphasis upon the cooperatives which are "permanently successful." This tendency obviously diverts the attention of the describer from the idea of cooperative organization to that of successful organization. Meanwhile, some

realm of theoretical economics. All the interpreters of the cooperative problem surveyed in the first part of this study with the exception of M. Mariani, H. Fuchs and R. Liefmann, have failed to satisfy this methodological prerequisite.

On the other side the existing systems of theoretical economics offer no place for the cooperative problem and the subject of economic forms has generally remained almost untouched since the days of J. B. Say.

The cooperative problem is a problem of manifold aspects and may be theoretically examined in many cross-sections, but the present study is concerned strictly and exclusively with its economic aspect. For the students of cooperation this problem has been proved to be exceedingly difficult for distinctly economic examination, and probably in no other economic field have "an arbitrary way of proceeding and the influence of non-economic points of view" (Cassel)<sup>2</sup> had a more pernicious effect. Sociological, ethical, legal and technical considerations are usually interwoven with the economic examination of the cooperative problem by its students and propagandists. Only R. Liefmann, H. Fuchs and M. Mariani, among the interpreters surveyed, have succeeded in isolating the economic aspect of the cooperative problem, and, oddly enough, their conclusions sharply contradict the most widely professed and most firmly established opinions.

There is a very common mistake in the literature on cooperation: namely, to confuse economic concepts with the conventional terminology of accounting. Such terms as "profit," "capital stock," "dividends on stock," etc., when used in the writings on cooperation, should be in most cases taken with reservations. In the later chapters of this study, rather numerous cases will be cited in which a careful separation of the economic conceptions from the conventionalities of accounting seems to be imperative.

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cooperative associations cannot be successful in the pure cooperative form (productive associations), but their stability and chances to succeed increase proportionally to the degree of their departure from the cooperative type.

<sup>2</sup>G. Cassel, *Fundamental Thoughts in Economics*. New York, 1925, p. 43.

The third and the last basic methodological requirement for the proper setting of the problem under discussion is the integrity of the problem involved. A theoretical treatment of the economic scheme of cooperation cannot help to clarify the problem unless the whole range of cooperative organizations is covered by this scheme. All the concepts of cooperative organization based on the experience of single groups of cooperatives (the marketing associations described by the American students, the consumers' stores interpreted by the English and French social philosophers, the credit cooperative associations of the German economists, etc.) being partial generalizations, are inescapably misleading. It is due to this deficiency that the theoretical scheme of Dr. Hans Fuchs, despite his penetrating analysis of productive associations, cannot have a general explanatory value for orientation in the kaleidoscopic diversity of existing cooperative forms.

Finally, the object of study should be clearly defined from the very start. It is customary among the interpreters of the cooperative problem to discuss "cooperation." Yet cooperation is nothing but the conventional designation for the infinitely diverse and ever-varying cooperative organizations, their unions and federations. An economic analysis shall be directed, therefore, toward the examination of a cooperative economic type, around which all the actually existing varieties of cooperative associations are centered. It is obvious that the attention of the student should be focused primarily, if not exclusively, on the primary or elementary cooperative formation since in this very elementary cooperative cell all the basic economic characteristics of cooperative organization are concealed. The secondary and tertiary organizations of cooperative bodies (their unions and federations) being the derived forms bear certain additional or secondary traits, but they cannot have any basic (either structural or functional) economic characteristic, which is not inherent in the primary cooperative associations. A defect of M. Mariani's theoretical system is that he has endeavored to characterize the place of cooperative associations in the general structure of the market, but has not attempted to trace the innate economic features of the cooperative body itself, thereby failing to state and explain its economic nature. Thus, in all the history of cooperative doctrines, only Prof. R. Liefmann, in his study of economic forms, has formulated his idea of cooperative type of organization. His remarks on this central point of the cooperative problem are, however, cursory, incomplete, indecisive and even contradictory.

It is indeed an astounding fact that economists not only have avoided an analysis of the cooperative type of economic organization, but have felt a certain repulsion to such setting of the problem. The following dialogue from the Conference of the American Institute of Cooperation between the President of this Institute and the Leader of the Round Table Conference, one of the most authoritative students of the cooperative problem, Dr. E. G. Nourse, illustrates such an attitude fairly well:

*Dr. Nourse:* Mr. Pattee, I wondered why you suggested that we go into this discussion. What do you want to get out of it? You are the manager of a cooperative association. What good is a definition for you?

*Mr. Pattee:* I am wondering whether I am or not.

*Dr. Nourse:* Do you care? Is it just a matter of academic curiosity?

*Mr. Pattee:* I know I am the manager of an association. I just wanted to learn something myself. I have sometimes thought I was like a patient in the story who called in a specialist to diagnose his case. The doctors could not agree among themselves, but the post mortem disclosed the trouble. That is all right for the specialist, but it is awful hard on the patient.... Mr. Chairman, I want to add further, so that I may not be misunderstood, that it seems to me that there is a tendency on the part of the people to misunderstand the purpose and the intent of the cooperative movement. It may be possible to seize on that name and apply it to a process or operation, or identify it in the public mind with practices which are not the purpose and the intent and the object of those of us here who are interested in what we call the cooperative movement. I wish that in the public mind all over the country and throughout the world there could be sufficient identification of the cooperative movement so that the general public whose will will be enacted upon it through legislation, may not misunderstand the purpose and object we are after. Not that I think that it ought to be laid down in a cast iron mold, but whether it is



a commendable purpose or otherwise must stand upon judgment of the public, and the public should know the real purpose and intent back of this thing.

*Dr. Nourse:* Would you be so good as to go on and suggest what you have in mind and set yourself up as a strawman, if you please?

*Mr. Pattee:* My dear Sir - there is no man in this audience who has been so thoroughly ripped up the back and across the belly as I have been. I have been shot and perforated and filled so full of holes. I think it is somebody else's turn. Especially do I think it is your turn. I do not mean you particularly or personally, but man of your opportunities, who have had a chance to study this, because most of us have been trying to do things which we thought were cooperative but which we have been told were not by those who have studied this thing. So I wanted to know, if those who have studied it have agreed among themselves as to what it was we should do. I think it would help us very much.<sup>3</sup>

This very definition of the cooperative type of economic organization is the final goal of this inquiry. Yet the definition of cooperative organization, as it is to be understood here, is much more than "merely laying down boundary lines for the purpose of classification," as Prof. O. B. Jesness interprets it.<sup>4</sup> In the opinion of Gustav Cassel,<sup>5</sup> no name or definition should be introduced "before the thing which has to carry the name is distinctly understood. The first task, therefore, is an analysis of what is essential in the facts and relations of economic life. Not until this is clear are we able to draw distinctions which correspond to

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<sup>3</sup>*American Cooperation*, Vol. 1. Washington, 1925, pp. 164-166.

<sup>4</sup>*American Cooperation*, Vol. I, p. 161. Washington, 1925.

<sup>5</sup>Gustav Cassel, *Fundamental Thoughts in Economics*. New York, 1925, p. 43.

economic essentials and only then the time is ripe for the introduction of definitions."

It is the purpose of this study to concentrate attention on the analysis of the economic – structural and functional – essentials of cooperative organization and on the ground of such analysis to delineate the general economic conception of cooperative organization as distinct from the non-cooperative economic bodies.

The concept of the economic character of the cooperative type of organization thus developed will have its explanatory or theoretical significance only if – and only as much as – this concept –

1. Discloses indisputably the economic character of the cooperative form of organization in contra-distinction to that of all non-cooperative economic formations and helps to draw a sharp line of cleavage between them;
2. Offers a precise and defensible explanation of all the economic peculiarities of cooperative associations;
3. Presents such explanation in one coherent logical unit;
4. Considers all the diversity and infinite variability of actually existing cooperative associations;
5. Explains the remarkable economic achievements in some lines of cooperative activities and the discouraging failures in the others;
6. Throws light on the enigmatic intricacies of the geographical distribution of the cooperative movement;
7. Aids the explanation of the origin of the cooperative movement and of its historical development, and generally
8. Gives an orientation about the place and role of the cooperative movement in existing economic society.

**Cooperative Association as an Enterprise**

Assumption that a cooperative association is an enterprise is the sole "test" which, out of twenty-three formulas previously quoted, is uniformly included in ten definitions of true cooperative organization (see above, p. 29): J. D. Black,<sup>6</sup> R. H. Elsworth, R. Pattee, H. Fuchs, R. Liefmann, F. Staudinger, M. Tugan Baranovsky, M. Mariani, Gh. Valenti, and H. Müller mention it in their formulas. They all emphasize this point as the basic economic characteristic of cooperative organization. Six more definitions, those of H. Filley, Ed. Jacob, H. Kaufmann, W. Sombart, A. Anziferoff, and F. Staudinger, use a supposedly equivalent phrase, "union of persons," instead of "enterprise" apparently with the idea in mind that being "unions of persons" and not "unions of capitals," the "cooperative enterprises" thus differ from stock corporations. Werner Sombart,<sup>7</sup> for instance, defines the cooperatives as the free unions of economically weak persons with the purpose to improve their economic standing by the use of large scale business methods." Then he continues:

Such a formula embraces all the real cooperative associations - productive, purchasing, marketing, credit associations and consumers' stores; on the other side it separates them from various other economic formations: from the obligatory corporations they differ in being "free"; from the stock corporations and similar forms by the term "unions of persons"; from the capitalistic cartels and syndicates by the trait "economically weak" (otherwise why is an association of carpenters a cooperative, and an association of coal mine owners a syndicate? The legal form in both cases is identical).<sup>8</sup>

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<sup>6</sup>Prof. J. D. Black uses the term "business unit."

<sup>7</sup>W. Sombart, *Der moderne Kapitalismus*, Vol. III, 2nd Half-band, §986.

<sup>8</sup>W. Sombart, §§986-987.

Dr. H. Müller<sup>9</sup> in his formula specifies the term "enterprise" by the additional characteristic "social unity" as the specific shade of "cooperative enterprise." With the exception of the sagaciously worded definition of Dr. G. H. Powell,<sup>10</sup> the other definitions quoted tacitly assume an entrepreneurial nature of cooperative organization and only emphasize the specific features of "cooperative enterprises" which distinguish them from the ordinary, speculative, or capitalistic enterprises. The sensational character of the Rochdale initiative, according to prevailing opinions, is due to the fact that enterprise as an economic form was so radically transfigured by the twenty-eight humble followers of Owen in 1844 that "a cooperative enterprise" became free from the most sinister element of existing economic system, viz., from profit. The supposed revolutionary socio-reformistic destiny of cooperation is thus ascribed to this very modification of the ordinary enterprise.

The following questions appear to be, therefore, the fundamental points in the theoretical analysis of the cooperative problem:

- a) whether a cooperative organization is a species of enterprise or not?
- b) if it is a modified enterprise what are its specific economic characteristics?
- c) if it is not an enterprise, what kind of economic body is it?

These questions are central in the theoretical economic analysis of the cooperative problem, since all the basic economic characteristics of cooperative organization should be reconciled with a certain and clearly stated concept of the cooperative as an economic organization. The detailed characteristics obviously ought to be consistent with the assumed economic character of a cooperative association. Thus, if the assumption of the cooperative organization as an enterprise is employed all the inherent economic traits of cooperative organization should be

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<sup>9</sup>H. Müller, "Zur Kritik der Genossenschaftsbegriffe," *Conrad's Jahrbuch*, Band 66, §55. 1923.

<sup>10</sup>In the formula of Dr. Powell the term "their own agency" is adopted instead of terms "enterprise" or "business unit." *Principles and Practice of Cooperation*, 1920, p. 4.

interpreted as the traits of a special variety of enterprise and expressed in corresponding terms. If such an assumption is found to be erroneous, or if the intrinsic features of cooperative organization are found incompatible with the cooperative as a variety of enterprise, then obviously the economic nature of the cooperative form must be reconsidered and redefined in such a way as to be consistent and not contradictory to all the intrinsic economic features of the actually existing cooperative associations.

Other starting points of discussion might be and should be chosen in sociological, political, ethical, legal or technical interpretations of cooperation, but in economic analysis the question formulated above is not only basic, it appears to be the only possible point of departure. The question whether a cooperative association is an enterprise or not, in spite of its popularity among interpreters of cooperation, is more difficult to answer than it may seem at the first glance. Its difficulty lies in the fact that it is not definitely known: (a) what is a cooperative organization and (b) what is an enterprise. Such an equation, with both quantities unknown, cannot be obviously solved before the evaluation of at least one of its parts. Since in all definitions of cooperation the concept of enterprise is used as the generic concept in relation to the conception of cooperative association, a solution of the question under discussion depends upon the clarity and exactness of this concept.

### Concept of Enterprise

The use of ambiguous terms, though probably inevitable in colloquial language, cannot have a place in scientific discourses. Meanwhile, the term "enterprise" is used by the interpreters of cooperation with the ambiguities of its colloquial usage and as such is utterly misleading. In the colloquial usage the following meanings<sup>11</sup> are attached to the term "enterprise":

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<sup>11</sup>The meanings and the synonyms listed are taken from the dictionaries: *Webster's Standard Dictionary*, 1933, p. 731, and *Funk and Wagnall's Standard Dictionary*, 1921, p. 828.

1. That which is, or is to be undertaken;
2. An attempt, or project, especially one which involves activity, courage, energy or the like;
3. A bold, arduous or hazardous attempt;
4. An important undertaking;
5. Willingness or eagerness to engage in what requires boldness, energy and the like;
6. Management;
7. That which one attempts to perform;
8. Any projected task or work upon which one sets out;
9. An undertaking, especially a bold or difficult undertaking, as the enterprise of tunnelling the Alps;
10. Scheme;
11. Essay;
12. Venture;
13. Act of engaging, or disposition to engage, in difficult undertakings;
14. Boldness;
15. Energy;
16. Invention exhibited in practical affairs, especially in business.

Thus the closest synonyms of the term enterprise in common use are - "attempt" and "undertaking." The following specific shades are given in Crabb's dictionary to make the distinctions among these three synonyms:

The idea of something set about to be completed is common to the terms - attempt, undertaking, enterprise. An attempt is less complicated than an undertaking; and that less arduous than an enterprise. Attempts are the common exertions of power for obtaining an object; and undertaking involves in it many parts and particulars which require thought and judgment; an enterprise has more that is hazardous and dangerous in it; it requires resolution. Attempts are frequently made on the lives and property of individuals; undertakings are formed for

private purposes; enterprises are commenced for some great national object.<sup>12</sup>

Thus in colloquial usage the term enterprise appears to be utterly indefinite and deceptive. It is used most commonly as a synonym of the term "attempt" (scheme, project, venture, anything hazardous, etc.) and is identified with the concept of management or confused with the idea of entrepreneurship. It is astonishing that this term is not interpreted to mean a certain economic organization. However, this is the only possible meaning of the term in the context of the formula, "cooperative organization is a form of enterprise."

### Term "Enterprise" in Economic Literature

The meanings attached to the term enterprise in colloquial language are listed above to show that this term, when used in economic literature, is just as indefinite and shifty in its meanings. For example:

1. It is used to signify any attempt,<sup>13</sup> or to mean alertness, bold initiative.<sup>14</sup>
2. It is confused with the concept of entrepreneurship<sup>15</sup> or
3. It is not clearly distinguished from the concept of management.<sup>16</sup>

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<sup>12</sup>Crabb's *English Synonyms*, p. 87.

<sup>13</sup>*The Trends of Economics*. New York, 1924, p. x.

<sup>14</sup>Speaking on the joint stock companies, A. Marshall says: "they seldom have the enterprise, the energy, the unity of purpose, and the quickness of action of a private business." *Principles*, p.604. H. R. Seager, *Introduction to Economics*. 1908, p. 143.

<sup>15</sup>R. T. Bye, *Principles*. 1924, p. 142. E. R. A. Seligman, *Principles*. 1905, pp. 281, 320.

<sup>16</sup>A. Marshall, *Principles*, p. 74; H. R. Seager, *Introduction to Economics*. New York, 1908, p. 143.

4. It is used "to refer to the part of the business involved in turning out each separate product"<sup>17</sup> and
5. It is also used to designate "businesses as a whole."<sup>18</sup>

Only the last interpretation of the term is consistent with the context of formulas defining a cooperative organization. Only in this sense with strict elimination of all its other shades of meaning will the term enterprise be used in this study. It is almost inexplicable that the concept of enterprise thus interpreted is avoided in economic literature. The term enterprise in this sense is seldom mentioned in the recognized *Principles of Economics* and excepting very rare remarks scattered through economic literature, has never been thoroughly defined. From this point of view it is highly symptomatic that reference to enterprise is omitted in such standard publications of reference as *Palgrave's Dictionary*, *Encyclopedia Britannica* or in the recently published *Encyclopedia of Social Sciences*.

The conception of enterprise is the cornerstone of the theoretical system of Herbert J. Davenport, yet in his *Economics of Enterprise* he made his notable definition of economics and left the conception of enterprise undefined.

Besides using the term enterprise loosely, there is undoubtedly a considerable uncertainty as to the exact and proper meaning of the concept of enterprise as an economic organization. It appears that the conception of enterprise is somewhat underdeveloped as is demonstrated by Prof. Robert Liefmann, one of the few economists who has attempted to define this conception.

In 1913 in his book *Die Unternehmungsformen*<sup>19</sup> he made the following definition of enterprise: "An organization engaged in production of stocks of goods for a market is an enterprise." Ten years later, in the third edition of the same book, he remarked that though he

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<sup>17</sup>J. D. Black, *Production Economics*. 1926, p. 204.

<sup>18</sup>*Ibid.*, p. 205.

<sup>19</sup>R. Liefmann, *Die Unternehmungsformen*. 1923, p. 5.



still finds this formula correct it is not, in his opinion, sufficient: not every economic organization producing alienable goods is an enterprise but only those organizations which are based "on calculation of their capital."<sup>20</sup> Thus he changed radically his first conception of enterprise covering all the organizations producing for a market and limited the concept to covering only the so-called capitalistic enterprises. "A small acquirer," he comments, "such as a peasant does not make any calculation of his capital; his own labor and that of the members of his family play such an important role for him, that he does not consider the means of production employed in his economy as capital; he is interested only in calculation of his profits and losses and not in his balance-sheet. All the large acquisitive economies, on the contrary, set out from a definite capital and its potential accrument: they are enterprises."<sup>21</sup>

It is obvious that the new formula of R. Liefmann is not simply a more exact form of his first definition of enterprise, but a radical change of the conception itself.

More comprehensive appears to be the old definition of enterprise proposed by Gustav Schmoller:

Where single persons, families or collective personalities invest and employ their capital and labor in accordance with the existing customs and laws in some lasting organization with the purpose of acquiring a profit through purchases and sales for their living expenses or at least for covering of their costs, there we speak of an enterprise.<sup>22</sup>

Thus interpreted the conception substantially differs from Liefmann's idea of enterprise - it embraces the whole range of existing

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<sup>20</sup>*Ibid.*

<sup>21</sup>*Ibid.*, pp. 5-6.

<sup>22</sup>Gustav Schmoller, *Grundriss der allgemeinen Volkswirtschaftslehre*. 1900, Part I, p. 413.

acquisitive economies including those based "on the calculation of their capital" (Liefmann) as one of the sub-groups of enterprises.

The conception of enterprise as delineated by Schmoller:

- a) relates exclusively to acquisitive economic organizations, and
- b) embraces their whole, almost infinitely wide, range.

For the purposes of this study, the definition of Schmoller needs to be somewhat explored:

- 1) to reveal certain cardinal economic characteristics inherent in every enterprise which are implicitly assumed by Schmoller's formula, or at least are perfectly consistent with this formula, and to underline them with necessary and justifiable emphasis,
- 2) to tie up the conception of enterprise with the closely related and logically inseparable concept of household, and combine them into one organic totality, and
- 3) to find some common denominator for all the infinite diversity of enterprises and households as they actually exist, thus overcoming the confusing disarray of opinions and interpretations in regard to these economic organizations.

It leads us to a discussion of the concept of the economic individual or economic unit, a generic conception covering enterprises and households.

### Concept of Economic Unit (Economic Individual) as the Basic Economic Concept

If "the competitive economy is an exchange economy and, therefore a price economy,"<sup>23</sup> it also is an individualistic economy, in the sense that a society is dissociated into separate economic bodies or

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<sup>23</sup>Herbert J. Davenport, *Economics of Enterprise*. New York, 1916, p. 31.

economic individualities functioning under the competitive price regime.<sup>24</sup> There is, therefore, a complete tautology in these designations of the same object from three different angles and the conceptions are but corollaries of each other.

If a price "is the central and pivotal fact"<sup>25</sup> in the existing economic system as its basic functional characteristic, the concept of economic individual or economic unit is obviously just as cardinal a structural attribute of such system: the economic units are the subjects of all "the wealth-getting and wealth-using activities of men" (Ely) in the existing economic order.<sup>26</sup>

It is not an easy task to make the general definition of the conception of economic unit: the economic conceptions may be examined from different angles and, therefore, may be defined in many different ways; it is understood that all such definitions relate to the same concept contemplated from the different points of view and do not distort or change this concept. The conception of economic unit as it is employed in this study is almost of boundless coverage and, therefore, can be described only by a few and general economic characteristics, each accompanied by numerous implications often indefinite and variously interpreted by the representatives of the different lines of approach to the problems of theoretical economics. The concept of economic unit is so wide indeed that it is very close in fact to a group of logical categories (such as substance, quantity, quality, relation, etc.) which because of their all-embracing coverage are actually undefinable.

The following features appear to be the most salient general characteristics of economic units:

- a) An economic unit is a separate economic identity, an economic monad; it is clearly distinguishable from its

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<sup>24</sup>Prof. A. Amonn, *Grundzuge der Volkswohlstandslehre*. 1926, §46.

<sup>25</sup>H. Davenport, p. 28.

<sup>26</sup>An assumption of competitive exchange economic system is the fundamental economic postulate of analysis of the cooperative problem in this study.

- economic environment and is living and functioning within the economic world as the distinct economic body;
- b) An economic unit to be capable of individual economic functioning must be a completed economic body;
  - c) An economic unit thus contemplated and interpreted is inconceivable without definite and far-reaching integration of its component parts; an economic unit is necessarily the economic whole.

With these general preliminary remarks an economic unit or economic individual may be defined as follows:

An economic unit or economic individual is an economic body admittedly complete and sufficiently integrated for individual existence and independent (in conditions of exchange economy - interdependent) economic functioning.

### **Economic Individuals and Physical Persons**

It appears to be self-evident that an economic individual is not necessarily a physical individual: in fact, these two cases rarely coincide. The most common case of an economic individual is a family unit. Collective economic individuals are numerous and increasingly important in existing conditions and some of them are of gigantic proportions (some stock corporations, communes, municipal units, stock economic units, etc.).

It is of importance to point out that all physical persons in their economic activities bear a sign of their relation to or their connection with some economic unit; they are either entrepreneurs, wage earners, creditors, debtors, renters, tenants, householders or members of some household, etc. The entire economic behavior of single persons is defined by such relationship with the economic units. Outside of economic units nothing "economic" can or does exist and physical persons disconnected from economic units are not conceivable by the economist.

The existing exchange economic is thought to represent a system of interdependent economic units in contradistinction to a society based

on self-sufficiency with its isolated and perfectly independent economic units or to a socialistic society as one economic unit not dissociated into any economic separateness.<sup>27</sup>

All economic activities of getting wealth and of using wealth in existing conditions are the activities of economic units which may be contemplated and examined in two principal aspects: in the aspects of their acquisitive (getting wealth) and of their spending (using wealth) functioning.

Within the existing exchange economic system an economic unit in its acquisitive aspect represents an enterprise and in its spending or wealth-using aspect represents a household.

Thus defined, the concept of enterprise seems to be perfectly consistent with the definition of G. Schmoller and, outlined purposely with such wide bounds, underlies the theoretical system of H. Davenport.<sup>28</sup>

There are certain obvious advantages in interpreting enterprises and households in terms of economic units. It helps to disclose some of their intrinsic economic characteristics. Thus it ties the enterprises and households into one logical whole. Actually, acquisitive and spending functions are combined in economic individuals, and their correlations in economic units give firm ground for the classification of these units and for orientation in the almost infinite variety of existing economic formations. The concept of economic unit in its two aspects is further important as a common denominator for all existing economic organizations which may be contemplated either as economic units, their fractions or their higher derived formations. In this very sense this conception is of exceptional importance in a study of cooperative organizations. With the concepts of enterprise and of household thus interpreted, and,

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<sup>27</sup>Prof. Peter von Struve, "Osnovnyia Poniatiia Ekonomitscheskoi Nauki" ("Fundamental Concepts of Economic Science", *Ekonomichesky Vestnik*, Vol. II. Berlin, 1923, pp. 3-17.

<sup>28</sup>H. Davenport, *Economics of Enterprise*. Particularly pp. 28-29 and 138-139.

therefore, covering the entire field of economic reality, economics may be defined as a science of enterprises and households. This is identical in its meaning with Davenport's definition of this science: his formula is put here only in morphological terms.

### Fundamental Economic Characteristics of Enterprise

The chief economic features of enterprise as they are pointed out or implicitly assumed by G. Schmoller, or as they may be deduced from an interpretation of enterprise as an acquisitive economic unit, therefore, are as follows:

- a) an enterprise is an economic formation of a competitive exchange economic system;
- b) enterprises may be either individual (one person or family) or collective ("collective personalities" of Schmoller's formula) acquisitive units;
- c) an enterprise is an acquisitive organization designed to realize an income in form of residue between the prices paid for goods and services purchased or otherwise absorbed and the prices received for goods and services sold or otherwise alienated; in other words a profit is the only possible form of income in enterprise;
- d) the income of an enterprise being residual may be positive (profit) or negative (loss), but enterprises that continue to function without positive incomes are doomed to disappear sooner or later and are inconceivable as permanent acquisitive organizations;<sup>29</sup>
- e) every enterprise, being an acquisitive economic unit,
  1. strives toward maintenance of its economic individuality and of its independent economic functioning;

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<sup>29</sup>Prof. Eugen Philippovitch, *Gründriss der politischen Oekonomie*. 1915, §46.

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2. has necessarily its own single acquisitive (entrepreneurial) plan;<sup>30</sup> an enterprise is literally a planned economy;<sup>31</sup>
3. is always an integrated economic body with all its component parts functioning as the integral parts of the body and in this sense strictly subordinated to the whole;
4. is characterized by the centripetal forces which are always at work in every normal enterprise and which maintain its integrity and its acquisitive functioning.

### General Characteristics of Household

Enterprises and households being economic units in different aspects are bilaterally symmetrical like the two halves of an animal body: every household represents an economic unit in its spending (wealth-using) aspect:

- a) Households, like enterprises, are individual (one person or family) or collective unities;
- b) Being economic units, households, like enterprises, are characterized -
  1. by inclination to maintain their individuality;
  2. by their plan of economic functioning (budget),<sup>32</sup> and
  3. by strict integration of all parts within the household.

<sup>30</sup>Prof. F. von Gottl-Ottlilienfeld, *Bedarf und Deckung*. 1928, §§12-13.

<sup>31</sup>Hence the idea of a "Five Years Plan" in the Soviet Union supposedly a socialistic state, i.e., the state transformed into one economic unit.

<sup>32</sup>Abundant materials on the budgets of households in the United States might be found in several Reports prepared by the National Resources Committee ("Consumer Income in the U.S.," 1938; "Consumer Expenditure in the U.S.," 1939; "The Consumer Spends His Income," 1939) and by the Bureau of Labor Statistics, U.S. Department of Labor (Bulletins No. 642, 643, 644, 645, 646, 647, 648 and 649 published in 1939-1940). These studies are based on the data gathered in 195-1936 in the country-wide survey of budgets made by the Urban Study Consumer Purchases.

Stating these traits of similarity between enterprises and households we do not overlook the fact that the households are generally less rational and less rationally than are enterprises.

- c) While an enterprise as an acquisitive economic unit is inconceivable without profit as its specific form of income, a household as a spending unit is inconsistent with any acquisition or any form of income. That such "pure" type of household is exceptionally rare<sup>33</sup> is obvious: normally, some acquisitive (productive) functions are not completely eliminated from householding. Such functions as home baking, kitchen work, laundry, repairs, and generally the whole sphere of domestic services are distinctly acquisitive and in the interests of clarity of the concept should be regarded as an acquisitive admixture of householding. In rural households such admixtures are usually greater than in the urban units, and the same is true with regard to agricultural countries in comparison with the industrial countries. But even in the most advanced industrial countries some important branches of industry still remain in their phase of formation and cannot absorb completely their corresponding activities from the households: the commercial laundries, the baking industry, the restaurants, etc., belong to this group. In all cases where such acquisitive elements within wealth-spending economic units are subsidiary and secondary in importance in the general framework of the units and where the motives of wealth-

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<sup>33</sup>It is not a *reduction ad absurdum* of the logical category of household here employed for orientation among the actually existing variants of households. The concept of household thus understood is similar in that respect to the universally accepted conceptions used in Chemistry, which is exact science: the chemists use, for instance, a concept of water-described by the symbol  $H_2O$ , being fully aware that actually a "water" represents a wide range of solutions and that an absolutely pure water cannot be prepared. But even if it could be prepared it would differ from the standard conception since it would be partly dissociated and dissociated water is not a "water" in the strict sense of the word and cannot be described by the symbol  $H_2O$ .



spending decisively predominate and define the economic behaviour or organization, we will refer to households.

### Types of Cooperative Organizations

With the concepts of enterprise and of household thus stated for consistent use throughout this study, we are now in a position to start the analysis of the cooperative problem, or at least to decipher the most important and most widely accepted thesis of the interpreters of this problem, that a cooperative organization is an enterprise. The first task in such an analysis, obviously, is to state the object of analysis, i.e., to fix our conception of cooperative organization. It has been shown in the first part of this study that opinions on what the true cooperative organization really is differ, vary and contradict each other. At this stage of discussion, therefore, we cannot fix precisely the object of our analysis, but we can overcome such a methodological impediment by a tentative and conventional outline of a cooperative type of economic organization, according to prevailing opinions among the students of this problem. According to prevailing opinions, there are two types of economic organization toward which all the existing cooperatives are tending, namely:

- a) Non-stock, non-profit cooperative associations, and
- b) Cooperatives of the Rochdale pattern (capital stock associations).

It is highly significant and symptomatic of our state of knowledge of this subject that these two conceptions of a cooperative organization are descriptive rather than analytical, and are usually discussed separately in economic literature, without any attempt at synthesis of the general idea of cooperative economic form underlying both groups. In the words of Prof. F. von Wieser, for instance, the cooperatives "carry out either the purely cooperative idea or combine it with that of the stock company."<sup>34</sup> His remark on the cooperatives carrying out "the purely cooperative idea" – indefinite as it is – relates obviously to the associations of non-stock, non-profit type. Such an emphasis on the purely cooperative nature of non-profit associations

<sup>34</sup>F. von Wieser, *Social Economics*. New York, 1927, p. 326.

implies an assumption that the Rochdale type of association is not the purely cooperative type; this statement is in surprising contradiction to a thesis of Sidney and Beatrice Webb,<sup>35</sup> who are of the opinion that the consumers' cooperatives - all without exception the capital stock associations of the Rochdale pattern - are the only true cooperatives. These two types of cooperative organizations embrace the whole range of associations usually interpreted as cooperative, and we have no other way of approach to the problem than to examine both types separately, in order to find out what kind of enterprise, if any, they represent.

### Non-Stock, Non-Profit Association As an Enterprise

This type of cooperative association was initiated in Germany by F. Raiffeisen: in 1869 in the Rheinisch village, Heddesdorf, was organized Raiffeisen's first Darlehnskasse (rural bank) without any capital stock. Such "Raiffeisen's associations" spread gradually in many agricultural countries, and at present they represent probably the most numerous group of cooperative associations. True, the initial pattern of rural bank has later been somewhat modified by Raiffeisen. After a long struggle with Dr. J. Schultze-Delitzsch, originator of the "popular banks," Raiffeisen introduced the small-shares feature according to the requirements of the Reich's law on cooperative associations initiated by Dr. Schultze (1876). Later, cooperatives without capital stock, or at least without any dividends payable on stock, developed in other lines of economic activities in Germany, and in many other countries including the United States of America. Many cooperative dairies and bacon factories in the Scandinavian countries have no capital stock of any kind and start their work with long-term loans which are repaid by the membership proportionally to the volume of business done by each member. Many marketing cooperative associations in this country, including the famous California Fruit Growers' Exchange, the irrigation cooperative societies, the cow-testing associations, the livestock breeders' societies, the cooperative insurance associations and others, do not pay any dividends on "capital stock." Generally speaking, the cooperatives of the "non-stock, non-profit" type play an outstanding and increasingly important role in the modern cooperative movement.

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<sup>35</sup>B. & B. Webb, *The Consumer's Cooperative Movement*. 1921, p. viii.

### Elements of Enterprise in Non-Stock, Non-profit Cooperative Associations

The conception of enterprise as it has been previously outlined is characterized by the following fundamental and irrevocable feature: an enterprise is an acquisitive economic unit. Acquisition is the primary economic function of enterprise thus interpreted, just as spending (consumption) is the basic economic function of a household. The idea of an enterprise which does not acquire is illogical, just as is the assumption of a household which does not spend (consume), or of salt which is not salty, or of light which does not shine. All such assumptions combine two ideas which eliminate each other.

A non-stock, non-profit association is explicitly a (non-profit) non-acquisitive economic body, i.e., is not an enterprise. One of the most significant characteristics of a true cooperative association, the cardinal rule of a truly cooperative work, and one of the indisputable dogmas of the traditional philosophy is the principle of services at cost. The only possible form of income which can be realized by an enterprise as such on the other hand is a residual entrepreneurial income (profit). The groups of cooperative associations under discussion are designed to eliminate this very kind of income (non-profit associations). Not only profit is eliminated in principle in these associations, but any possibility of entrepreneurial income is absolutely incompatible with the cooperatives of this pattern.

It is one of the strong convictions among cooperators that only the members should be allowed to participate in economic activities of cooperative associations; if participation of outsiders is permitted in some bona fide cooperatives these outsiders are entitled to all the privileges and advantages of regular members, including the right to receive patronage dividends, distributed proportionally to the volume of economic participation in activities of the association by the members. In many groups of cooperatives of the non-stock, non-profit type, any business dealings with outsiders are actually impossible. With the economic activities limited to dealings with their members only, the cooperative associations have as their sole source for earning any profits the business transactions of their members. The members of the cooperative credit associations, for instance, have no other way to accrue any surpluses but through increased rate of interest payable by

themselves on the loans. Such a procedure of profit seeking would be obviously utterly absurd. Many non-profit cooperatives cannot have any surpluses because they have no other receipts from their members except the prorated payments covering actual current expenses of the association. For example, the salary of the manager and some other small office expenses are the only current outlays of a cow-testing association, a typically non-stock, non-profit cooperative, and they are covered by the payments of members proportionately to the number of their cows under the control of the association. The association has no other receipts of expenses of any kind and all the economic gains from the work of association membership accrue directly at the farms of the participants. A still more convincing illustration of the inconsistency of the non-profit cooperative association with any entrepreneurial income is found in the cooperative fire insurance associations. This type of cooperative association is relatively very old, is well established and widespread in many countries of Europe and in the United States. There are about two thousand farmers' cooperative fire insurance societies in active operation in this country, which carry risks amounting to more than \$10,000,000,000<sup>36</sup> or about fifty percent of the insurance in force on farm property. A great majority of such associations operate in only one county or a part of a county; a few limit their work to a single township, while some operate in several contiguous counties, or even cover an entire state. Usually such insurance cooperative associations are organized as corporations without capital stock. All the policy holders of such associations are members and only the policy holders are entitled to be members. A great majority of such associations operate under the assessment plan: if loss from fire occurs, it is pro-rated among the members, in accordance with the insurance in force. To make settlements, the Board of Directors usually borrows the money, loans being repaid when assessment is collected. Some associations make annual assessments and keep certain funds or even accumulate reserves with which they can cover losses without borrowing and without sudden increases in assessments in case of extraordinary losses from fire. From this general outline of the organization and functioning of cooperative fire insurance associations, it is obvious that they do not pursue any acquisitive aims and that every possibility of entrepreneurial in (profit-

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<sup>36</sup>V. N. Valgren, *Problems and Trends in Farmers' Mutual Fire Insurance*, Farm Credit Administration Bull. No. 23. Washington, 1938, p. iii.

loss) is inconsistent with their economic nature. Many other cooperative organizations (such as Raiffeisen's cooperative credit associations, the livestock insurance societies, the cooperative telephone associations, the livestock breeders' cooperative associations, the farmers' automobile insurance societies, the irrigation cooperative associations, etc.) belong to this group of economic bodies designed to offer their economic services to their members only and therefore are strictly debarred from any entrepreneurial acquisitive aspirations of their own. All the cooperatives of this pattern, not being designed for entrepreneurial acquisition, deprived explicitly of any sources of entrepreneurial profit, cannot be considered as enterprises, i.e., acquisitive economic units.

#### **Possibilities of Entrepreneurial Income in Some Groups of Non-Stock, Non-Profit Associations**

In some groups of cooperative associations under discussion, a possibility of acquisitive activities may easily appear in practice. This is particularly true with regard to the marketing and purchasing cooperatives. The most usual possibility of entrepreneurial acquisition in such associations is in potential dealings with patrons who are not members of the association. In practice, the existing cooperative marketing and purchasing associations most frequently yield to this very temptation of gains through their transactions with outsiders. Obviously, when such acquisitive practices appear and develop to substantial proportions of the total business of the association, such association is well on its way toward becoming an acquisitive economic unit, i.e., toward enterprise. The fact that the profit accruing from such transactions in the association is not distributed in the form of dividends on stock among its members, but is received by the membership in the form of "patronage dividends" does not disprove the fact that such an association, partially at least, represents a true enterprise. However, among cooperators there has always been a strong feeling that such practices are highly objectionable and have always been interpreted and with justice - by the cooperators themselves (and in many countries by law) as departing radically from cooperative principles, and leading toward pseudo-cooperation.

It is of importance, therefore, for a proper understanding of the economic nature of a cooperative organization, that the elements of enterprise appear in this organization when it begins to degenerate into a pseudo-cooperative body.

Likewise, all other fundamental economic characteristics of enterprise are not traceable in the cooperatives of the non-stock, non-profit type. Thus:

- a) There is no entrepreneurial capital in cooperative associations of this group. The associations of this pattern are explicitly organizations without any share-capital payable by their members. The special group of cooperative associations under discussion have a share-capital paid by their membership, but no dividends on stock are paid on this capital. And, what is more important, no income of any kind is possible in these associations as long as they follow the rule of exclusive patronage of their members.

An entrepreneurial stock capital represents the indispensable feature of every enterprise and its chief characteristic is that it is employed for getting entrepreneurial profit. In the later part of this study, an attempt will be made to find out what is the economic character of the stock-capital in cooperative associations of this particular group, but now we are only in a position to state that this stock-capital, not being invested for profit in the association, is not entrepreneurial capital.

- b) An entrepreneur is the subject of economic activities in enterprise. An enterprise without an entrepreneur is not a consummated economic unit and is inconceivable as a living and functioning economic body. Enterprises without entrepreneurs do not exist: a farm without a farmer is not an enterprise but is inert fragment.

Cooperative associations of the non-stock, non-profit type are economic organizations without entrepreneurs of their own, since there is no actual possibility of realizing

an entrepreneurial income (profit). True, the members of the cooperatives of this group, like the stockholders of every typical stock corporation, have their annual meetings, decide by voting the various questions of the current economic work, elect their boards of directors, approve their annual financial reports and their current budgets. Such similarity between the cooperatives of this type and a collective enterprise is highly superficial and deceptive. The members of non-profit cooperative associations are primarily the patrons of their organization; their economic interests as patrons dominate all other considerations and dictate their economic behaviour. The general meeting of the members of such associations, therefore, represents the aggregate of the patrons of the association, and not a collective entrepreneur of this association, as is the case with every regular stock company. The board of directors elected by the patrons of the cooperative is entrusted with the responsibility of serving the economic needs of the patrons of the organization and not for pursuing the acquisitive purposes like those of the collective entrepreneur of a stock company. It is plain, therefore, that the economic interests of the patrons of an association not only do not coincide with those of members of a collective entrepreneur, but, being diametrically opposite to entrepreneurial interests, are strictly inconsistent with them, since every entrepreneurial gain in cooperative association means a corresponding loss to the patrons of this association.

- c) Being deprived of any entrepreneurial capital or of any entrepreneur, a cooperative association of the non-stock, non-profit type is not in a position to bear any entrepreneurial responsibility or entrepreneurial risks. Such responsibility and risks in the cooperatives under survey are assumed directly by their member-patrons. To illustrate this, the case of cooperative dairies may be used. Some such dairies do not invest any capital of their own to start their business, but build their plants on loaned money which is repaid through - but not by - the associations by the borrowing members, proportionally to

the number of units of butter produced and sold through the association. An association itself plays solely the role of a clearing office, without other participation in the transaction. There is no principal to assume entrepreneurial responsibilities in the non-stock, non-profit associations themselves, nor are there any means for assumption of any risks.

### Capital Stock Cooperative Associations

The other chief type of cooperative associations toward which a considerable number of existing cooperatives are gravitating is a capital stock cooperative association.

According to the special study of various phases of the cooperative movement in the United States made by the Farm Credit Administration there were 10,752 farmers' marketing and purchasing cooperative organizations in this country in 1935-1936, of which 68% (7,300 associations) were capital stock cooperatives, 22% (2,375 associations) of non-stock non-profit pattern and 10% (1,077 associations) were informal non-incorporated bodies.

The table on page 61 shows that the proportion of capital stock and non-stock associations varies greatly in the different groups of associations surveyed. The cooperatives of the capital stock pattern are usually, though not necessarily, more numerous in those lines of economic activities where a considerable investment of capital is required (grain elevators, creameries, etc.), and where such capital cannot be mobilized in any other way, while the non-stock non-profit plan is better adapted to organizations where need for considerable funds is not pressing. A wide range of cooperative bodies is covered by the type of capital stock associations. The most representative and historically prominent among them is undoubtedly the cooperative store initiated by the Equitable Pioneers of Rochdale. Unlike the non-stock, non-profit cooperatives, this type of association has almost all the structural characteristics of a stock company:



Number and Percent of Farmers' Marketing and Purchasing Cooperative Associations by Commodity Type and Legal Form in the United States, 1935-1936\*

Groups of cooperative associations	Number of Associations				Percent of Associations		
	All associations	Capital stock associations**	Non-stock associations	Non-incorporated associations	Capital stock type	Non-stock type	Non-incorporated associations
<b>I. MARKETING</b>							
Misc. Cotton	17	17	—	—	100	—	—
Grain elevators	2,614	2,520	50	44	96	2	2
Creameries	1,385	1,165	192	28	84	14	2
Cotton Gins	362	283	77	2	78	21	1
Milk Marketing	240	159	70	11	66	29	5
Cheese	543	355	21	167	65	4	31
Citrus Fruits	294	127	163	4	46	56	1
Other Fruits	255	113	123	19	44	49	7
Cream shipping	56	21	18	17	38	32	30
Potatoes	105	35	54	16	34	51	15
Livestock term.	38	13	21	4	34	55	11
Nuts	49	16	29	4	33	59	8
Vegetables except potatoes	316	104	152	60	33	48	19
Misc. selling	300	86	119	95	28	40	32
Tobacco	14	4	10	—	28	72	—
Poultry	180	49	92	39	27	51	22
Cotton marketing	22	5	16	1	23	72	5
Berries	134	26	71	37	19	53	28
Livestock local	974	159	473	342	16	49	35
Milk bargaining	114	16	86	12	14	75	11
Wool marketing	139	8	67	64	6	48	46
<b>ALL MARKETING</b>	<b>8,151</b>	<b>5,281</b>	<b>1,904</b>	<b>966</b>	<b>65</b>	<b>23</b>	<b>12</b>
<b>II. PURCHASING</b>							
Petroleum products	1,057	952	92	13	90	9	1
Exchanges	396	330	52	14	83	13	4
Feed stores	490	376	100	14	77	20	3
Misc. supplies	324	245	63	16	74	19	5
Others	334	116	164	54	35	49	16
<b>ALL PURCHASING</b>	<b>2,601</b>	<b>2,019</b>	<b>471</b>	<b>111</b>	<b>73</b>	<b>23</b>	<b>4</b>
<b>ALL ASSOCIATIONS</b>	<b>10,752</b>	<b>7,300</b>	<b>2,375</b>	<b>1,077</b>	<b>68</b>	<b>22</b>	<b>10</b>

\* This table was compiled from materials contained in *A Statistical Handbook of Farmers' Cooperatives* by F. Hyre, Farm Credit Administration, Bull. 26, 1938, p. 53.

\*\* Out of 7,300 capital-stock cooperatives 5,908 associations or 81% of their total number were incorporated under cooperative laws and 1,392 or 19% under general corporation laws.

- a) a capital stock,
- b) a body of stockholders,
- c) a dividend on stocks payable to its member shareholders, and
- d) control of the association by general meetings of stockholders, by a management elected by the stockholders, etc.

However, the Equitable Pioneers of Rochdale, according to the generally accepted opinion, have the credit for the introduction of some epoch-making modifications of the regular acquisitive stock company, namely, they dethroned entrepreneurial stock capital, lowered it from its commanding position to a level of stewardship, and put it in a position of every other paid employee. They achieved it, we are told, by the adoption of the following cooperative principles:

- a) by limitation of dividends payable on shares of stock,
- b) by limitation of the number of shares which may be owned by one holder, and
- c) by replacement of the principle of voting by shares by the rule of voting by members, that is, one member - one vote.

#### **Capital Stock Cooperative Association as an Enterprise**

The external structural similarity of the cooperatives of the Rochdale type to a collective enterprise (stock company) is so complete that its economic identity has never been questioned and capital stock cooperative associations have always been loosely interpreted as a modification of the stock company. This is explicitly expressed in the

words of F. von Wieser, previously quoted,<sup>37</sup> and is admitted with emphasis by Prof. J. D. Black, when he says:

It is apparent that the capital stock cooperative is simply a modified corporation.<sup>38</sup>

Yet such an identification needs to be thoroughly examined, and because of its large importance in the analysis of cooperative problems, such examination should be done with special care and in detail.

### Conception of a Collective Enterprise

The identification of the capital stock cooperatives with stock companies is based on the assumption that this type of association represents a collective enterprise. The concept of a collective enterprise, therefore, should be defined for a comparative examination of these two types of economic organizations.

1. Both represent an economic form of a competitive exchange economy;
2. Both are economic units in an acquisitive aspect;
3. Being acquisitive units, they are designed to realize a residual entrepreneurial income (profit-loss);
4. A single entrepreneurial plan is inherent in every enterprise, individual or collective;
5. Both types of enterprise are based on the principle of absolute subordination of their parts to a plan of functioning of the acquisitive whole.

However, there are highly significant differences between individual and collective enterprises.

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<sup>37</sup>*Social Economics*. N. Y., 1927, p. 326.

<sup>38</sup>Prof. J. D. Black, *Introduction to Production Economics*. N. Y., 1926, p. 505.

Only stock companies are taken here as typical of collective enterprises, despite the fact that some elements of collective enterprise are traceable in partnerships and in joint stock companies, since only the stock companies represent fully developed and finally crystallized collective acquisitive economic units.

Thus interpreted, a collective enterprise differs from an individual enterprise in the following main economic features:

1. The entrepreneurial capital of a collective enterprise is dissociated into its parts or fractions (shares of stock); while the entrepreneurial capital of the individual enterprise remains undivided and indivisible. It is of singular importance that a collective entrepreneurial capital appears to be not composed of a plurality of capital units associated into an entrepreneurial complex of capitals but represents a single entrepreneurial capital dissociated into its fractions. This fact manifests itself – (a) in anonymity of shares of stock, while in partnerships and cooperatives they are strictly personal; (b) in transferability of shares, while in partnerships and cooperatives they cannot be transferred without consent of the organization; (c) by principle of voting by stock which is specific of collective enterprises, and (d) in principle of limited liability of single shareholders while the whole body of stockholders (corporate entrepreneur) retains an unlimited liability typical for an individual entrepreneur.
2. The entrepreneur of a collective enterprise is dissociated into its fractions (shareholders), while the entrepreneur of individual enterprise is represented either by a physical person or by a family unit.
3. The entrepreneurial income of a collective enterprise is dissociated into its fractions (dividends on stock), while it is received directly by entrepreneurs in the individual enterprises.

The implications of such far-reaching dissociation in the collective enterprises are many and very significant. These distinctions are helpful in disclosing the economic nature of cooperative associations. Hence, the necessity of preliminary careful definition of the concepts of collective entrepreneur, collective entrepreneurial capital, and entrepreneurial income.

### A Collective Entrepreneur

In the interests of pointing the concept of collective entrepreneur attention should be focused on the following essentials of this concept:

The concept of entrepreneur, as it is here employed, is understood to mean the recipient of residual income of enterprise and, therefore, the assumer of the responsibility<sup>39</sup> of independent acquisition.

The customary description of entrepreneur as a manager and assumer of the risks of business appears to be hazy and somewhat misleading. It is misleading because the management of enterprise may be performed personally by an entrepreneur (usually in individual enterprises) or may be delegated (sometimes in individual and necessarily in collective enterprises) to a salaried person or to a body of salaried persons. But entrepreneurial responsibility cannot be delegated to anybody under any conditions or in any degree. The idea of salaried entrepreneur is preposterous.

Moreover, the risks of entrepreneurship are the risks of acquisitive efforts made in anticipation of the uncertain, unknown in advance and not necessarily positive - residual income of enterprise. Entrepreneurial risks in such a restricted sense are completely covered by the term "responsibility of independent acquisition."

In individual enterprises, an entrepreneurial responsibility is borne by one physical person or by a family unit; in a collective enterprise it is borne by a plurality of physical persons, by a legal body of the holders of shares of common stock. The importance of the precise conception of such a plurality of physical persons as of one economic

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<sup>39</sup>F. M. Taylor, *Principles of Economics*. 1916, p. 21.

individuality cannot be over-emphasized, since it throws a strong light in defining the true economic role of single physical persons – the stockholders – in the structure and functioning of collective enterprises. It is but a corollary of the concept of collective enterprise as just delineated<sup>40</sup> that the single stockholders are only fractions or parts of a collective entrepreneur. Being fractions of the collective entrepreneur, they are deprived of any possibility of independent entrepreneurial functioning outside their legitimate entrepreneurial body (legitimate body of the holders of shares of common stock). Functioning in such fractional capacity they cannot have any direct contact with their enterprises, and hence act only through their entrepreneurial whole. Actually, therefore, there is the one channel of their entrepreneurial self-expression, namely, the general meetings of the holders of common stocks where the stockholders can participate in the entrepreneurial decisions covering all the questions of economic policies of their enterprise, approval of their financial reports and budgets, election of their managing bodies, etc. All such activities of a collective entrepreneur naturally take the form of entrepreneurial decisions and resolutions. A collective entrepreneur obviously can reach its decisions only by a majority vote of its fractions – stockholders. Thus, the channel of self-expression for the stockholders is narrowed to participation in decisions of their collective body through voting. Their voting, as of entrepreneurial fractions, is normally based<sup>41</sup> on the principle of proportionality of their voting power to the relative size of single fractions, i.e., it is normally voting as of the number of shares owned by each stockholder.

The concept of the collective entrepreneur<sup>42</sup> can be made perfectly clear if it is agreed that:

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<sup>40</sup>See p. 60.

<sup>41</sup>Only a general pattern appropriate to the nature of a business corporation is considered here; an examination of the deviations from this general pattern is not within the scope of this study.

<sup>42</sup>The concept of entrepreneur is delineated here for a general pattern of a collective enterprise (business corporation).

- a) it is composed of entrepreneurial fractions (stockholders),
- b) the only possible way of functioning for entrepreneurial fractions is their fractional participation in the activities of collective entrepreneurs,
- c) the only form of such fractional participation in entrepreneurial activities is the voting of stockholders at their general meetings, and
- d) such fractional voting is the voting by shares of stock owned by single stockholders.

The principle of voting by shares of stock is therefore a reflection of the economic nature of a collective entrepreneur and is a unique, specific and unmistakable economic indicator of fractional entrepreneurship. Entrepreneurial fractions cannot vote otherwise. On the other hand, where voting by shares of stock is found, this is evidence of a collective entrepreneur.

### Collective Entrepreneur in Capital Stock Cooperative Associations

The member stockholders of cooperative associations of the Rochdale type (capital stock associations), as it is well known, do not vote by shares of stock. One of the basic and most prominent Rochdale principles prescribes the rule "one man - one vote." The rank-and-file cooperators and all the interpreters of cooperation have always emphasized that the Equitable Pioneers made a most revolutionary discovery when they introduced the rule one man - one vote, and thereby eliminated the commanding role of capital in running business and replaced it by a democratic control in cooperative associations. This principle of voting has always been jealously guarded by cooperators<sup>43</sup>

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<sup>43</sup>Dr. E. G. Nourse makes the following interpretation of the prevailing opinions among the cooperators on this point. "The fundamental principle of 'one man, one vote' is sometimes modified so that voting is in proportion to

and usually recognized by laws as a perfect test of a truly cooperative organization. Every tendency toward voting by shares in cooperative associations has been regarded as a tendency toward so-called "pseudo-cooperation." A voting-by-man rule became gradually a dogma of traditional cooperative doctrine and is generally esteemed almost with an idolatrous admiration. Not only the tendencies toward voting by shares are - with justice - condemned as pseudo-cooperative practices, but any departures from one man - one vote rule are declared - erroneously, as it will be shown later - as leading into "quasi-cooperation."<sup>44</sup> Since voting by shares of stock is a fundamental and indispensable economic characteristic of a fractional entrepreneurship, the stockholders of the cooperatives of Rochdale pattern are obviously not entrepreneurial fractions. Not being the entrepreneurial fractions, the members of such association even gathered in a legitimate body of stockholders, cannot be recognized as that of a collective entrepreneur. It appears, therefore, that capital stock cooperative associations - if regarded as collective enterprises - are without a principal of their acquisitive activities, i.e., they have not their collective entrepreneur.

Such an inference, striking as it is, is stated here tentatively, and is to be checked by analysis of the other leading features of enterprise in the cooperative associations of Rochdale type. Such an analysis, however, proves without any shadow of doubt that this inference is conclusive.

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patronage. For example, it may be put on the number of cows or weight of milk in a dairy association, or on trees, acres, or boxes of fruit in a horticultural association. Nevertheless, the idea is tenaciously held that membership is personal and that control should be democratically apportioned, with no additional preponderance given to wealth. Not only is it argued that God has given as much brain power and ability to the man of small means as to the wealthy, but the self-respect and interest and loyalty is preserved and developed by this recognition of personal equality. In a word the cooperator believes that the case is as good for economic as for political democracy." E. G. Nourse, "Economic Philosophy of Cooperation," *The American Economic Review*, December 1922, p. 588.

<sup>44</sup>*American Cooperation*. Volume I, p. 167, Washington, 1925.



### An Income in the Capital Stock Cooperative Associations

The other chief, and, in fact, the most decisive criterion of the entrepreneurial nature of stockholdership in the cooperatives of the Rochdale type is found by an examination of the residual entrepreneurial income in this group of associations. In contradistinction to a non-profit association, the cooperatives of this group are designed explicitly to get profit and they distribute such profit among their stockholders in the form of dividends on stocks as do all other collective enterprises (stock companies).

In an analysis of the economic nature of the capital stock cooperatives, the problem of their entrepreneurial income is the central and crucial problem. Hence, the necessity that the line of attack on the solution of this problem should be carefully chosen and the economic concepts involved should be precisely defined and consistently used. This calls for a preliminary statement as to the exact meanings of the terms used in the following discussion.

#### Entrepreneurial Income (Profit-Loss)

In the words of Prof. F. H. Knight, "perhaps no term or concept in economic discussion is used with more bewildering variety of well-established meanings than profit."<sup>45</sup> Any theoretical economic interpretation of the cooperative problem can be based on but two fundamental economic concepts: the concept of enterprise is its foundation stone; its arch stone is its functional correlate - the concept of entrepreneurial income (profit-loss). For the student of the cooperative problem, therefore, it is a great impediment that in his analytical search he encounters extreme indefiniteness in the use of the term enterprise, and innumerable controversies under which a conception of profit is concealed. However, the task of the precise outline of a conception of entrepreneurial income is unavoidable in a study of

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<sup>45</sup>F. H. Knight, "Profit," *Encyclopedia of Social Sciences*, Vol. XII, pp. 480-486.

cooperation. Thus, the student of the cooperative problem is forced to enter upon the "most difficult problem or series of problems in the field of economic theory."<sup>46</sup>

The distributive shares in the existing economic system may be distinguished differently "according to the contractual arrangements, under which the proceeds are received, according to the persons receiving them, and according to the underlying functions and factors which constitute the sources of income. Thus there are -

contractual distribution,  
personal distribution and  
functional distribution."<sup>47</sup>

Prof. Clark, stating these three aspects of the problem of distribution, then points out that "the main body of economic theory has, for a long time, concerned itself with functional distribution only."<sup>48</sup> A contractual setting of the problem of distribution, however, has certain cognitive advantages of its own and is indispensable in economics interpreted as a science on enterprise and households.<sup>49</sup> For the purposes of economic analysis of the cooperative problem, this contractual aspect of distribution may be used as a reliable analytical device. With the adoption of this aspect of the distributive process, the most controversial issues of distribution can be avoided without any detriment, for the purposes of this study.

In conditions of competitive exchange economy, the enterprises represent the "knots" where the process of distribution actually takes place. A contractual setting of the problem of distribution in contrast to its functional interpretation -

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<sup>46</sup>H. Davenport, *Economics of Enterprise*. 1916, p. 10.

<sup>47</sup>J. M. Clark, "Distribution," *Encyclopedia of Social Sciences*, Vol. V, p. 167.

<sup>48</sup>*Ibid.*, p. 167.

<sup>49</sup>See p. 49.

- a) places emphasis on enterprise as an economic category of large significance and not a mere passive derivative of a combination of the factors of production, while
- b) it relates the distributive shares to men and not to things (factors of production).

Two substantially different and in some sense complementary groups of recipients of distributive shares are discernable in enterprises:

- a) Entrepreneurs, and
- b) Other participants.

A general characteristic of the distributive shares of participants in the enterprises of others is that the entrepreneurs hire and employ their economic services, or the sources of economic services owned by them, and pay for such employment a definite and stipulated advance remuneration: their shares, therefore, represent entrepreneurial costs of production. All such distributive shares of participants thus are received (and paid) in the form of prices. The wage earners, the salaried persons, renters and creditors belong to this group of recipients and the wages, salaries, rent and interest are correspondingly their distributive shares, which are all price items (contractual incomes).

An entrepreneurial income is a correlate of the contractual incomes received in and through enterprises and its thorough comprehension is possible only in connection with the mechanism of formation of these incomes in a framework of enterprise. Thus, an entrepreneurial income is a residuum as between the receipts of an enterprise (prices) and its expenses (prices). An important feature of entrepreneurial income is thus that in contradistinction to the contractual incomes of participants (which are prices) an entrepreneurial income is not a price, but a difference between the prices paid and received within the enterprise. It is worthy of note that such a residual entrepreneurial income is a specific income of enterprise and is opposed to the participant's contractual incomes grouped together in a common relationship to this entrepreneurial residuum (profit-loss).

Summarily, the contractual and residual distributive shares may be characterized as follows:

- a) Contractual incomes are received in the form of prices, while a residual share precipitates in enterprise in the form of a difference between sums of prices;
- b) Contractual incomes are incomes of the participants in enterprises of others, a residual income is the specific share of an entrepreneur;
- c) Contractual incomes, being prices, are imputable to economic services (factors of production) employed, while a residual income, not being a price, is hence not imputable to any single element of enterprise, nor can it be apportioned among the elements of enterprise on any clear and objective basis;
- d) Contractual incomes, being prices, are *eo ipso* proportional to corresponding economic services (factors of production) either in terms of time units or piece units, while a residual entrepreneurial share, due to its differential nature, is not proportional in principle to any element of enterprise;
- e) All the contractual incomes, as the price items, are the stipulated shares, while an entrepreneurial share, being differential, is by its very nature unstipulable income: it is absolutely incompatible with any stipulation, however insignificant;
- f) All the contractual shares, being price items, are necessarily and inherently positive incomes, while an entrepreneurial residuum may be normally either positive (profit) or negative (loss).

In the framework of this study, we need not go into a more detailed discussion of the group of contractual incomes, and thus we may omit the controversial, and, of necessity, functional interpretation of the conceptions of wages, rent and interest. The contractual nature of these distributive shares implies that they might be – and perhaps ought to be – interpreted as special cases of the general theory of prices. One inference, however, appears to be inescapable from the contractual aspect

of the distributive process, namely, that the groups of contractual and residual shares of distribution should be theoretically examined on two entirely different planes, and cannot be regarded as simply four similar members of the traditional (functional) grouping of incomes.

It is possible that neither the contractual nor the functional interpretation of distribution taken separately is sufficient for comprehensive analysis of distribution; and an assumption that this problem ought to be analyzed stereoscopically under both angles seems to be defensible.

The contractual aspect of distribution is adopted here in an analysis of cooperative problem and will be consistently used throughout this discussion. It must be pointed out from the start that such a setting of the problem of distribution is not entirely compatible with the interpretation of profit as containing elements of contractual incomes (wages of entrepreneur for his manual work in his own enterprise or interest imputed to his entrepreneurial capital employed in his own economic unit, etc.). In spite of the complexity and controversial character of these issues, such an avoidance of imputed incomes in this study is inevitable.

To summarize the salient features of distribution with a view to arriving at the precise meaning of the terms used in the later parts of this study, the scheme of contractual incomes and residual shares is presented in the table on the following page.

### **Entrepreneurial Income in Capital Stock Cooperative Associations**

After the outline of the contractual and residual shares of distribution just made, and on the ground of this outline, we can turn to the examination of the economic character of the income realized in capital stock cooperative associations. At this step of analysis we are concerned with only one facet of the problem of income in these associations, namely, whether or not their income is an entrepreneurial income (profit-loss). In contradistinction to the non-stock, non-profit cooperatives, the cooperative associations of the Rochdale type are explicitly profit associations, and - as with every other stock company -

**Contractual and Residual Shares  
of Distribution in a Framework of Enterprise**

TYPES  of  ENTER- PRISE	EXPENSES of ENTERPRISE					RECEIPTS of ENTERPRISE	RESIDUE of ENTERPRISE
	PRICE					ITEMS	DIFFERENCE of PRICE ITEMS
	INCOME SHARES OF PARTICI- PANTS IN ENTERPRISE OTHER THAN ENTREPRENEURS						SHARES  of
	Mana- gers	Credit- ors	Rent- ers	Wage Earn- ers	OTHER EXPENSES OF ENTER- PRISE		ENTRE- PRENEUR
1	-	-	-	-	Expenses	Receipts	RESIDUE
2	-	-	-	Wages	Expenses	Receipts	RESIDUE
3	-	-	Rent	Wages	Expenses	Receipts	RESIDUE
4	-	Interest	Rent	Wages	Expenses	Receipts	RESIDUE
5	Salary	Interest	Rent	Wages	Expenses	Receipts	RESIDUE
STIPULATED and IMPUTABLE  EXPENSES of ENTERPRISE						STIPULATED and IMPUTABLE RECEIPTS of ENTERPRISE	INSTIPULABLE and NON- IMPUTABLE RESIDUA of ENTREPRENEUR
POSITIVE PAYMENTS						POSITIVE  RECEIPTS	POSITIVE or NEGATIVE RESIDUA
PROPORTIONAL TO						Economic goods and services alienated	NON- PROPOR- TIONAL TO ANY FACTOR
Economic goods and services employed							

they distribute their profit at the end of the business year among their stockholders proportionately to the volume of shares owned by each member stockholder of the association. Two considerations cannot be ignored in the examination of the economic nature of the profits of cooperative associations, namely:

- a) do the profits of the capital stock cooperative associations represent a real income of the associations, and
- b) are the surpluses of the capital stock cooperative associations divided among the stockholders, as the dividends on shares, really identical with the entrepreneurial profit of stock companies?

Looking for an answer to the first question, we shall bear in mind that the unwritten law of cooperative philosophy is that every true cooperative association offers its economic services to its members only; the patronage of non-members is possible in some groups of cooperative associations, such as the cooperative stores as well as in purchasing or marketing associations generally but only on the assumption that such non-member patrons are treated by the association equally with the member patrons and are, therefore, entitled to all the economic advantages (including patronage dividends) of regular members. As in all other cooperative principles this rule is all but sacred to all orthodox cooperators as traditional dogma. Any departure from it is vigorously condemned as a departure toward a so-called pseudo-cooperation. On the other side, every member of the cooperative association has to be its patron. Stockholders who do not patronize their cooperative association are not thought by the cooperators as desirable members of the association, and are suspected of having a purely capitalistic interest in getting profit on their shares of stock. This important economic characteristic (patronage) is common to both types of cooperatives - to non-stock, non-profit associations, and to the cooperatives of the Rochdale type alike. Thus designed, the cooperative associations are obviously cut off from any source of income whatever, since with patronage limited by their membership they can have cash surpluses at the end of the business year only on the account of their member patrons, whom they, in such cases, either underpay (marketing associations) or overcharge (purchasing and some other associations). Based exclusively on the patronage of their own members, the

cooperatives obviously serve only as clearing offices of their patrons and an absolute acquisitive sterility of the cooperative associations under such conditions (exclusive patronage of membership) is only a corollary of their economic structure. The singular importance of this fact in the analysis of the cooperative problem cannot be overstated.

The second question is: Can the surpluses of cooperative associations, divided among their members as a dividend on their shares, have anything in common with entrepreneurial profits distributed among the stockholders of stock companies in the form of dividends on stock? The economic identity of purely entrepreneurial dividends on stock and of dividends on stocks paid by the cooperatives to their member-stockholders has never been actually questioned and as long as a cooperative of the Rochdale type is considered as a modified stock company, there can be no ground for doubt about their identity. The cooperative modification of capitalistic collective enterprise (stock company) consisted, according to the firm belief of cooperators (and of many students of cooperation), mainly in the fact that the founders of cooperation in the interests of democratic control of economic activities have degraded capital to a role of stewardship. They have done this by the adoption of the principle of reasonable remuneration of the contributors of capital, namely, stockholders. The dividends on stock, according to one of the Rochdale Principles, shall not exceed the current rate of interest. Thus the stockholders of the capital stock associations are receiving admittedly stipulated dividends. If our definition of profit as a residual and, therefore, unstipulable income is correct, such an income - even if it were a true income - cannot be identified with profit.

It is noteworthy that such obvious inconsistency of established interpretations of the dividends on stock in capital stock cooperative associations with the concept of entrepreneurial income has been always avoided by the interpreters of cooperation and overlooked by its students. Customarily in current discussions of the economic nature of the dividends on stock attention is concentrated on the socio-reformistic implications of this trait, and we are told that it is the manifestation of democratic control and of the abolition of the commanding role of capital in cooperative associations.



A detailed examination of the economic character of the dividends on stock in cooperative associations under discussion will be made in the later part of this study.<sup>50</sup> At this stage of analysis our concern is only to find out whether they represent an entrepreneurial income (profit-loss) or not, and we come to the following conclusions:

1. That the surpluses of the capital stock associations distributed among their stockholders in the form of dividends on stock do not represent in reality a true income of these associations, and
2. That, even if they were an income of the association, they could not be an entrepreneurial income (profit-loss).

Concluding this discussion, it is in place to point out that the question of the economic nature of dividends paid on stock by the cooperatives of the Rochdale pattern appears to be a question of considerable complexity. Not being a profit nor actual income of the association, these surpluses, distributed as they are, appear to be somewhat in the nature of interestlike payments. Yet, as it will be shown later, such an assumption is only partially correct.

### Entrepreneurial Capital in the Cooperatives of the Rochdale Pattern

The capital stock of a collective enterprise (stock company) is entrepreneurial capital dissociated into its fractions, namely, anonymous transferable shares of stock. Entrepreneurial capital is capital invested in an enterprise by its owner and employed for getting a residual entrepreneurial income (profit-loss). A share of common stock of a collective enterprise, therefore, is a certificate of entrepreneurship. The conceptions of entrepreneur, of entrepreneurial income and of entrepreneurial capital are closely correlated. The examination of capital stock cooperatives previously made led us to conclude that they have not, and inherently cannot have, a collective entrepreneur nor an entrepreneurial income. Now we have to find out whether their capital

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<sup>50</sup>See Part III.

stock is economically identical with the capital stock of stock companies and, therefore, whether or not it represents the entrepreneurial capital of these associations. It has been pointed out already that the capital stock cooperatives have not and as long as they follow their cooperative principles they cannot have any entrepreneurial income. More than that, their whole economic structure is inconsistent with any acquisitive activities of the association itself. It follows, therefore, that the capital stock of the cooperative is not invested or employed for profit getting, and hence, cannot be entrepreneurial capital of this association. An examination of the payments which are received by the stockholders in the cooperatives of the Rochdale type led us to the inference that these payments are somewhat in the nature of interest.<sup>51</sup> Tentatively, we can infer that recipients of such interest-like payments are rather in the position of creditors within a cooperative association than in the position of its entrepreneurial fractions in the sense previously stated. This assumption leads to the further inference that the shares of capital stock of cooperative associations are not documents of entrepreneurship but certificates of credit. If such inference is correct, then the capital stock of cooperatives of the Rochdale type appears to be a kind of fund loaned by the members to their association as its working capital; the member stockholders of the association appear to be, therefore, closer to a position of bondholders than to that of stockholders of their association. Being a capital invested in association as a loan by its members it is naturally remunerated by interest, i.e., by a contractual income of a creditor.

These significant and paradoxical conclusions are as yet stated tentatively. Yet some other essential economic characteristics of stockholdership confirm them. As stated earlier, entrepreneurial capital of a collective enterprise is a single capital dissociated into its fractions, namely anonymous and transferable shares of stock. Without such a perfectly fused unit of entrepreneurial capital the enterprise cannot be conceived as an acquisitive unit. This is the main economic difference between (a) a collective enterprise - stock company, and (b) a partnership and joint stock company. These latter have not a single capital unit but rather many entrepreneurial capital units combined. For this reason they cannot be recognized as perfect and accomplished

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<sup>51</sup>See pp. 74-77.

acquisitive economic units. An intrinsic feature of an entrepreneurial capital-unit dissociated into its fractions is the fractional voting power of the holders of such fractions of entrepreneurial capital, i.e., voting by shares of stock. As is well known, this very kind of voting is most rigidly and uncompromisingly rejected by true cooperators. In the interests of consistency, we infer from this widely held opinion of cooperators that such irreconcilable rejection of the principle of fractional entrepreneurial voting by cooperative stockholders means that they are not entrepreneurial fractions and that their stocks are not the fractions of entrepreneurial capital. However, if the shares of stock are not the fractions of entrepreneurial capital, then this capital is not entrepreneurial capital and it is not a unit of capital (since the component parts of a unit are, of necessity, the fractions of this unit). It is a generally accepted rule that cooperators adopt equal voting or voting by man; in other words, they act in their voting not as the fractions of a dissociated unit but rather as equal component elements of some economic plurality in which they are associated. The body of stockholders of the cooperative of the Rochdale type, in particular, appear to be a plurality of the creditors of their association and - let it not be overlooked - a plurality of its patrons.

### Principle of Entrepreneurial Integrity in Cooperative Associations

Cooperative organizations thus are completely deprived of an entrepreneur (a principal in the acquisitive activities of enterprise), or entrepreneurial capital (a means of entrepreneurial acquisition) and of entrepreneurial income (a cardinal criterion of the economic nature of enterprise). It is hardly superfluous here to add that all other economic characteristics of enterprise are also not to be found in and are strictly inconsistent with a cooperative type of economic organization. One of these features deserves special mention.

Every normal enterprise is based on and maintains its acquisitive integrity: all its component elements function always as its integral working parts only without any traces of independent economic policies of their own; an enterprise or acquisitive economic unit by its very nature is the totalitarian economic body and an entrepreneurial

subordination of all its component parts is its most salient and ontological characteristic.

From the days of Fourier, cooperators stubbornly insist that their cooperatives are voluntary organizations and they proudly emphasize that the cooperative association is a democratic body inconsistent with any dictatorship. If the criterion of voluntariness<sup>52</sup> has any interpretative meaning it can mean only the irreconcilable antagonism of cooperators against any kind of dictatorial tendencies of their association over their entrepreneurial independence and individuality. On the contrary the cooperative with all its business facilities serves as a working part of associated economic units of its members: it does not dictate anything to its members - its own economic policies are dictated by the associated enterprises (or households) of its members. This fundamental truth of the economic character of cooperative organization finds its most impressive manifestation in the widespread and favorite motto of cooperators themselves; "Our purpose," they say, "is not to dominate, but to serve."

Indeed there is no traceable sign of entrepreneurial integrity in cooperative associations nor any indication of entrepreneurial subordination of the economic units of members by these associations: these irrevocable characteristics of every enterprise are strictly incompatible with cooperative character of organization.

### Summary

This analytical comparative survey of cooperative associations is motivated by one definite and narrow purpose, namely, to find out whether or not cooperatives represent any kind of enterprise, as is explicitly stated or tacitly assumed without exception by all students and interpreters of cooperation.

Concluding this survey we may summarize the findings as follows:

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<sup>52</sup>See Table, p. 29.

1. This analysis has been devised to be consistently maintained on the strictly and purely economic aspect of the cooperative problem with elimination of all the technical, legal, ethical, sociological, and socio-therapeutic shades and implications.
2. The concept of enterprise, as it has been employed in this survey, is understood to mean an acquisitive economic unit within the competitive exchange economic system (after Herbert J. Davenport).
3. The conception of income adopted in this survey is interpreted in terms of contractual-residual shares of distribution.
4. With enterprise thus defined, and with profit interpreted as a residual share of distribution, the formulas: (a) a state of being enterprise, and (b) a profit getting are apparently the tautological designations of the same economic phenomenon from different (morphological and functional) angles. A residual entrepreneurial share of income (profit-loss) in such a setting of the problem appears to be the unique and specific income of enterprise and its ultimate and unmistakable criterion.
5. All other economic characteristics of enterprise and of profit used in this survey are deduced from these basic features as their corollaries.
6. The conception of cooperative association as it is used in the literature on cooperation and in economic literature, generally, is remarkably diffuse. Two empirical and customary patterns of cooperative associations were, for that reason, chosen in this survey with a view to defining the kind of enterprise - if any - these two patterns represent. Such empirical and tentative procedure may be justified by the fact that all actually existing cooperative associations are indeed centered around two empirical models:

- a) the non-stock, non-profit associations and
- b) the capital stock cooperatives.

No definite efforts have hitherto been directed to a synthesizing of these two empirical patterns into one economic concept of a cooperative type of economic organization.

7. The non-stock, non-profit cooperative associations are expressly deprived of all external structural features of collective enterprise: they have no stockholders, no capital stock nor entrepreneurial income. As long as they follow in their practice the principle of offering their economic services to their members only, and treat patron-outsiders equally with their regular membership, they remain non-acquisitive organizations. Being thus designed to be non-acquisitive economic bodies, cooperatives of this type are *eo ipso* not enterprises, as the term is used in this study.
8. A peculiar transitional group of cooperative associations<sup>53</sup> with capital stock, but with no dividends payable on stocks, are also deprived of the fundamental test of enterprise (entrepreneurial income) and therefore are not acquisitive economic units (enterprises). Their stock capital is not intended to be used for profit-getting, and therefore is not entrepreneurial capital. Their stockholders are not the recipients of profit and, therefore, are not the fractions of a collective entrepreneur. The economic position of member patrons of their association cannot be reconciled with any entrepreneurial activities of true stockholdership.
9. In sharp contrast to the groups of cooperative associations just described (paragraphs No. 7-8), the cooperatives of

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<sup>53</sup>Such as cooperative irrigation societies, cooperative livestock breeders' associations, cooperative control societies, etc.

the Rochdale type have all the external structural characteristics of collective enterprise (stock company):

- a) capital stock,
- b) a body of stockholders functioning, at first glance, exactly in the same way as the stockholders of any other stock company, and
- c) dividends payable on stocks to their every stockholder, according to the volume of shares owned by each.

The modifications which were introduced by the founders of cooperation in the regular capitalistic enterprises and which transformed them, according to widely-professed opinions, into cooperative enterprises were:

- a) limited dividends on stocks,
  - b) limited number of shares one member may own, and
  - c) limited voting power (one man - one vote principle).
10. Association surpluses, which are distributed among the stockholders of the capital stock cooperatives in the form of dividends on shares, however, do not represent an entrepreneurial income. Being limited and stipulated, they cannot be recognized for a residual income (profit-loss) and, being accrued in the association exclusively from the patronage of its own member stockholders (or of the outsiders entitled to all the economic advantages of membership), they are in no sense a real income of the association.
  11. Being thus inconsistent with the residual entrepreneurial income (due to a rule of limited dividends on stocks), and being, in fact, an inherently non-acquisitive economic organization, the typical cooperative of the Rochdale type, therefore, is not an enterprise.
  12. This statement is not disproved by an astounding similarity of the external structure of the capital stock cooperatives and that of stock companies, since all the structural features of these cooperatives are deceptive:

- a) The stockholders of these associations are not the bearers of fractional entrepreneurship (1) for they are deprived of the only possible way of functioning, which is inalienable from fractional entrepreneurship – of a fractional voting by shares of stock; (2) they are not recipients of a residual income, and (3) their position as that of exclusive patrons of the association is incompatible with their potential entrepreneurial inclinations in the same association.
- b) The stock capital of these associations being employed expressly for non-profit work is not entrepreneurial capital.<sup>54</sup>
- c) Shares of stock owned by the members of cooperative associations of Rochdale pattern do not represent an entrepreneurial capital, but due to an interestlike remuneration on the stock appear to be in the nature of capital loaned by members to or through the association;
- d) The whole history of the cooperative movement and all the achievements and failures of cooperation testify unanimously and vigorously that the principle of subordination (a foundation stone of every normal enterprise in which all the component parts of the economic unit are integrated and are functioning as the

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<sup>54</sup>It is important to note again that while entrepreneurial capital of collective economic units appears to be capital dissociated into its fractions (shares of stock) capital stock of cooperative associations represents a plurality of associated individual capitals and is similar in that respect to capital of partnerships. Hence – a) the shares of stock of the entrepreneurial capital are anonymous while shares of capital in cooperative associations are always personal and are issued only to the elected members of the association; b) the shares of entrepreneurial capital are transferable while the shares of member-cooperators can be transferred normally only with the consent of the association; c) the shares of entrepreneurial capital may be bought and owned by the individual holders without any restrictions while the volume of share capital allowed to be owned by the individual member-cooperator is limited and is maintained roughly proportional to his volume of business done through the association. More detailed examination of this subject will be found in part III of this study.



parts of the enterprise) is irreconcilable with cooperatives which are jealously voluntary organizations.

13. The cooperatives of the Rochdale type, thus not being enterprises, are covered by the legal robes of a stock company, but this customary legal form of collective enterprises, in this particular case, does not correspond to the economic nature of cooperative association.
14. Cooperative associations of all types have one essential economic characteristic in common: they all are based on the exclusive patronage<sup>55</sup> of their members. If patronage of outsiders is allowed these outsider-patrons are entitled to all the economic privileges of membership. It means that the cooperatives of all groups are inherently non-acquisitive associations. The customary distinctions between non-stock, non-profit associations and capital stock cooperatives are of legal origin. These distinctions only becloud the true economic concept of the cooperative form of organization. The true cooperative, in the economic sense, is literally and exactly a non-stock, non-profit association.

### Conclusion

The conclusion we have arrived at in this part of the study answers part of the question of Richard Pattee, the President of the American Institute of Cooperation at the First Session of this Institute. Mr. Pattee said in the Conference on the tests of cooperation:

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<sup>55</sup>The terms patronage, member-patron, etc., are not exact terms: they are not descriptive for several groups of cooperatives, such as productive associations for instance. Only because they are generally accepted terms in the literature on cooperation they are employed here. A patronage in cooperatives means an active participation of members in common work of their association; the term member-patron means member-active participant of association, etc. In this sense these terms are used in this study.

You cannot, probably, tell what it (a cooperative association) is, but you can tell to a certain degree what it is not.<sup>56</sup>

To the last part of his question, we are now in a position to answer: A cooperative association is not an enterprise (an acquisitive economic unit).

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<sup>56</sup>*American Cooperation*, Vol. I, p. 165. Washington, 1925.

## PART III

**COOPERATIVE ORGANIZATION AS AN  
AGGREGATE OF ECONOMIC UNITS  
(ENTERPRISES OR HOUSEHOLDS)**

The foregoing comparative examination of the principal empirical patterns of cooperative associations led us to the conclusion that the generally accepted interpretation of a cooperative organization as an enterprise (acquisitive economic unit) is highly misleading and erroneous because all the intrinsic economic characteristics of enterprise as an acquisitive economic unit are:

- a) untraceable in cooperatives and, what is more important,
- b) inconsistent with their economic structure.

A close analysis of the so-called "pseudo-cooperative" associations shows <sup>1</sup> further that even the slightest traces of the elements of enterprise – such for instance as a tendency toward acquisition – manifest in all cases a decomposition of the cooperative body and its degeneration into a "pseudo-cooperative formation," in other words, a strictly cooperative economic structure appears to be a kind of antithesis of enterprise.

Such a conclusion is an important milestone in the course of this inquiry, and its turning point. Since the major part of the traditional comments on cooperation is rooted in this untenable assumption, its rejection clears the way to the direct disclosure of the economic nature of cooperative organizations.

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<sup>1</sup>See below, the chapter "Pseudo-Cooperative Associations."

### Cardinal Point of Departure in Economic Analysis of Cooperative Problem

No student of cooperation can successfully attack this problem unless he makes the point of departure in his analysis the fact of singular cognitive significance that every cooperative association is composed of economic units, acquisitive (enterprises) or spending (households).

This objective fact is very plain, is not beclouded by any exceptions, and is easily verifiable. In the table of tests of true cooperation presented in the first part of this study,<sup>2</sup> nobody out of twenty-three economists quoted has made explicit this fact. Six of them, however, have pointed out that the cooperative body represents "a union of persons" (A. Anziferoff, H. Filley, Ed. Jacob, H. Kaufmann, W. Sombart, and F. Staudinger). This test being without definite economic meaning by itself diverts, nevertheless, attention from the cardinal fact that a cooperative organization is an organization of economic units, i.e., of enterprises or of households. To make clearer this statement that a cooperative consists of enterprises or of households, we can use the following simplified case. Let us assume a community of 200 families, each consisting of five persons, i.e., a community of one thousand persons. Let us further presume that every person in this community is an enthusiastic cooperator, so much so that he would not miss being a member of the cooperative if there were the slightest chance to be one. More than that - if there is any chance to organize any kind of cooperative association in this community it will be organized. In the interests of simplification we shall regard this community as an agricultural community, economically homogeneous and consisting exclusively of family economic units, both in their wealth-getting and wealth-using activities. We have, therefore, in this community 200 enterprises and 200 households. For further simplification of the case, we can regard the enterprises as strictly specialized and engaged in the following lines of economic activities:

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<sup>2</sup>See p. 29.

<u>Lines of Economic Activities</u>	<u>No. of Family Enterprises</u>
1. Grain growing	100
2. Commercial vegetables	10
3. Dairying	20
4. Fruit growing	60
5. Retail trade	5
6. Repair shops	<u>5</u>
Total	200

Taking into account the extreme enthusiasm of every member of this community for cooperation, we can foresee the following number of cooperative associations which can be organized in this community and define exactly the maximum potential number of members in each cooperative association:

<u>Kind of Cooperative</u>	<u>Maximum Potential Number of Members</u>
1. Cooperative Grain Elevator	100
2. Association for Marketing Vegetables	10
3. Association for Marketing Dairy Products	20
4. Cooperative Bull Club	20
5. Cow-Testing Association	20
6. Association for Marketing Fruits	60
7. Purchasing Association of Retailers	5
8. Purchasing Association of Shop Operators	5
9. Purchasing Association of Farmers	190
10. Cooperative Laundry	200
11. Cooperative Bakery	200
12. Cooperative Store	200

It should be distinctly understood that the number of potential members of every association mentioned is the maximum number, and any further increase of membership under the given conditions is quite impossible, since any additional person from this community cannot be an independent patron of the association; thus:

- a) the cooperative store, laundry and bakery with their respective memberships of two hundred persons representing all the house

holds of the community absorb the entire potential patronage of the community;

- b) with the family units specialized in their entrepreneurial activities only five members may organize the retailers' cooperative; all other one hundred ninety-five families are obviously not eligible to this association as being unable to patronize its work; the same is true of the association of shop keepers, and in fact of every other "cooperative association of producers" in this list (Nos. 1-9);
- c) the twenty families of dairymen can organize three different cooperative associations, yet nobody but themselves can participate in these associations.

Thus the maximum potential number of members in any of the cooperative associations listed cannot exceed the total number of economic units related to its field.

It should be also clearly borne in mind that one physical person only from every family-enterprise or family-household is normally eligible to an association's membership. This one member represents the entire potential volume of patronage of each economic unit and any additional person from the same family cannot be the real patron of this association (an association of patrons).<sup>3</sup>

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<sup>3</sup>Illustrations: One *bona fide* member of the cooperative fire insurance or irrigation association represents the entire possible volume of patronage of his family-economic unit, since any additional representative of his family has nothing to insure or irrigate; likewise, if the farmer-father is a member of the cooperative grain elevator or of the fruit marketing association his son or other member of his family cannot become a *bona fide* member of the same associations since they have nothing to sell through this association, etc.

Briefly, every cooperative association is a representative body: each member of such an association is a delegate and a spokesman for his economic unit in the cooperative.<sup>4</sup>

Considering this singularly important fact, we are compelled to admit that the interpretation of a cooperative as "a union of persons" is not only without explanatory or descriptive value, but is utterly misleading: it diverts attention from the point of cardinal significance, namely, that every cooperative organization is composed of economic units.

If every existing cooperative association is an organization of economic units (enterprises or households), i.e. if it is composed of such economic units, we are compelled to recognize that the cooperative, not being an enterprise (an acquisitive economic unit), is a derived economic formation.<sup>5</sup> We shall look, therefore, for a type of economic organization which corresponds exactly to all the peculiarities of the cooperative among the derived economic formations.

### Derived Formations of the Economic Units

The concept of an economic unit, as it has been outlined in this study,<sup>6</sup> is understood to mean an elementary economic individuality within the existing system of exchange economy. As an elementary formation it may serve as a common denominator for all other economic

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<sup>4</sup>In the actual practice of cooperative organizations the rule of one member from every economic unit in the cooperatives is overwhelmingly predominant. The incidental deviations from this rule in some groups of cooperative associations do not disprove the general pattern.

<sup>5</sup>The detailed discussion on the derived economic formations – as the term is here used – follows on pp. 91–111.

<sup>6</sup>See above, pp. 46–55.

bodies which can be spoken of in terms of economic units. The economic units thus are contemplated as being -

- a) dissociable into their component parts, economic fractions,<sup>7</sup> or
- b) associable into higher derived economic formations composed of economic units.<sup>8</sup>

At the present stage of the inquiry we are concerned mainly with the higher formations derived from the economic units.

A tendency toward economic concentration is an outstanding characteristic of modern economic life. In popular discussions of this subject, its monopolistic phase has received an amount of attention disproportionate to its real significance and somewhat detrimental to a thorough examination of the other important aspects of this movement. These aspects, however, are so significant that even if the monopolistic trend had never taken place, an extended investigation of the processes of economic integration still would be perfectly justifiable. A student of cooperation cannot avoid the problem of economic integration, since a cooperative movement is one of its important and far-reaching manifestations, but he looks at this problem from a wider angle, free from the one-sidedness of its monopolistic presumptions. One aspect of the large problem of economic integration is of special interest in a study of cooperation, namely:

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<sup>7</sup>An "economic fraction" - as the term is used here - means any part, or uncompleted group of parts of an economic unit; the basic economic characteristics of economic fractions are (a) their incompleteness for and, therefore, (b) their inability of independent economic functioning. Economic fractions dissociated from an economic unit (an employee out of employment, capital which is not used, etc.) or groups of fractions incomplete for independent functioning (a farm without a farmer, a retailer without a store, or vice versa) are economically dead. The so-called "submarginal" economic units may be interpreted as being in midway between the uncompleted economic groups of fractions and the normal economic units.

<sup>8</sup>See above, pp. 88, 90-91, and following, pp. 92-111.



- a) to trace the principal channels of economic integration, and
- b) to examine the cardinal types of derived economic formations created through these channels.

### **Principal Channels of Economic Integration**

Processes of economic integration flow through three principal channels:

- a) through an expansion of existing individual economic units,
- b) through their fusion or consolidation, or
- c) through the coordination of activities of existing economic units.

In this study we need not go into detailed discussion of the first of these lines of integration, since it cannot be expected that a cooperative organization, being a derived form of an economic unit, can find any explanation in the processes of growth of single economic units. The expanding enterprises remain naturally acquisitive economic units, while the cooperative, as has been repeatedly pointed out, is inherently a non-acquisitive formation. The other two ways of integration – a fusion of economic units and coordination of their economic functioning, on the contrary, call for detailed consideration.

### **Fusion as Process of Economic Integration**

Fusion as a process of economic integration means a complete assimilation by a newly derived economic body of the economic ingredients involved. These ingredients in the process of fusion lose their independence and their economic individuality. They cease to exist as economic entities, perfectly analogous to foods assimilated by an organism. As a process of integration, therefore, a fusion is a transformatory and a revolutionary process. It leaves nothing untouched

in the economic nature of the ingredients involved. They are assimilated without remnants and become only the depersonalized parts of a fused body. Such far-reaching economic changes are not always, nor necessarily accompanied by corresponding technical or legal changes. When the well-known independent stock companies engaged in the manufacturing of harvesting machines (McCormick, Deering, Milwaukee Companies and some others) were fused into the International Harvester Company of America about two decades ago, they were completely absorbed by the new gigantic trust and as separate enterprises have entirely disappeared; yet their factories have continued to work for a long time, probably without any visible changes, and even their individual trademarks are still in use.

In a study of the cooperative problem, our concern with the problem of economic integration through fusion of economic bodies is very distinct: we can touch this problem only insofar as it helps to find out whether or not there is a place for cooperative organizations among the products of economic fusion.

### **Products of Economic Fusion**

Two kinds of economic fusion may be discerned:

1. Fusions of the parts or fractions of economic units, and
2. Fusions of economic units.

Fusion is characteristically a process of integration of the fractions of economic units. Being inherently incapable of independent economic functioning, every economic fraction is destined to be fused into or to be absorbed by some economic unit; every economic unit - either enterprise or household - may be contemplated as a product of fusion of its integral parts. Fusion of economic units differs little from the fusion of fractions from the standpoint of the absorbing unit, but there is an essential difference from a fractional fusion for the unit which is absorbed. While for economic fractions the moment of their absorption

means a beginning of new economic life, e.g., an area of uncultivated land absorbed for economic utilization by a farm. Such a moment for an economic unit means an end of its independent economic existence. An absorbed unit disappears as a separate economic individual and becomes only a depersonalized fraction of a newly derived economic organism strictly subordinated to its general plan of economic functioning, e.g., a farm purchased by a city resident to be used as a summer residence, or an independent bakery bought by the chain grocery store company.

The new economic formation created in the process of fusion when this process is completed is always a new economic unit. A fusion of enterprises produces a new enterprise and a fusion of households leads toward the creation of a new secondary household. In connection with an analysis of the cooperative problem, the fact that fusion leads straight toward the creation of a derived economic unit is the most significant characteristic of this channel of economic derivation, since a cooperative organization, not being an economic unit, obviously cannot be a product of economic fusion.

### Partial Fusion and its Derived Products

A partial fusion, or partial consolidation<sup>9</sup> of economic units, and particularly of enterprises, is a process of exceptional prominence in modern industrial society. Though this process may be contemplated as an uncompleted fusion, it should be recognized as an independent and specific channel of economic concentration. Economic formations derived through the partial fusion of economic units represent, as a rule, stable economic bodies of considerable theoretical interest and of outstanding practical importance. Though partial fusion occurs among all types of economic units, it is represented most conspicuously by the partially consolidated stock companies. It is facilitated by the anonymity

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<sup>9</sup>L. H. Haney, *Business Organization and Combination*. 1914, pp. 131-132.

and transferability of stocks and is usually achieved through a fusion of entrepreneurial capital (common stocks) between various collective enterprises. In the vernacular, this way of economic integration is essentially and literally "a capitalistic" integration. The products of partial fusion are commonly known under the name of "combines." Their diversity is almost boundless and their socio-economic role in the processes of economic concentration is impressive, often sinister. The degree of fusion among the enterprises participating in a partial fusion naturally varies. *A priori* the ties between the semi-fused units are closer if a larger share of the entrepreneurial capital is fused among the participants. Companies may hold a small volume of common stocks of other collective enterprises for the purposes of business information only. When a considerable minority of entrepreneurial capital is owned, it offers an opportunity to influence the policies of the enterprises concerned; when a majority of stocks is absorbed it leads to "control" of the enterprises, which is in many cases identical for practical purposes with the full ownership achieved through a complete fusion. Such "control" is often accomplished in practice by the holders of an absolute minority of the shares of common stock, either because of inefficiency of the stockholders or because of the dominating influence of individual leaders or groups.

The vast complex of economic problems connected with the processes of partial fusion of economic units is treated in a considerable body of economic literature dedicated especially to this subject and their examination is far beyond the direct scope of this study. The brief consideration of partial fusion here is given for the purpose: (a) of eliminating this complicated and significant sector of derived economic formations and thus further clearing the way for the discussion of coordination as a channel of integration which is of direct and special interest to the student of cooperation, and (b) of drawing a sharp line of cleavage between cooperative associations and the "combines" of economic units originated by the process of partial fusion. All the derived economic organizations born in the processes of partial fusion remain distinctly either economic units or their modifications. The enterprises partially fused continue to be acquisitive forms; the "combines" - a specific product of partial fusion - are without exception

profit-getting economic bodies. Cooperatives being inherently non-acquisitive organizations are just as strange to all kinds of partially fused "combined" as they are different from enterprises.

### Coordination as a Channel of Economic Integration

Much less attention has been paid in economic literature to the problem of economic integration through coordination of economic activities of enterprises and households than to the problem of their fusion. As is the case with the discussion of fusion, this problem has been mainly interpreted as a matter of economic policies, and almost exclusively from the point of view of monopolistic trends of modern industry life.<sup>10</sup> In a study of cooperative organizations, an analysis of the coordinated activities of economic units ought to be set on an entirely different basis. A student of cooperation is interested in disclosing, above all else, the structural aspect of the coordinated work of enterprises and households, and in examining derived economic formations from the standpoint of their economic anatomy, since such analysis may throw light on all the peculiarities of their functioning. The following outline of the most salient features of the process of coordination and of the products of this process is sketched primarily for such a purpose.

### Process of Coordination Versus Fusion

Coordination, as a way of economic integration, is not only radically different from fusion, but from the structural point of view is diametrically opposite to it. For:

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<sup>10</sup>Some interpretations of the problem of coordination of economic activities of enterprises are found mainly, if not exclusively, in the literature relating to cartels.

- a) Every fusion – complete or partial – leads inherently toward the formation of derived economic units through assimilation of all the ingredients involved in a process, while every coordination is intended only to achieve necessary adjustments of functioning of the participants without any encroachments upon their individuality or their independence. Fusion creates new economic units, while coordination aims only to harmonize the economic activities of existing economic individuals.
- b) Hand in hand with the growth of a derived economic body in the process of fusion, the identity of the participants in this process correspondingly declines (partial fusion), or quite disappears (complete fusion). Exactly the opposite tendency is traceable in the process of coordination, which always assumes a continuity of independent economic life of its participants and is intended to strengthen their economic vitality and stability.
- c) While fusion is inherently directed toward production of an economic unit which absorbs all the separate elements of this process, the outcome of coordination is always a plurality of coordinated individuals.
- d) The product of economic fusion thus is an economic unit with an economic entity of its own, while the outcome of the coordinative process is an aggregate of coordinated economic bodies, a plurality of economic entities of its ingredients, but without any independent entity of its own.

### Groups of Economic Aggregates<sup>11</sup>

Aggregates of coordinated economic bodies are diverse: they are imbedded in all the strata of existing economic order and, taken as a whole, play an outstanding part in socio-economic life. Within the scope of this study, however, a general survey of economic aggregates is necessary only as a means of detecting those groups of aggregates which compose the cooperative associations and thus segregating them distinctly, not only from fused economic formations, but also from their kindred economic organizations elaborated in the processes of coordination. Out of many potential criteria of classification of aggregates, we shall choose here, in the interests of consistency, their structural nature as the ground for their grouping. From the structural point of view, the aggregates may be distinguished as follows:

1. Aggregates of economic fractions;
2. Aggregates of economic units - acquisitive (enterprises) or spending (households).

### Aggregates of Economic Fractions

In contrast to fusion as a channel of integration, designed preeminently for economic fractions (though it is extensively used for consolidation of economic units), coordination is specifically adapted for

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<sup>11</sup>In this section of the study (pp. 97-111) our analysis is confined to delineation of the general conception of the aggregates of economic fractions and of economic units without any reference to cooperative organizations and to characterization of certain basic economic features inherent in every aggregate of economic bodies. Such basic economic characteristics of aggregated formations in this preliminary and introductory outline are stated as the corollaries of aggregate structure of these bodies. Exceptional difficulties of treatment of the cooperative problem compelled us to adopt this method of presentation. In the later part of this study (pp. 109ff.) the concept of aggregate of economic units as it is here outlined is employed in examination of cooperative organizations.

integration of economic units in the sense that an aggregate (a product of coordination) is the sum of economic individualities, while fusion is a process of depersonalization of its ingredients. However, just as some groups of economic units are fusible and produce derived economic units of outstanding practical importance, so certain economic fractions may be coordinated into true economic aggregates, including those of singular socio-economic significance. The economic fractions that are susceptible of coordination into aggregates are exclusively human fractions (renters, creditors, wage earners, salaried groups, entrepreneurial fractions, etc.). There is no irreconcilable contradiction in the assumption of the possibility of aggregates of economic fractions, after duly weighing the emphasis previously laid on the notion that the fractions of economic units have no economic individuality of their own. Since, for example, the human fractions (creditors, renters, etc.) of any enterprise are the individual recipients of income and as such they can coordinate their efforts through their respective aggregates. The aggregates of economic fractions represent a wide range of varieties due to differences in their membership or to a diversity of economic purposes pursued. With all such diversity, however, all the aggregates of economic fractions have invariably in common:

- a) the aggregate structure of their organizations, and
- b) strictly and characteristically fractional economic aims.<sup>12</sup>

### Representative Cases of the Aggregates of Economic Fractions

For the purposes of this study, we are directly concerned with the aggregates of human fractions of economic units. Two groups of human

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<sup>12</sup>Fractional economic aims are thought here to mean the economic aims specific for and appropriate to certain economic fractions: (a) questions of wages, of hours of work, and other conditions of employment represent the fractional economic aim of wage earners; (b) profit seeking is a fractional economic aim of the group of entrepreneurial fractions, etc.



fractions<sup>13</sup> of economic units, as the term is here used, should be distinguished: (a) entrepreneurial fractions, and (b) the fraction-recipients of stipulated income. It is expedient therefore to examine the aggregates of these two groups of economic fractions separately.

*A. Aggregates of Entrepreneurial Fractions*

It should be clearly understood that in terms adopted in this study an entrepreneur is the fraction of economic unit and not the economic unit. An entrepreneur is a part of enterprise he is associated with: the farmer without his farm or retailer without his store are not farmer and retailer; for the moment or for a period of their dissociation with their enterprises they cease to function economically and as the entrepreneurs they simply disappear. On the other side the entrepreneur associated with his enterprise represents the commanding and unique component part of enterprise; he is an independent acquirer and a recipient of entrepreneurial residua in his own economic unit.

Entrepreneurs can coordinate their economic activities and organize the aggregates of entrepreneurs distinct from the aggregates of their enterprises. Such coordination is possible mainly along the lines of general conditions of entrepreneurial work without direct participation of their enterprises in any activities of such aggregates. Agricultural associations in all countries, American Farmers' Clubs and Granges, French and Belgian agricultural syndicates are fairly typical cases of entrepreneurial aggregates in agriculture. All such organizations are the organizations of farmers not of farms; it is not rare that within such organizations the group of members can initiate the regular business activities<sup>14</sup> with direct participation of their farms and thus to start the aggregates of their economic units.

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<sup>13</sup>See table, p. 74.

<sup>14</sup>See pp. 112-127, below.

The entrepreneurial organizations among businessmen are still more important if not more numerous than in agriculture. Probably the most prominent among them are Chambers of Commerce and similar associations (Boards of Trade, Commercial Associations, Merchants' Associations, Better Business Bureaus, Businessmen's Clubs, etc.). About 2,500 chambers of Commerce are active currently in the United States and their central organization - U.S. Chamber of Commerce - represents an efficient and influential spokesman for the industry and commerce of the entire country. The primary function of Chambers is to crystallize the opinion of businessmen on current important economic problems and to make the voice of businessmen articulate.

While Chambers normally represent the entrepreneurial interests generally, Trade Associations are specialized by certain lines of economic activities. Many such associations represent similar entrepreneurial aggregates pursuing in their special fields the purposes common to the entrepreneurial group of the industry involved. The other trade associations are closer to a type of cartels and are more the aggregates of enterprises than of entrepreneurs (the employers' associations for instance).

All such entrepreneurial associations are set up as the aggregates of associated entrepreneurs: each member of these associations retains his economic individuality and economic identity and the association never attempts to interfere in the sphere of entrepreneurial activities within business units of its members; no subordination of membership to association is compatible with the character of entrepreneurial organizations; they only represent their associated entrepreneurs and never pretend to be anything more than the voice of the entrepreneurs participating in organization; hence the importance of referenda in the current work of such associations. They all maintain strictly democratic control and usually adopt the rule "one man - one vote."

#### Aggregates of Householders

Similar to entrepreneurial aggregates there are aggregates of householders (not of households) or of the members of households. All

kinds of clubs, for instance, where only the registered members are personally entitled to use the economic services of the organization represent a surprisingly wide range of aggregates of householders or of members of households. Automobile clubs, yacht clubs, golf clubs, chess players' clubs, etc., illustrate the diversity and character of this type of aggregates provided that they embrace individual members of households and not the households in their entirety, as cooperative apartment house associations for instance.

*B. Aggregates of Other Participants of Economic Units*

An economic feature common to all participants of economic units other than entrepreneurs is that in their acquisitive functioning they all are dependent acquirers, the parts or fractions of the acquisitive economic units which are not their own. As acquirers such participants necessarily bear the sign of the economic units they belong to - they acquire as the fractions of these economic units. Such dependent participants in economic units which are not their own are the recipients of contractual income (salary, wages, interest, rent).

For various economic purposes such participants in economic units of others do coordinate their efforts and organize their aggregates, some of which are of outstanding importance in existing conditions.

The principal types of such aggregates are:

- a) *Associations of renters* are well represented by various leagues and associations of homeowners and of landlords when and inasmuch as they are organized for protection of their common interests as the recipients of rent. Such aggregates of renters are numerous and strongly organized in many countries.
- b) *Aggregates of interest recipients* are embodied in the groups of bondholders, for instance, in cases of bankruptcies of debtor business units, if these bondholders are organized for active defense of their economic interests.

- c) *Aggregates of professional employees* generally are very diverse and often have indefinite contours. Their economic character is more difficult to be clearly detected for that reason. Their indefiniteness is due mostly to the fact that organizations of this group seldom confine their activities to strictly acquisitive work. All professional associations, leagues, societies, etc., work directly and indirectly in the common interests of their members with the purposes to improve general conditions of professional work and the economic status of their members. Insofar as they work along these lines and coordinate their efforts for their common interests they represent the aggregates of economic fractions (recipients of stipulated income).
- d) The last but not least type of aggregate of economic fractions is well represented by the aggregates of wage earning participants in enterprises of others – the trade unions. The trade unions are not only the most important group of aggregates of recipients of contractual incomes, they are probably also the most explicit ones and are better known than all other fractional aggregates taken together. They are composed of the wage earners exclusively; the economic problems they are dealing with are specifically the problems of wage earning classes; their methods of activity are strictly specific for wage-earning employees (collective bargaining, strikes, picketing, etc.). This reference to the trade unions is made here not only with the purposes of defining their structural kinship with and difference from cooperative organizations, but also with the aim to throw some light on the most complicated and most confused chapter of cooperative doctrine, namely, the chapter on so-called "productive" associations. These remarks on the fractional aggregates of wage-earning groups will be later used in the analysis of the "productive" cooperatives.<sup>15</sup>

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<sup>15</sup>See the chapter on "Productive Associations," pp 230-244.

These groups of entrepreneurial aggregates and of aggregates of other participants (recipients of stipulated income) in economic units illustrate sufficiently the general economic character of the products of fractional coordination, their diversity, and relative significance in existing society.

All these groups have in common the following general characteristics:

1. All such groups represent the aggregates or federations<sup>16</sup> of entrepreneurs (or householders) or of other participants (recipients of contractual income) in economic units without direct participation of their respective economic units in economic activities of the groups; in terms adopted in this study they are, therefore, the aggregates of economic fractions, not of economic units;
2. All such organizations are not independent acquisitive or spending (for consumption) economic units; not being such economic units they by themselves do not acquire nor spend; all economic activities of these organizations are actually the economic activities of associated members who coordinate their individual actions through their aggregates;
3. The groups under survey are so designed as not to interfere with the freedom of individual choice of their members – their declared purpose is to serve their membership and not to dictate anything to them;

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<sup>16</sup>The term "federation" is almost identical in its meaning with the term "aggregate" used in this study and has an important advantage being a generally accepted and widely used term in economic literature. The term "aggregate" is adopted here because the term "federation" customarily relates to secondary organizations: a federation is an association of associations; since the cooperative and their kindred organizations are associations of primary economic bodies it appears that the special term is necessary for their description.

4. Being the aggregates designed only for coordination of individual functions they all adhere to the principle of "democratic control" and in their practice usually adopt the rule - one man - one vote;
5. All such characteristics of the economic organizations under discussion reveal their aggregate structure; the associated members of these federations cannot successfully coordinate their individual activities on any other ground.

### **Aggregates of Economic Units**

The preceding discussion of fusion as a process of economic integration and of fractional coordination had the following purposes:

- a) to eliminate fusion as a potential channel of economic integration where the cooperative organization could be originated, and
- b) to distinguish aggregates of economic fractions (aggregates of entrepreneurs and of recipients of contractual incomes) and thus clear the way for an outline of the processes of coordination of economic units (enterprises and households) as processes leading toward the formation of aggregates of enterprises and of households which we identify with cooperative associations.

The conception of an aggregate of economic units is a strangely difficult concept. It cannot be comprehended precisely unless it is clearly understood, that an aggregate of economic units is not the independent economic unit but the group of functioning economic units - acquisitive (enterprises) or spending (households) and, therefore, all the functions of the aggregate are ultimately the functions of the aggregated economic units and not of the aggregate itself.

The following specific characteristics of the process of coordination of economic bodies as distinct from the process of their fusion should be thoroughly considered:

1. In the process of the coordination of their economic activities only very insignificant, often purely technical and sometimes hardly traceable changes are necessary for the enterprises or the households involved, while complicated and difficult adjustments are unavoidable in their fusion.
2. The socio-economic character of enterprises and of households remains almost untouched when they combine their efforts in aggregates, while a radical transformation is inescapable in their fusion.
3. The enterprises and households not only fully preserve but considerably strengthen their economic independence and economic individuality if they coordinate their actions in the aggregates; this individuality and independence are completely lost in case of their fusion;
4. The sameness of economic aims and similarity of economic functioning of the enterprises and households are sufficient for their successful coordination into aggregates, whereas in fusions economic units pass through a long, complicated and difficult process of transformations and adjustments within a derived economic body.
5. The liquidation of a derived formation – an aggregate of enterprises or households, leaves the vital, though somewhat weakened economic units capable of staying on their own feet, while after a destruction of a fused, derived body, only the fragments of the economic unit remain.
6. Centripetal forces are intrinsic in every fused economic formation since they are inherent in every enterprise or household; in aggregates of enterprises or households, the opposite, centrifugal forces are always at work. Economic units, be they enterprises or households, are designed for individual and independent life. In conditions of competitive economy they strive toward maintenance of their individuality and independence. If they huddle together

into aggregates, they do it only under extreme objective necessity. This innate feature of their aggregate structure is singularly significant. It throws light on many strange peculiarities of the aggregates of economic units. As will be shown later, it discloses many mysteries of the cooperative movement and explains some important phases of its origin, its historical growth, its present achievements and failures. Furthermore, it can help to forecast its future possibilities, at least, for a predictable future.

It therefore follows that:

- a) The process of organization of aggregate is for this reason very delicate and difficult. The entrepreneurs and the households involved in aggregation must have common tasks and common interests strong enough to overcome their innate inclination toward individual and independent action.
- b) Being supersensitive to potential encroachments upon their freedom and individuality, enterprises and households may only be, as a rule, successfully organized into an aggregate if the potential frictions within the aggregate are (for practical purposes) completely eliminated and the maximum of independent individual activities is guaranteed. Even remote possibilities of friction very often prevent organization of needed aggregates of economic units, and the slightest maladjustments within the organized aggregates disrupt them.
- c) Because of this inherently explosive nature of the aggregate of economic units, the chief secret of success of organizers of aggregates lies in the thoughtful planning of the aggregates and in a sagacious execution of these plans. Usually, therefore, very definite purposes of organization and very simple lines of coordinated activities for aggregates are stated in advance. Attenuated plans or complicated lines of intended activities through the proposed aggregates usually hinder the process of their formation and undermine their stability.



- d) The economic stability of aggregates of economic units is inherently low. Every aggregate of economic units is saturated with disruptive forces and is kept together only by the pressure of external necessity. This is particularly true of aggregates of enterprises.
- e) As to the size of aggregates, there is a certain minimum of membership of every kind of aggregate of economic units which is necessary for its vitality, and a reasonable maximum to prevent the dangers of hardships and frictions, which grow progressively with the increase in size of aggregates.
- f) Enterprises and households may be easier coordinated into an aggregate and may be easier kept together in the aggregate if they are economically homogeneous, mostly because of their disruptive nature. Only in rare cases an aggregate of economic units may be based on economically heterogeneous membership. As a rule an aggregate is a plurality of similar units: homogeneity of aggregated members eliminates frictions and maladjustments, so typical of all aggregated formations.

Prof. H. E. Erdman emphasizes the importance of homogeneity of membership in cooperative aggregates as follows:

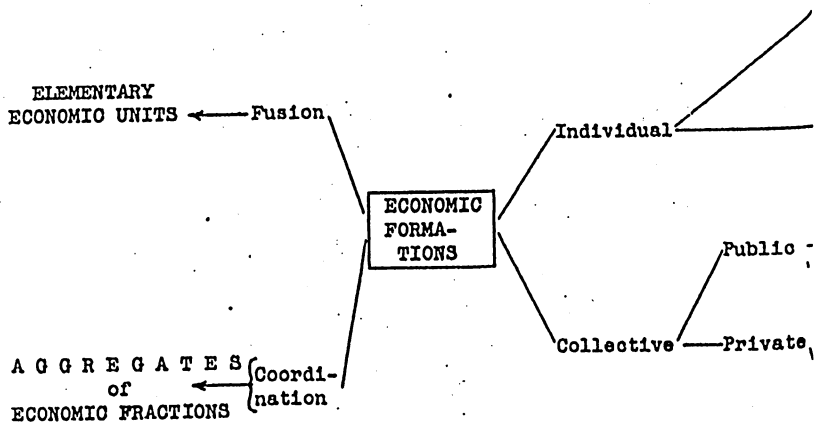
Another fundamental factor underlying successful cooperation is a homogeneous membership. This does not mean that a variety of racial or religious groups may not at times unite in the same organization. Many nationalities and many religious beliefs are combined in some of our very successful organizations. Likewise there are men from every economic status in some of these large organizations. Even men of characteristically different races or of radically different religious beliefs often work well together, but real cooperation involves so much of "give and take," so

S C H E M E O F E L E M E N T A R Y A N

INTEGRATION OF ECONOMIC FRACTIONS

Products of  
integration

Channels of  
integration

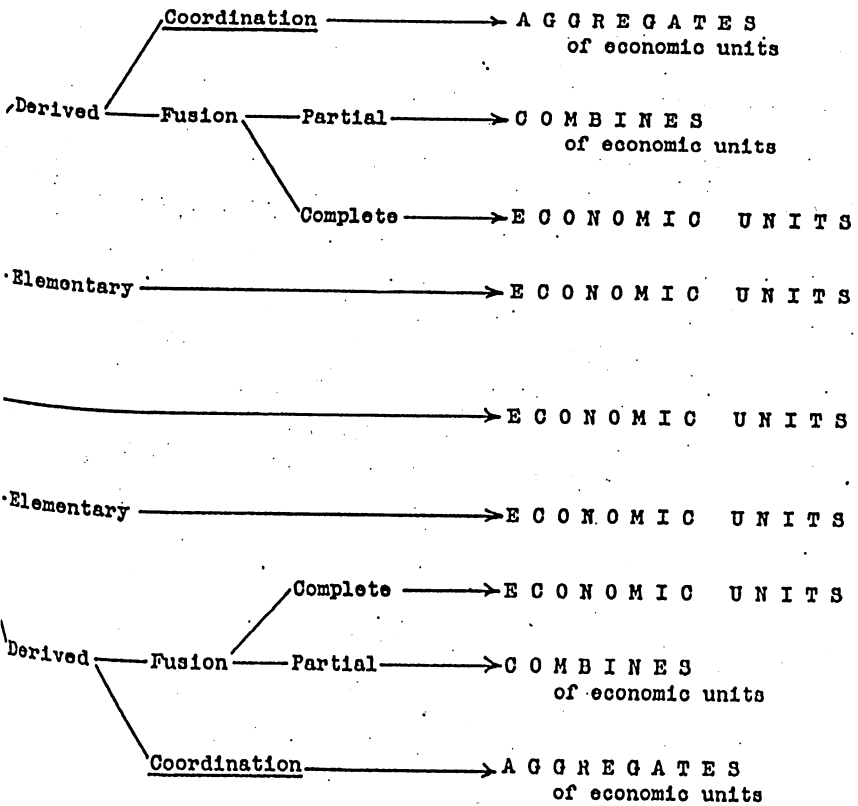


DERIVED ECONOMIC FORMATIONS

INTEGRATION OF ECONOMIC UNITS

Channels of integration

Products of integration



much of trusting the other fellow, and there is such frequent need of abiding by the decision of the majority when that decision runs counter to one's own, that any added strain may break the bond that holds the group together.<sup>17</sup>

We conclude the discussion of economic integration with the scheme (pp. 110-111) of the channels of integration and its products, elementary and derived, which were just surveyed.

### Cooperative Organization as an Aggregate of Economic Units

The scheme of the principal types of economic organizations just outlined is thought to cover the whole structural range of existing economic formations. Since, as it has been mentioned in earlier chapters, cooperatives do not belong to a group of elementary economic bodies (enterprises or households) and cannot be identified with the products of economic fusion (complete or partial), they are either aggregates of enterprises or households originated in the processes of coordination, or are entirely strange bodies in the framework of the existing exchange economic system. Almost all representatives of the traditional philosophy of cooperation are inclined to place them in the latter class.

Thus two questions arise at this point of the inquiry:

1. Do cooperative organizations belong to the class of economic aggregates?
2. If they do belong to the class of aggregates, are they aggregates of enterprises or households (of economic units)?

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<sup>17</sup>H. E. Erdman, "Some Economic Fundamentals of Cooperation," *American Cooperation*, 1925. Vol. I, p. 71. Washington, 1925.

For the purposes of this study we should examine the whole diversity of cooperative organizations in all lines of their activities and on all stages of their complexity as well as to maintain throughout this analysis their strictly economic (price) aspect with all sociological, technical, legal and socio-reformistic shades and implications carefully eliminated.

In the later parts of this survey (pp. 113ff.) all the basic patterns (elementary non-incorporated associations, incorporated cooperatives of non-stock, non-profit type and of Rochdale pattern) are examined.

It is methodologically expedient to start this examination with the simplest cooperative organizations, free for that reason, as nearly as possible, from non-economic elements. These simple cooperative organizations are, as a rule, non-incorporated (therefore free from all legal superstructures), without any permanent or extensive establishments (therefore free from beclouding technical shades), and composed of a membership drawn from the middle classes (therefore sociologically more or less neutral); such cooperatives approximate most closely in their structure the pure economic contours of the cooperative organization. Fortunately we can find such cases of the embryonic stages of development of cooperative bodies. They are remarkable, on the one hand, for their extreme simplicity and on the other for their clear typification. These cases represent the bare rudiments of cooperative bodies with all essential economic features explicit, and with all non-economic shades almost completely eliminated. Such embryonic phases of development of the cooperatives are numerous and might easily be found in various lines of economic activities in all countries. In this study, however, they are drawn from the actual cooperative processes in this country, and from the two main lines of work, namely, from purchasing and marketing groups. The cases taken are significant in more than one sense. Besides exhibiting an elementary economic structure, they help also to draw the sharp line of cleavage separating the aggregates of economic units from the aggregates of economic fractions.

### Elementary Purchasing Cooperative Associations

Farmers' Clubs are numerous in this country. They are primarily social rather than economic organizations. Inasmuch as they are involved in economic activities, they represent aggregates of economic fractions, being preeminently aggregates of farmers (entrepreneurs) and not of farms (enterprises). As stated earlier, they are economically identical with agricultural associations, agricultural syndicates (France, Belgium), etc. A good many of these Farmers' Clubs, along with their social and other activities, also carry on cooperative purchasing transactions. In such cases we find, therefore, a cooperative body in its *statu nascendi* within an aggregate of economic fractions (Farmers' Club). Being an embryonic phase of the development of cooperative organization, such purchasing cooperative transactions within the Clubs call for a careful examination. They are of singular interest to students of cooperation because they show palpably an aggregate economic structure of cooperative organization and unveil the whole economic "mystery" of cooperation. The purchasing cooperative groups naturally vary in their organization and in their structural details, but their general type is characterized as follows:<sup>18</sup>

- a) If among the members of a Club a sufficient group of farmers interested in collective purchases of some goods is found, such a group is organized without any formalities into a collective buyer, and an order for the goods involved is made in the name of the Secretary of the Club or some other elected or self-appointed "manager" attending to the purpose.
- b) Sometimes a Special Committee, consisting of two or three members of the group is appointed for such individual transaction.

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<sup>18</sup>Most of the characteristics of the Farmers' Clubs here cited are taken from the actual practices of the Farmers' Clubs of Minnesota as they are described by Prof. E. Dana Durand and H. B. Price in the Bulletin - "Cooperative Buying by Farmers' Clubs in Minnesota." Minnesota Agricultural Experiment Station, Bulletin 167, Minn., 1917.

- c) Neither the group nor the Club itself has a rating as a business unit and the credit of the group is no better than the credit of farmer-participants of the group.
- d) In rare instances compensation is made for conducting purchases, e.g., if it is impossible to find anyone in the Club who is willing to conduct purchasing without compensation. Compensation is paid by members proportionally to the volume of business done by each member of the group. From three to five percent of the value of goods bought through the group is the most common rate of compensation.
- e) The element of labor and clerical costs connected with purchases are held by most of the Clubs to be insignificant.
- f) The goods bought are usually taken directly from the car on the railroad siding to the farm by patrons. In cases where the volume of business is large enough to warrant it, warehouses or other facilities are provided.
- g) The members of the group as a rule make advance payments (usually 50% of the order) and pay the balance when they take the goods from the car or warehouse.
- h) When the transactions and all the reckonings are finished the group as a purchasing body disappears from the scene.

### A Careful Examination of a Basic Case

Every detail and shade of this outline of the elementary cooperative purchasing group will now be examined with the utmost care, for here before our eyes we find an elementary cooperative association in perfect economic nakedness. Due to its refinedly economic appearance, this case represents a unique object for economic analysis. It is for this reason considered to be a basic case in the course of this discussion. Its methodological value is based on the fact

that in this case, taken from the actual experience of the Northwestern farmers, we have a completely isolated economic skeleton of the cooperative body; it is of such importance for the economic analysis of cooperative organizations that we should be obliged to take an identical hypothetical scheme of cooperative organization, if it were not already actually in existence.

### **An Examination of Cooperative Groups Within Farmers' Clubs**

Examining the cooperative purchasing groups, we find:

- a) *A group is an aggregate of economic bodies.* That a purchasing group within the Farmers' Clubs is not a primary economic body but an aggregate of such economic bodies is perfectly obvious: purchases made through the group are but individual purchases of the farms participating in transaction. Even the superficial observer cannot fail to notice it; he can see that the economic functions of the group are in reality only the sum of individual functions of participants. The case gains very much in its instructiveness from the fact that in the economic aggregates under discussion we find synchronized activities of the members of a purchasing group. Usually work in cooperatives is not necessarily synchronized, and this fact alone conceals from the eyes of the observer the aggregate nature of a cooperative association
  
- b) *A group is based on the principle of coordination of functions: Subordination is inconsistent with its economic set-up.* Further it is clear from the outline of the purchasing groups that they can be based only on the voluntary coordination of their actions; subordination – an intrinsic feature of every economic unit, elementary or derived – is evidently incompatible with such a type of grouping. if there is the slightest pressure on the free choice of participants, they will simply refuse to join in the collective purchase and the group itself will not be organized.



- c) *The economic individuality of every participant of the group is fully preserved.* It is a cardinal characteristic of an aggregate of economic bodies that there is no encroachment upon the individuality of its participants; such encroachments are unavoidable in every economic unit, whether elementary or derived. A participant in the purchasing groups under examination cannot suffer the least detriment to his economic independence because of his participation in the acting group. In an aggregate of collective purchases no one is interested in such encroachments, and if the encroachments were intended, there is no ground on which they could be enforced. It is a feature of great significance that every member of a cooperative purchasing group is acting economically (in reckonings on his transactions) as though this particular participant was acting individually. A physical pool of commodities involved in a transaction, either in carloads or in storage, is not accompanied by any economic merger of the members of the group.
- d) *A group of collective purchases is not an economic unit but a plurality of economic units.* In the group of collective purchases under examination the actual purchasers are the participants of the group, not the group itself: the group is not the buyer, but a plurality of buyers; this essential fact is not beclouded in these elementary groups by any technical or legal veils and may be directly observed; only the keen and trained observer-student can discern this fundamental truth of cooperative organization in the fully developed and incorporated cooperative associations.
- e) *Purchasing groups represent aggregates of economic units, not of fractions of economic units.* The difference between an aggregate of economic units (a purchasing group - a group of purchasing farms) and an aggregate of the fractions of economic units (a Club - a group of farmers) may be clearly and easily traced by direct comparison of the organizations under discussion. The Farmers' Clubs - the aggregates of the fractions of economic units - are associations of farmers in their capacity either as entrepreneurs (educational work of the Clubs) or as house-

holders (social gatherings for example); their farms as the economic units do not directly participate in the activities of the Clubs, though they might be indirectly benefitted or impaired by these activities.

The purchasing groups – the aggregates of economic units – on the contrary are primarily organizations of farms. Here farmers act only as the represents of their economic units, again either as of enterprises (e.g. collective buying of fertilizers, of seeds, of feeds, etc.) or as of households (e.g., collective purchases of sugar for home use, etc.).

- f) *Decentralization of economic responsibility in the purchasing groups.* An aggregate of economic units cannot by itself assume any economic responsibility for the business transactions performed through the aggregate by its participants: such responsibility is assumed directly and completely by the members composing the aggregate. This difficult concept of decentralized economic responsibility clearly reveals itself in the cooperative groups under discussion. Illustrations: 1. In the groups of purchasers of fertilizers, of seeds, etc., through the purchasing groups in the Farmers' Clubs the participants themselves assume obviously full and unrestricted entrepreneurial responsibility for the success of these transactions; 2. In the aggregates of households (such as the group purchasing collectively sugar for home consumption) again every member of the transaction is fully responsible as the represent of his household for the success or failure of the transaction. In all cases of cooperative purchases through such groups within the Farmers' Clubs, a group itself cannot bear any economic responsibility for what is done through it; the group is only a collective noun for the associated purchasers.
- g) *An aggregate of economic units is organization of its patrons.* One of the most penetrating tests of true cooperative organizations appears to be that the cooperative is an organization of its patrons. Such a descriptive characteristic of cooperative associations is

usually recommended as an empirical truth; but its causal relationship to the economic structure of cooperative organization has never been stated and a search for the underlying factors of its cooperative principle has never been attempted. Cooperators are told that every member of their association has to be its patron. It was never disclosed, however, why the cooperators, if they desire to maintain their association truly cooperative, ought to be its patrons.

Examination of a cooperative purchasing group in the Farmers' Clubs throws very clear light on this fundamental economic feature of a cooperative association: the necessity of active participation (of patronage) of every member of the cooperative association is only a corollary of the aggregate structure of the cooperative: an aggregate of economic units is nothing but its active participants and the economic activities of the aggregate are the economic activities of its participants; the purchasing group itself does not purchase anything, the farmers participating in the group are the actual purchasers. On the other side a farmer who does not purchase is not a member of any farmer group of collective purchasers. Not only is action imperative for every member of an aggregate: this action should be coordinated with the actions of other participants in the aggregate, i.e., it should be identical with or closely similar to them. Such similarity of identity of functioning is the essential feature of an aggregate, which means a coordination of action. All the aggregated enterprises for any purpose (in case of a group of collective purchases, such purpose is the buying of a certain commodity) necessarily act along the chosen line of work and all the aggregated households participate in the common endeavor. This actual participation is the only road for their aggregation. Every cooperative (aggregate) organization, therefore, is necessarily an organization of, for and by its active participants (patrons).

- h) *Structural rudiments of a fully developed cooperative organization in the groups of collective purchases.* The principal structural and

organizational characteristics of a cooperative organization are discerned unmistakably in the groups of collective purchases under examination. Because of the embryonic character of these groups, however, they are but dimly outlined. Nevertheless, in the theoretical analysis of the cooperative problem these foggy contours of the morphological and functional features of a fully developed cooperative organization can be traced in the groups of collective purchases and merit record:

1. The manager of the transaction is obviously a forerunner of the regular organs of management in the cooperative.
2. A special Committee of two or three members<sup>19</sup> appointed for a transaction in the groups represents a rough delineation of the Board of Directors of a full-grown association.
3. The labor and clerical costs do not play any tangible role in the groups, but with the growth of business in size and complexity in a lasting cooperative organization, they are destined to increase correspondingly and contribute a measurable share of the costs of regular cooperative body.
4. The principle of proportionality as the only sound ground of mutual economic relationship among the members within an economic aggregate not only might be directly observed in these groups for collective purchases (due to their embryonic nature) but finds here its explanation. Since the collective purchases through an aggregate are, in fact, only the sum of individual transactions, every participant has obviously made his reckonings individually, as if he were buying his share of the commodity alone: his payments and his receipts, therefore, will be strictly proportional to the size of his order. When the individual orders of the participants of a purchasing aggregate are pooled, they may be pooled only on

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<sup>19</sup>See p. 113.

the ground of scrupulously observing proportionality in its reckonings. For the slightest departure from this rule in a group of collective purchases unavoidably creates parasitic maladjustments within the group. The enterprises as well as households are so sensitive to maladjustments of this sort that they can only support the groups of purchases where such proportionality is clearly assured in advance. If this rule is ignored or violated in the aggregate already existing, it undermines and breaks up the group. Thus the roots of the equitable principle of cooperation emphasized commonly by its students and interpreters can be indisputably disclosed in the groups of collective purchases as a functional attribute of an aggregate of economic units. Proportionality is indeed the archstone of successful and stable cooperative organizations and an expression of their aggregate structure.

5. That – to be truly cooperative – associations shall offer their economic services at cost<sup>20</sup> seems to be universally recognized dogma among the interpreters of cooperative problems. Dr. G. H. Powell and Richard Pattee point out this principle as one of the fundamental tests of cooperation.<sup>21</sup>

The principle of services at cost in the cooperatives is only the other way of saying that a cooperative organization is a non-acquisitive organization.

The groups of collective purchases within the Farmers' Clubs already described disclose the enigma of the non-acquisitive nature of the cooperative itself: the participants of the group transact the purchasing, the group itself does not buy anything. In the fully developed cooperatives it is strangely difficult to overcome an illusion of a group as a separate and

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<sup>20</sup>See p. 21 of this study.

<sup>21</sup>Ibid.

independent economic entity, but in the farmers' organizations for collective purchases under examination it is perfectly obvious that there is no legally recognized organization, there are only the participants of the transaction, aggregated for a definite and single purpose. They buy the commodities themselves and pay necessary costs of the transaction. Beyond these costs to themselves, they have no party to be remunerated for these transactions. The principle of services at cost in the cooperative associations is nothing other than the manifestation of their aggregate structure: as long as the cooperative remains an aggregate of enterprises of households it cannot act otherwise.

6. Finally, one more economic feature of an aggregate of economic units is explicitly expressed in the groups of cooperative purchases. This feature is of extraordinary importance in a theoretical analysis of the cooperative problem, and relates to the economic embryo of the capital stock of cooperatives. An examination of the economic nature of the capital stock of cooperative associations made in the second part of this study<sup>22</sup> led us to the conclusion that this capital is not entrepreneurial capital. Entrepreneurial capital - the cornerstone of every enterprise - is not consistent with an aggregate of enterprises. Unfortunately, the capital stock of cooperatives has never been really studied by interpreters of cooperation. Groups of cooperative purchases offer a unique opportunity to analyze the genesis of the capital stock of cooperative associations and to trace its very origin. As Prof. E. Dana Durand and H. B. Price have found in the practices of Minnesota farmers, the members of the group of collective purchases usually make some deposits (usually about fifty percent of individual order from every participant of the collective transaction) and the group collects the necessary capital for initial payment when the order is

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<sup>22</sup>see pp. 61ff.

completed. Such capital is therefore advanced by the member participants of the transaction. Quite naturally these advances are made by the members proportionally to their respective shares in the transaction. The practice varies, however, and sometimes bank credit is used for financing transactions or some of the well-to-do members of a group advance the credit for the purpose. Such a credit, if used regularly or for a considerable period of time, calls for a payment of interest. E. Dana Durand and H. B. Price describe these practices of the Minnesota Farmers' Clubs as follows:

When goods are bought out of town, the manager of the order usually collects from the patrons, when they take the goods from the car or warehouse. The goods are usually shipped C.O.D., and since it is necessary to deposit the money before obtaining them, someone must advance it. This is often done by the manager or a few of the largest patrons. In case they do not have the ready cash, they may have the bill sent to the bank, which makes settlement and then collects from the farmers individually or from the manager of the transaction. In such cases no charge is ordinarily made for the use of money; it is used only for a few days, and the country banks like to oblige their patrons.<sup>23</sup>

Every detail in these practices of the groups of collective purchases deserves to be most seriously considered, since obviously here is the true cradle of the capital stock of

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<sup>23</sup>*Cooperative Buying by Farmers' Clubs in Minnesota.* Minn. Agr. Experiment Station, Bulletin #167. Stock. Paul, Minn. 1917, p. 40.

cooperatives. At least three variants of practices of the mobilization of capital by the groups are discernible:

- a) the capital is advanced by the participants of the transaction themselves proportional to their individual orders; or
- b) the capital is advanced by some members of the group without strict proportionality to their shares in the transaction; or
- c) the capital is borrowed from outsiders.

In the first (a) case we have an instance of advances paid by every participant of the transaction; in the second (b) case every share of money contributed by a participant is partly his own advance payment for his order and partly a loan to other members of the group who did not advance their share of money required; and in the third (c) case, there is a distinct, clear credit transaction of the members of the group. The first case, therefore, not being a credit act does not call for any payment of interest for money deposited by the patrons themselves. The second case being partially an act of credit will (if such practices become regular) necessitate interest payments as a remuneration on money loaned. The third case, being a purely credit operation, makes an interest payment inescapable. It should be here stated with emphasis that the first method (case a) of deposits, proportional to the individual orders, is the most logical and natural in the collective transactions under discussion. However, actually, even in these transactions, credit operations are found to be necessary. If the group making collective purchases becomes a lasting organization, if this group performs a series of transactions, and if the parties to these transactions desynchronize their dealings with the group, in other words, if the group of collective purchases is transformed into a permanent purchasing cooperative association, an exact calculation of necessary deposits, proportional to individual orders becomes impossible. In such conditions a need for advances from participants of collective purchases remains, but the advances might be actually



paid only approximately in proportion to the actual transactions of every member. That is, in the permanent organizations of collective purchases (in cooperative associations) the second method of mobilization of advances (b) appears to be most fitting, though pure credit (c) might also be obviously used for the purpose. In the later chapters of this survey, an examination of the methods of mobilization of capital by the regular cooperative associations will be made: this examination will show that the cooperatives adopt all three methods traceable in their earliest stages in the groups of collective purchasers in the Farmers' Clubs.

### Exceptional Case of Cooperative Purchases

One actual case of collective purchasing is described by Durand and Price of the practices of the Minnesota farmers. This case represents a still earlier phase of the development of the cooperative body, and is striking because of its extreme primitiveness and because of the fact that it reveals the economic structure of cooperative organizations still more conspicuously. We quote the description of this case as it has been presented by the authors:

#### *Cooperative Purchasing at C.*

C. is situated in a fertile, well-developed, mixed farming section of the State.... There is no formal Club or Society. When the supply of feed or flour becomes low in the community, several farmers get together and buy a large quantity, usually a carload of feed and a half ton or more of flour from the local mill....

The usual method of procedure in making these purchases is for some farmer who wishes to buy feed or flour to start a subscription paper among the neighbors. When he has orders for a considerable quantity, he takes the list to the local flour mill, which fills the order either with its own

product or with goods purchases from the other market. The farmers then procure their goods from the mill, or from the car if they have been shipped in, each farmer paying the miller as the goods are taken.... It is understood that all such buying is for cash. The miller says that a farmer occasionally does not have ready money when his goods arrive, and in such cases a few days' credit is given.... The miller notifies the farmers when the goods arrive and they get them promptly.... The miller has been selling to groups of farmers in this way for about five years, and the volume of business has steadily increased.

The history of cooperative buying by more formal farmers' organizations in this community is reported to be unfavorable. The practice is said to have been the ruination of two prosperous Farmers' Clubs, which were involved in unsuccessful undertakings. The members of one Club became dissatisfied over the handling of a lot of seed corn; in the other Club an unsuccessful potato warehouse caused its dissolution and death. The farmers around C. have a strong cooperative spirit, but seem to succeed best without any formal organization.<sup>24</sup>

This actual case recorded in the descriptive publication of Durand and Price gives clear illustration of the aggregate structure of cooperative organization outlined in this study. In this extremely simplified aggregate of purchasers there is no sponsoring Farmers' Club. There are only the dotted, hardly discernible contours of a group itself. The advances paid by purchasers separately and independently and the capital of the group (embryo of capital stock) of regular cooperative associations may be perceived as plurality of individual advances not yet amalgamated into the mirage of capital of the group. It is amazing that even a manager is still almost indiscernible in this case, since the

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<sup>24</sup>E. Dana Durand and H. Price, pp. 8-9.

Miller often sells byproducts from his own mill to the farmers. The case clearly testifies that the centrifugal tendencies previously mentioned are indeed inherent in the aggregates of economic units: the farmers in this case though "having a strong cooperative spirit ... seemed to succeed best without any formal organization" and efforts to introduce a more formal farmers' organization have destroyed two prosperous Clubs.

### Elementary Marketing Cooperative Associations

Our analysis of the elementary cooperative associations will not be complete and sufficient for the scope of this study if it is limited only to an examination of cooperative purchasing groups within the Farmers' Clubs. Elementary marketing cooperative organizations require the same careful investigation as has been given the purchasing cooperative bodies. For cooperative marketing associations differ in many essential points from the groups of buyers already described. Marketing cooperatives, generally speaking are more complicated than organizations of buyers, since alienation of economic services is a more difficult task than purchasing transactions. For verification of the theoretical scheme outlined in this study, the most elementary forms of cooperative marketing should be chosen for the same reasons which have dictated the choice of the simplest cases of cooperative purchases. Such simple cases of cooperative marketing as a result practically free from legal and technical complexities and their economic skeleton may be directly perceived. Such elementary non-incorporated cooperative marketing organizations are very common in many countries and in many branches of marketing. We will take for examination the actually existing non-incorporated marketing cooperatives in this country. Among the marketing cooperatives of American farmers, the livestock shipping associations represent a particularly appropriate case for economic analysis.

**Cooperative Livestock Marketing Associations<sup>25</sup>**

Cooperative livestock shipping associations as a rule are organized not as casual groups for one transaction only, but as more or less lasting associations. That is also true in regard to all other cooperative marketing associations; farmers raising livestock for market get substantial economic advantages if they are able to supply a market regularly. On the other hand, in sections exporting livestock, every cattle raiser, if his enterprise is rationally organized, needs to sell livestock several times during the year, and commission dealers in the central markets offer considerable advantages to their regular shippers as compared with the occasional shipper. Thus the cooperative marketing association now under discussion differs materially from an

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<sup>25</sup>The data and information on the livestock marketing associations used in this chapter are taken from the following publications: (1) B. H. Hibbard, L. G. Foster and D. G. Davis, *Wisconsin Livestock Shipping Associations*, Wisc. Agr. Exper. Station, Bull. 314, 1920. (2) E. W. Gaumnitz and J. D. Black, *Organization and Management of Livestock Shipping Associations in Minnesota*, Minn. Agr. Exper. Station, Bull. 201, 1922. (3) H. B. Price, *Farmers' Cooperation in Minnesota*, Minn. Agr. Exper. Station, Bull. 202, 1922. (4) *Organization and Management of Cooperative Livestock Shipping Associations*, U.S. Department of Agriculture, Farmers' Bull., 1922, 1923. (5) R. H. Elsworth, *Development and Present Status of Farmers' Cooperative Business Organizations*, U.S. Department of Agriculture, Bull. 1302, 1926. (6) *Cooperative Livestock Associations*, U.S. Department of Agriculture, Bull. 1502, 1926. (7) Th. Macklin and A. Shaars, *Cooperative Sales Organizations for Livestock*, Wisconsin Agr. Exper. Station, Bull. 394, 1927. (8) *Cooperative Marketing*, Federal Trade Commission, 1928. (9) R. H. Elsworth, *Cooperative Marketing and Purchasing - 1920-1930*, U.S. Department of Agriculture, Circular 121, 1930. (10) *American Cooperation, 1925-1939*. (11) R. H. Elsworth, *Statistics of Farmers' Cooperative Business Organizations, 1920-1935*. Farm Credit Administration, Bull. 6, 1936. (12) F. M. Hyre, *A Statistical Handbook of Farmers' Cooperatives*. Farm Credit Administration, Bull. 26, 1938. (13) H. H. Hulbert, *Organization and Operation of the Illinois Livestock Marketing Association*. Farm Credit Administration, Bull. 5, 1936. (14) L. B. Mann, *Cooperative Marketing of Range Livestock*, Farm Credit Administration, Bull. 7, 1936.

elementary cooperative purchasing group previously examined: its new and significant characteristic is a continuity of functioning with all the additional structural and functional economic features accompanying it.

The livestock marketing cooperative associations were first organized in this country in 1882<sup>26</sup> and thereafter the movement grew rapidly. In 1923, according to the estimates of the United States Department of Agriculture, there were from 4,000 to 5,000 cooperative organizations shipping livestock in this country,<sup>27</sup> mostly in the northwestern states. Their number then declined to about 2,000 in 1935,<sup>28</sup> while only 974 local livestock shipping associations were found in the survey of the Farm Credit Administration in 1935-1936.<sup>29</sup> More than four-fifths (82.2 percent) of the livestock shipping associations in 1924 had no capital stock and only one-tenth (10.5 percent) of them have been paying dividends on stock.<sup>30</sup> In 1935-1936 only 16 percent of local livestock shipping associations were of capital stock pattern, while in the group of terminal associations this percent was equal to 34 (13 associations out of 38 were capital stock organizations).<sup>31</sup> Thus these associations are mostly non-stock, non-profit cooperatives. Considerable number of these associations are informal non-incorporated bodies. According to the country-wide survey of livestock marketing cooperatives by the U.S. Department of Agriculture, sixty percent of

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<sup>26</sup>Hedges, Harold and Filley. *Cooperative Marketing of Livestock in Nebraska*. Nebr. Agr. Exper. Station, Bull. 209, 1925.

<sup>27</sup>*Organization and management of Livestock Shipping Associations*. U.S. Department of Agriculture, Farmers' Bull. 1292, 1923.

<sup>28</sup>Elsworth, R. H. *Statistics of Farmers' Coop. Business Organizations, 1925-1935*. Farm Fred. Administration Bull. 6, 1936.

<sup>29</sup>See above, p. 53.

<sup>30</sup>Elsworth, R. H. *Development and Present Status of Farmers' Coop. Business Organizations*. U.S. Department of Agr. Bull. 1302, 1925.

<sup>31</sup>See above, p. 53.

them were not incorporated in 1925,<sup>32</sup> while Gaumnitz and Black have found in 1922, that in Minnesota 96.2 percent of all livestock shipping associations were non-incorporated organizations. In 1935-1936, percent of non-incorporated livestock marketing cooperatives for the United States was equal to 35 percent for local associations and to 11 for terminal associations.<sup>33</sup> The relatively high percent of informal associations of this group is explained by the simplicity of their organization and functioning. The simplest forms of the livestock shipping associations are very similar in their structure to the cooperative purchasing groups, with one essential difference, however, *viz.*, that the marketing cooperatives under discussion are the lasting associations while the purchasing groups in the Farmers' Clubs are organized for one transaction only.

#### General Economic Character of Livestock Marketing Cooperative Associations

Such informal and elementary livestock marketing associations may be generally characterized as follows:

- a) A great majority of the livestock shipping associations have no capital stock and the membership is not dependent upon stock ownership; since membership is granted naturally only to owners of marketable livestock, and usually it is conferred automatically when shippers deliver their livestock to the association.
- b) The average number of members of these associations was 140 in 1915,<sup>34</sup> and was 343 in 1934.<sup>35</sup> The necessity to assure more or

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<sup>32</sup>Elsworth, R. H., *Op. Cit.*, p. 10.

<sup>33</sup>*Organization and Management of Local Livestock Shipping Associations in Minnesota.* Minn. Agr. Exper. Station, Bull. 201, p. 12, 1922.

<sup>34</sup>R. H. Elsworth, *Development and Present Status of Farmers' Cooperative Business Organizations.* U.S.D.A. Bull. 1302, 1925, p. 11.

less regular shipments of cattle in car lots to the central markets throughout the year influenced the size of membership.

- c) Very small capital is required for such associations to cover expenses necessary to run their work. These expenses are few and generally small, but an association needs, nevertheless, some immediate reserve fund to enable it to meet expenses or incidental losses. Therefore, a membership fee of from \$0.25 to \$2.50, paid at the time of the first shipment or deducted from the first shipment returns, was most frequently used to mobilize such a fund.
- d) The important practical question of insurance of individual shippers against losses of their stock on the way to market has been solved by the introduction of mutual insurance practices. A special sinking fund is provided by associations: each member contributes a certain sum to this fund deducted from the receipts for his livestock sold through the association - therefore proportionally to the volume of his transactions through the cooperative.
- e) The expenses for equipment in such associations are negligible. The scales are usually furnished by the railroad companies; no special office is maintained, all clerical work being done in the home of the manager or in the local bank; commission firms furnish scale pads and invoice sheets gratis; lumber, feeds, bedding and miscellaneous supplies may be secured as needed; accounting books are cheap, etc.
- f) A Board of Directors for the supervision of the work is usually elected. The Board appoints the manager who actually runs all work and is compensated, as a rule, on the commission basis by pro rata deductions from the receipts after a transaction is finished.

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<sup>35</sup>R. H. Elsworth, *Statistics of Farmers' Cooperative Business Organizations in 1920-1935*. Farm Credit Administration Bull. No. 6, 1936, p. 70.

*Patronage Dividends in Cooperative Associations*

All the expenses of a livestock shipping association are paid by the individual members proportionally to the individual's share of the total volume of transactions. Since in the association organized for continuous work these expenses cannot be calculated exactly in advance, and naturally vary from association to association, and vary by markets, and even by single transactions on the same market, the livestock shipping cooperatives adopt the practice of an average rate of deductions per unit of commodities handled. In so doing they assume their reasonable adequacy to cover the probable expenses, based on average costs of running the business of the association through previous years. With such an arrangement there might be three possible cases at the end of the business year:

1. the deductions made in advance might be equal to the actual expenses;
2. the deductions might be higher than expenses; or
3. the deductions might be less than the actual costs.

The manager, therefore, of the livestock marketing association at the end of a business year may face the following possibilities:

1. In the first case he will find that all the reckonings with the members of the association are done exactly and are finished.
2. In the second and third cases the reckonings will be found as being based on wrong calculations and being in need of final adjustments on the ground of exactly known deductions from the volume of commodities sold by each member and the actual costs of running the business. The management will be in a position to state that in the second case the member-patrons of the association were underpaid at the moment of the transaction, i.e., they received only a part of the actual price of their goods. This part of the price which was underpaid to them gave a surplus to the association at the end of the business year. In the third case it will be found that the members of the cooperative were overpaid at the moment of the transaction, i.e., they received more than the actual price for their goods. Thus the technical



impossibility of the exact calculation of future costs and necessary average deductions from the value of commodities sold at the moment of transactions led either to an accrual of money underpaid to members or to a lack of money to cover current expenses of an association.

There is only one way for the manager of a cooperative association to overcome these purely technical maladjustments:

- a) in the case of excessive deductions (surpluses) retained he has to distribute the underpaid sum of money to the members in order to make the final reckonings with every one of them; and he has to make this distribution proportionally to their individual shipments;
- b) in the cases where preliminary deductions from the value of commodities sold by the association have been insufficient to cover the actual expenses (deficits) of the cooperative, he has to collect from the members the sums overpaid them by the association and, obviously, also proportionally to the volume of business done by each member.

Since the first method is more advantageous technically and from the standpoint of managerial policies, the cooperators usually prefer in their practice to overestimate their potential costs and follow the unwritten rule of reasonably excessive deductions from their value of transactions with the understanding that the surpluses will certainly be distributed to them at the end of the business year. These surpluses distributed among the members of cooperative associations at the end of a business year are the mysterious patronage dividends of the cooperatives. The origin of this peculiar economic feature of a cooperative association and one of the famous Rochdale Principles is, therefore, very prosaic. These payments are inherent in cooperative associations because of their aggregate structure. These payments not being yet necessary to the aggregates of economic units organized for a single transaction (purchasing groups previously examined) become technically unavoidable<sup>36</sup> to the lasting aggregates designed for

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<sup>36</sup>The well-developed and stabilized cooperatives in some lines of their work can compute their expenses very closely to the actual costs and are in a position to pay to their member-customers almost a full price at the

continuous work. The traditional and the current interpretations usually put a socio-reformistic brand on this technical detail of a cooperative association and sometimes even consider it as an indirect method of realizing Owen's ideal...."<sup>37</sup>

*Capital Stock and Dividends on Stock in Cooperative Associations*

Finally it is pertinent to examine from the standpoint of a theoretical analysis of the cooperative problem, the traces of capital stock and of profits. In the groups of cooperative purchases we have pointed out the issuance of capital stock of cooperative aggregates in the form of advanced payments by the participants of the aggregate, proportional to their individual quotas in a collective transaction. Under all conditions the cooperative organizations for single transactions with individual orders strictly synchronized, advances of every member may be estimated easily and precisely. In all cases of the lasting aggregates of economic units such individual advances normally may be estimated only approximately. In those groups of cooperative associations where some investments of capital or the mobilization of funds for successful running of business are needed, the method of mobilization of so-called capital stock is very common in practice. In contradistinction to a non-stock, non-profit association such cooperative organs are classes as associations of the Rochdale type.

According to a country-wide study of cooperative agricultural associations in this country by the U.S. Department of Agriculture in 1924, the number of the cooperatives with capital stock paying dividends on stock was, for various groups of cooperative organizations, as shown on page 135.

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moment of transaction. Other cooperatives adopt a policy of retaining patronage surpluses due to their members and thus mobilize their working capital. In both cases the actual payments of patronage dividends decline in importance and even may entirely disappear from practices.

<sup>37</sup>H. C. Filley, *Cooperation in Agriculture*. N.Y., 1929, p. 22.

Cooperative Agricultural Associations by Groups  
and Types of Organization\*

Groups of Associations	Capital Stock Associations				Associations Paying Dividends on Stock	
	Number Reporting	With Capital Stock		Number Reporting	Assns. Paying Divs. on Stock*	
		Number	Percent		Number	Percent
<b>MARKETING:</b>						
Grain Elevators	3,114	3,036	97.5	3,007	2,573	85.6
Dairy Products	1,906	1,606	84.3	1,826	980	55.7
Cotton Products	103	78	75.7	97	67	69.1
Tobacco	25	11	44.0	21	5	23.8
Fruits and Vegetables	1,107	462	41.7	985	231	23.5
Poultry and Products	56	21	37.5	50	17	34.0
Nuts	48	12	25.0	48	1	2.1
Forage Crops	20	5	25.0	18	5	27.8
Livestock	1,545	275	17.8	1,340	141	10.5
Wool, Mohair	115	15	13.0	100	7	7.0
Miscellanea	697	393	56.4	646	295	45.7
<b>PURCHASING:</b>						
Miscellaneous Buying	424	121	28.5	376	74	12.7
Buying Merchandise (Stores)	707	667	95.8	683	556	81.4
<b>ALL ASSOCIATIONS</b>	<b>9,867</b>	<b>6,712</b>	<b>68.0</b>	<b>9,197</b>	<b>4,952</b>	<b>53.8</b>

\* R. H. Elsworth, *Development and Present Status of Farmers' Cooperative Business Organizations*, U.S. Department of Agriculture, Bulletin 1302, 1925. The data on number of cooperative associations paying dividends on stock are latest available in the literature on cooperation in this country.

The table shows a wide variation by groups of the cooperatives engaged in marketing of agricultural products, both in their need for funds for investment and operation and in their practices of paying dividends on stock. Less than one-fifth of the livestock shopping associations surveyed have capital stock and only a little more than one-tenth of them pay any dividends on stock. Because of their structural simplicity, livestock shipping associations are almost entirely free from non-economic (legal, technical, etc.) admixtures. These associations are chosen as exceptionally advantageous material for an examination of the genesis of capital stock and of dividends on stock in cooperative associations despite the fact that only a small minority of these associations

actually have capital stock. As has been previously pointed out in the cooperative purchasing groups within Farmers' Clubs, the advances proportional to the size of the individual orders were used for mobilization of funds needed for work. Further, livestock marketing cooperatives differ from the aggregates created for a single transaction (a) by the continuity of their coordinated work, and (b) by desynchronization of individual transactions within the aggregate. These two differences between lasting aggregates of economic units and single collective transactions have an important bearing on their entire economic structure. As has been said, the needed advances to start and run the business cannot be exactly estimated commonly in the lasting aggregates, since the individual members of the association usually cannot fix in advance with certainty their potential volume of transactions for a long period of time. Therefore, the size of individual advances cannot be defined precisely, but only approximately, in such aggregates. As in the case with the deductions from the value of transactions for mobilization of funds to cover the current costs of work, so there are three possibilities with the advances approximately estimated:

1. An advance from an individual member of the association might correspond to his actual volume of business done through the association,
2. it might be less than his prorated share, and
3. it might be more than the sum corresponding to his use of services of the association.

In the first case, the member of the cooperative obviously is contributing exactly his share of advance to the fund of the association. In the second case, he supplied only a part of the fund actually utilized by him and therefore he used a part of the advances contributed by the other participants. In the third case, he advanced more money than he had to, taking into account his own use of the apparatus of the association and therefore some other members made use of his advances for their transactions in the association. At first glance it would seem impossible that such insignificant maladjustments could play a tangible role in cooperative organizations, and that participants in the cooperatives could be so sensitive to their individual economic interests.

Yet these very minute encroachments upon the economic individuality of the members of cooperative aggregates are adjusted in the cooperatives by a device, which produces a surprisingly perfect balance of individual interests while eliminating the slightest signs of disharmony in the mobilization of advanced funds. In a theoretical study of cooperation, this side of the cooperative problem is cogent, not only because it throws new light on the aggregate nature of cooperatives, but also because it discloses the true economic character of the loose and utterly deceptive concepts of capital stock and of dividends on stock in cooperative associations. Considering the highly complicated character of the question under discussion, our examination will be confined to an examination of the economic essentials involved. This can best be done by the choice of a hypothetical, simplified type of cooperative association. Let us assume a livestock shipping association consisting of twenty members. Each member contributes \$100.00 as his share of advanced money (capital stock of the association). The total advanced fund of the association, therefore, is equal to \$2,000. (See the following Table 1, column a.) The annual volume of business of this association is taken as \$40,000 (column b of the succeeding table). According to the Rochdale principle "profit on capital" in cooperative associations shall not exceed the current rate of interest, and on this ground the remuneration of a capital share is assumed to be equal to 5%. That is, the total money payable to the members in the form of dividends on stock is \$100.00 (column c of the table). This money is retained from the transactions of every member at the rate of 0.25% (column d of the table). In column e the actual receipts and expenses of the members of the association are shown. These data were computed by subtracting the sums retained from every member for use of the collectively advanced fund (column d) from the sums paid to him as remuneration of his own advance (dividends on stock, column c).

Several significant conclusions follow:

- a) Firstly, the whole process of the formation of capital stock may be traced in these data: The capital stock of the lasting cooperative aggregate represents the advances of members of this aggregate invested for a lasting use. In contradistinction to advances of participants of aggregates created for a single transaction, they are only approximately proportional to the volume of

**Table 1. Nominal Reckoning and Actual Payments and Receipts in Cooperative Associations**

Individual members	Shares of capital advanced (a)	Volume of annual business of individual members (b)	Dividends paid on stock (a) x 0.05 (c)	Sums retained for dividend purposes (b)x0.0025 (d)	Actual payments (-) & receipts (+) of individual mbrs. (c) - (d) (e)
1	\$100.00	\$ 200.00	\$ 5.00	\$ 0.50	+ \$ 4.50
2	100.00	300.00	5.00	0.75	+ 4.25
3	100.00	400.00	5.00	1.00	+ 4.00
4	100.00	800.00	5.00	2.00	+ 3.00
5	100.00	1,000.00	5.00	2.50	+ 2.50
6	100.00	1,200.00	5.00	3.00	+ 2.00
7	100.00	1,400.00	5.00	3.50	+ 1.50
8	100.00	1,880.00	5.00	4.70	+ 0.30
9	100.00	1,920.00	5.00	4.80	+ 0.20
10	100.00	2,000.00	5.00	5.00	0.00
11	100.00	2,080.00	5.00	5.20	- 0.20
12	100.00	2,120.00	5.00	5.30	- 0.30
13	100.00	2,400.00	5.00	6.00	- 1.00
14	100.00	2,600.00	5.00	6.50	- 1.50
15	100.00	2,800.00	5.00	7.00	- 2.00
16	100.00	2,900.00	5.00	7.25	- 2.25
17	100.00	3,100.00	5.00	7.75	- 2.75
18	100.00	3,400.00	5.00	8.50	- 3.50
19	100.00	3,500.00	5.00	8.75	- 3.75
20	100.00	4,000.00	5.00	10.00	- 5.00
<b>TOTAL</b>	<b>\$2,000.00</b>	<b>\$ 40,000.00</b>	<b>\$100.00</b>	<b>\$100.00</b>	<b>00.00</b> <b>(+\$22.25</b> <b>-\$22.25)</b>

transactions of individual participants. In the aggregates with economically homogeneous membership, an individual's shares (advances) are approximately equal. Incidental deviations in the volume of business of a single member from the average in one year would be corrected by transactions in other years. So in the long run the average volume of annual business of each member gravitates toward equality, approximating the share of advance.

- b) Secondly, the actual genesis of profits in cooperative associations is made plain in this table: the dividends on stock are estimated in this generalized association at the rate of five percent (column c) according to the Rochdale rule. The sums for payment of such dividends are retained from the annual volume of transactions of every member; for there is no other source for such payments to the cooperative association if it represents a true aggregate of economic units, i.e., if all the members and only the members participate in its work. Thus all the reckonings of remuneration of capital stock in the cooperatives are the reckonings which take place strictly within an aggregate among its members.
- c) It has been mentioned that the dividends on stock being stipulated income cannot represent an entrepreneurial profit (which is unstipulable) and appear to be payments in the nature of interest.<sup>38</sup> The materials of the table under examination suggest that they represent interest-like reckonings only among the participants of an aggregate. In other words they cannot be interpreted as an income of the cooperative association.
- d) The dividends on stock payable by the cooperatives in the form of interest (column c) do not represent, however, true interest, since the nominal dividends received in cooperative aggregates are not a real income of the recipients. The true income of the stockholders can be determined only by subtracting from the nominal dividends paid to the member the share retained for that purpose from the total volume of his business through the cooperative association (column d of the

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<sup>38</sup>See above, p. 78.

table). The sums retained from the member might be less than his nominal receipts (members 1-9); they might be equal to them (member 10), or might be even more than his nominal dividends (members 11-20); all three cases are presented in column e of the above table.

The actual payments in this intra-aggregate reckoning are made to the members who either could not use completely their quota of transactions proportional to their advanced share of money (members 1-9, table no. 1) or by the members who exceeded this quota (members 11-20). A perfect adjustment of the advances and of the volume of business by separate members of the aggregate would require, in this case, either a redistribution of the shares of advances among the members to make them strictly proportional to the individual use of services of the aggregate by its participants or an interpretation that the second group (members 11-20) was the borrowing group and the first group (members 1-9) was the lending group in their relation to the share capital of the association. The method of redistribution of advances *post factum* cannot be adopted, the more so that in the next year the borrowing group might find itself in the position of lenders and the lenders might become borrowers. Cooperatives have adopted the practice of paying nominal dividends on stock out of the money retained from transactions in definite proportion to the volume of business of members. Nominal dividends thus represent a peculiar technicality of reckoning among the members within an aggregate. By subtraction from the dividends of sums retained from every member (column d) the true payments of some members and true receipts of the other members of the association may be determined. These payments and receipts (column e of the table) represent true interest paid by the members who were undercharged in their advances (the members 11-20, column e of the table) to the members who did not use their quota of volume of transactions (the members 1-9, column e of the table) fully and therefore were overcharged with advances. It cannot be overemphasized that such a peculiar way of reckoning adopted by cooperatives is a manifestation of their aggregate economic structure, since these reckonings automatically and absolutely eliminate even minute maladjustments among the economic units which compose the aggregate in the matters relating to mobilization of their working capital. It further proves that the cooperative is not the association itself taken separately but the functioning plurality of associated economic



units each retaining its economic individuality and pursuing its own economic interests. The students and interpreters of cooperation unquestioningly assume that the cooperative is an enterprise and completely overlook its aggregate character. There is small wonder, therefore, that the true economic nature of capital stock and of dividends on stock in the cooperatives have never been even examined; their share capital has been identified with the entrepreneurial capital stock of stock companies, while their dividends on stock have been very indecisively and nebulously designated either as profits or savings.

The members of the cooperative whose business transactions correspond exactly to their share of advanced capital are in specific position within the aggregate and their economic status well deserves to be carefully examined. Member no. 10 of the above table represents such a group. As the table shows, he is neither overcharged nor undercharged in his contribution of advanced money. His volume of transactions through the association coincides exactly with the quota corresponding to his advance. In other words, he is neither a lender nor a borrower within the aggregate. Such a perfect coincidence of advanced money and volume of business done is easily attainable in the aggregate created for a single transaction, but is rather rare and casual in lasting aggregates. The theoretical interest in the economic position of such members of a cooperative aggregate is in the fact that they neither pay nor receive any interest, as is shown in our hypothetical case. Member no. 10 is the recipient of \$5.00 of dividends on stock which are retained from his own account as a patron of the association (columns c and d of the table). It is perfectly clear, therefore, that the so-called dividends on stock in the cooperatives represent, because of their aggregate nature, only a technical device for the elimination of maladjustments among the members within an aggregate in regard to their proportional contribution of advanced money needed for starting or consummating transactions of members.

In the above hypothetical cooperative association an exaggerated diversity of individual volumes of business has been taken purposely to reveal more sharply the true economic character of nominal and actual interest payments in the cooperatives. If we assume that the range of variations in individual transactions gradually contracts and all the members make transactions of approximately \$2,000 per annum, we will see that

hand in hand with this increasing homogeneity of business activity of the membership the role of actual interest payments will decline within the associations. And in case of perfect proportionality of advances and business transactions of all members, interest payments will entirely disappear. In practice it is almost impossible to attain an absolute proportionality of advances and transactions, but in the case of economically homogeneous membership a correlation between share capital contributed and volume of business done by single members may be often so close (nos. 8-12 of the above table) that for all practical purposes maladjustments may be ignored. It is for that reason that in all groups of cooperative associations where the advances (shares) and the expected volume of use of the association by its members may be reasonably fixed in advance (irrigation cooperative societies, livestock breeders associations, cow-testing cooperatives, the better organized marketing associations, etc.), the practice of paying dividends on stock becomes unimportant and usually is discarded.

### **Non-Patron Members of Cooperative Associations and Their Economic Position Within the Aggregates**

An essential economic characteristic of an aggregate of economic units is a similarity of units coordinated into an aggregate and the identity of their functioning through an aggregate. Thus, as has been stated, a strict equality of advances and of a corresponding volume of transactions, or strict proportionality of advances to actual volume of business of each member of an aggregate, eliminate payments of interest to the members of the aggregate. These payments of interest of one group of members to the other members in a cooperative aggregate are due to a disproportionality between the advances and the volume of business done by members of an aggregate (table 1). In the first case examined we have an organization representing the perfect type of an aggregate of economic units where any dividends on stock are illogical; in the second case we deal with an organization where the aggregate economic structure is somewhat disfigured by the dividends on stock. The clarity of the aggregate structure of a cooperative association is still more beclouded if we introduce into an aggregate work of the association, such, for example, as the non-patron members. In the actual practice of existing cooperative associations, the

*bona fide* cooperators are, as a rule, somewhat prejudiced against those of their fellow members who contribute their shares of capital and have voting power in the association but refrain from patronizing their association. In terms of the cooperative vernacular, such members are "the capitalists interested only in profits for their capital invested in the association." The true economic character of a group of non-patron members of the cooperatives may only be revealed by examination of such a group in the light of the aggregate structure of these associations. In table 2, a cooperative association with 20 member-patrons (group A) and 2 non-patron members is represented. The share capital, the volume of business and the dividends paid for all member-patrons (table 2, group A, columns a, b, c) are assumed identical, for the sake of comparison, with the corresponding data of table 1. As is made clear by table 2, this hypothetical association is composed of two essentially different groups of members: (a) the member-patrons, composing a true economic aggregate, and (b) the non-patron members, representing a group of creditors of the aggregate. The full members of the aggregate, in this case, receive the same \$100.00 as their dividends on stock (column c of table 2) as before (table 1), but \$110.00 is retained from their accounts (column d of table 2) to pay dividends to both groups of membership. Within the aggregate (group A, column e) we do not now find perfectly balanced receipts and payments of the member-patrons, but find instead an excess of actual payments over actual receipts of \$10.00 due to the lenders of group B. The members of Group B obviously receive as their dividends on stock true interest on their capital advanced to the association and this interest is not diluted with any money retained by the association from its recipients (table 2, group B, column d). With such groups of members only partially participating in the activities of cooperative association, the pure aggregate structure of the cooperative association is obviously disfigured, though its economic essentials still remain clearly traceable. The members of group B appear to be a structural "impurity" within the aggregate; therefore, the widespread prejudices of cooperators against non-patron members find their explanation and justification in the aggregate nature of the cooperatives.

**Table 2. Nominal Reckonings and Actual Payments and Receipts in Cooperative Associations**

Individual mem- bers	Shares of capital advanced (a)	Volume of annual business of individual members (b)	Dividends paid on stock (a) x 0.05 (c)	Sums re- tained for dividend purposes (b)x0.00275 (d)	Actual pay- ments (-) & receipts (+) of individ- ual mbrs. (c) - (d) (e)
<b>A. MEMBER-PATRONS (true members of the aggregate)</b>					
1	\$100.00	\$ 200.00	\$ 5.00	\$ 0.55	+ \$ 4.45
2	100.00	300.00	5.00	0.83	+ 4.17
3	100.00	400.00	5.00	1.10	+ 3.90
4	100.00	800.00	5.00	2.20	+ 2.80
5	100.00	1,000.00	5.00	2.75	+ 2.25
6	100.00	1,200.00	5.00	3.30	+ 1.70
7	100.00	1,400.00	5.00	3.85	+ 1.15
8	100.00	1,880.00	5.00	5.17	- 0.17
9	100.00	1,920.00	5.00	5.28	- 0.28
10	100.00	2,000.00	5.00	5.50	- 0.50
11	100.00	2,080.00	5.00	5.72	- 0.72
12	100.00	2,120.00	5.00	5.83	- 0.83
13	100.00	2,400.00	5.00	6.60	- 1.60
14	100.00	2,600.00	5.00	7.15	- 2.15
15	100.00	2,800.00	5.00	7.70	- 2.70
16	100.00	2,900.00	5.00	7.98	- 2.98
17	100.00	3,100.00	5.00	8.52	- 3.52
18	100.00	3,400.00	5.00	9.35	- 4.35
19	100.00	3,500.00	5.00	9.62	- 4.62
20	100.00	4,000.00	5.00	11.00	- 6.00
<b>GROUP A</b>	<b>\$2,000.00</b>	<b>\$ 40,000.00</b>	<b>\$100.00</b>	<b>\$110.00</b>	<b>-\$10.00</b>
<b>B. NON-PATRON MEMBERS (creditors of members of the aggregate)</b>					
1	\$100.00	-	\$ 5.00	-	+\$ 5.00
2	100.00	-	5.00	-	+ 5.00
<b>GROUP B</b>	<b>\$200.00</b>	<b>-</b>	<b>\$ 10.00</b>	<b>-</b>	<b>+\$10.00</b>
<b>BOTH GROUPS</b>	<b>\$2,200.00</b>	<b>\$40,000.00</b>	<b>\$110.00</b>	<b>\$110.00</b>	<b>00.00</b>

### Non-Member Patrons of Cooperative Associations and Their Economic Position in Cooperative Aggregates

Participation of non-member patrons in cooperative associations creates much more consequential changes within aggregates of economic units and in practice often leads to a complete disintegration of aggregated bodies or to their degeneration into other economic organizations. As in the case of non-patron members of the cooperatives, the rank and file of cooperators instinctively feel that the expansion of transactions with outsiders is not perfectly consistent with the cooperative principles yet it is not definitely known among them why the patronage of outsiders in cooperative organizations is incompatible with the nature of cooperative association. As in all other basic economic features of cooperative associations, this important question should likewise be examined in the light of the aggregate economic structure of cooperative association. In table 3 are tabulated account data of dividends on stock and actual payments and receipts of the members of a cooperative aggregate in the hypothetical association of 20 member-patrons and 2 non-member patrons. To make the data comparable with the calculations used in tables 1 and 2, columns a, b and c are assumed to be identical with corresponding data of these tables. Since the total volume of business of this association (of table 3, group C, column b), as compared with the cases previously examined, has increased by \$10,000, i.e., by twenty-five percent, the sums retained from every member for payments of dividends have declined correspondingly (table 3, group A, column d) and all together the members of the aggregate in this case receive \$100.00 as dividends on their stock, but contribute only \$80.00 for the purpose. The difference, \$20.00, is thus acquired from the non-member patrons (group C) who pay their share of interest on the capital stock of the aggregate. The actual receipts of member-lenders (members 1-13 of group A of table 3) have increased and the actual payments of the member-borrowers (members 14-20) have declined accordingly (group A, column e). The group of non-member patrons of the cooperative association is a group of clients of the aggregate. As clients and patrons of the association

**Table 3. Nominal Reckonings and Actual Payments and Receipts in Cooperative Associations**

Individual mem- bers	Shares of capital advanced (a)	Volume of annual business of individual members (b)	Dividends paid on stock (a) x 0.05 (c)	Sums re- tained from individual members to pay dvidnds (b) x 0.002 (d)	Actual pay- ments(-) or receipts (+) of individ- ual mbrs. (c) - (d) (e)
<b>A. MEMBER-PATRONS (true members of the aggregate)</b>					
1	\$100.00	\$ 200.00	\$ 5.00	\$ 0.40	+ \$ 4.60
2	100.00	300.00	5.00	0.60	+ 4.40
3	100.00	400.00	5.00	0.80	+ 4.20
4	100.00	800.00	5.00	1.60	+ 3.40
5	100.00	1,000.00	5.00	2.00	+ 3.00
6	100.00	1,200.00	5.00	2.40	+ 2.60
7	100.00	1,400.00	5.00	2.80	+ 2.20
8	100.00	1,880.00	5.00	3.76	+ 1.24
9	100.00	1,920.00	5.00	3.84	+ 1.16
10	100.00	2,000.00	5.00	4.00	+ 1.00
11	100.00	2,080.00	5.00	4.16	+ 0.84
12	100.00	2,120.00	5.00	4.24	+ 0.76
13	100.00	2,400.00	5.00	4.80	+ 0.20
14	100.00	2,600.00	5.00	5.20	- 0.20
15	100.00	2,800.00	5.00	5.60	- 0.60
16	100.00	2,900.00	5.00	5.80	- 0.80
17	100.00	3,100.00	5.00	6.20	- 1.20
18	100.00	3,400.00	5.00	6.80	- 1.80
19	100.00	3,500.00	5.00	7.00	- 2.00
20	100.00	4,000.00	5.00	8.00	- 3.00
<b>GROUP A</b>	<b>\$2,000.00</b>	<b>\$ 40,000.00</b>	<b>\$100.00</b>	<b>\$110.00</b>	<b>+\$20.00</b>
<b>B. NON-MEMBER PATRONS (clients of members of the aggregate)</b>					
1	-	\$4,000.00	-	\$ 8.00	-\$ 8.00
2	-	\$6,000.00	-	12.00	- 12.00
<b>GROUP B</b>	<b>-</b>	<b>\$10,000.00</b>	<b>-</b>	<b>\$ 20.00</b>	<b>-\$20.00</b>
<b>BOTH GROUPS</b>	<b>\$2,000.00</b>	<b>\$50,000.00</b>	<b>\$100.00</b>	<b>\$100.00</b>	<b>00.00</b>

they pay their share of interest on the capital stock of the association. It is not difficult to see from the table that a considerable expansion of business transactions with outsiders (group C) may lead toward complete disappearance of the group of member-patrons paying (table 3, group A, column e, members 14-20) actually any money for distribution of interest (dividends on stock).<sup>39</sup> The summary table of the interest account of various types of cooperative associations is presented in table 4. Actual payments and receipts only are included in this table. Five of the most common types of cooperatives are taken here for a comparative analysis. They represent a range of cooperative organizations deviating from the standard cooperative form. As the deviation from the pure cooperative aggregate of enterprises becomes greater (column 1), the interest account increases in complexity:

- a) a purely cooperative aggregate of enterprises is incompatible with any interest payments (column 1);
- b) the interest reckonings in the cooperatives arise as a technical device for the elimination of disproportionality of advances among the member patrons of the association (column 2);
- c) the non-patron members of cooperative associations - insofar as distribution of dividends on stock is concerned - represent a group of recipients of pure interest (column 3);
- d) the non-member patrons (column 4, group C) contribute their payments retainable for the interest fund from their transactions in the association, but do not receive any dividends, and hence they are, in relation to the cooperative aggregate, in the position of clients of the aggregate.

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<sup>39</sup>Such a group would disappear if the volume of business done with outsiders should expand to \$40,000 in the hypothetical association under discussion.

**Table 4. Actual Receipts of and Payments to Members of a Cooperative Aggregate in Various Types of Cooperative Associations in their Account of Dividends on Stock**

Individual members	Types of Cooperative Associations				
	Perfect aggregate w/advances strictly proportional to volume of business of each mbr (1)	Pure aggregates w/disproportionality of advances & individual volume of business* (2)	Aggregates consisting of member patrons and non-patron members** (3)	Aggregates consisting of member patrons and outsider patrons*** (4)	Associations composed of mbr patrons, non-patron members and outsider patrons**** (5)
<b>GROUP A (true members of the cooperative aggregate)</b>					
1	\$0.00	+\$ 4.50	+\$ 4.45	+\$ 4.60	+\$ 4.56
2	0.00	+ 4.25	+ 4.17	+ 4.40	+ 4.34
3	0.00	+ 4.00	+ 3.93	+ 4.20	+ 4.12
4	0.00	+ 3.00	+ 2.79	+ 3.40	+ 3.24
5	0.00	+ 2.50	+ 2.25	+ 3.00	+ 2.80
6	0.00	+ 2.00	+ 1.69	+ 2.60	+ 2.36
7	0.00	+ 1.50	+ 1.14	+ 2.20	+ 1.92
8	0.00	+ 0.30	+ 0.17	+ 1.24	+ 0.86
9	0.00	+ 0.20	+ 0.28	+ 1.16	+ 0.78
10	0.00	0.00	- 0.50	+ 1.00	+ 0.60
11	0.00	- 0.20	- 0.72	+ 0.84	+ 0.42
12	0.00	- 0.30	- 0.83	+ 0.76	+ 0.34
13	0.00	- 1.00	- 1.60	+ 0.20	- 0.28
14	0.00	- 1.50	- 2.15	- 0.20	- 0.72
15	0.00	- 2.00	- 2.70	- 0.60	- 1.16
16	0.00	- 2.25	- 2.95	- 0.80	- 1.38
17	0.00	- 2.75	- 3.52	- 1.20	- 1.82
18	0.00	- 3.50	- 4.35	- 1.80	- 2.48
19	0.00	- 3.75	- 4.62	- 2.00	- 2.70
20	0.00	- 5.00	- 6.00	- 3.00	- 3.80
<b>Total A</b>	<b>\$0.00</b>	<b>\$ 0.00</b>	<b>- \$10.00</b>	<b>+ \$20.00</b>	<b>+ \$12.00</b>
<b>GROUP B (non-patron members of the aggregate)</b>					
1	-	-	+ \$5.00	-	+ \$5.00
2	-	-	+ 5.00	-	+ 5.00
<b>Total B</b>	<b>-</b>	<b>-</b>	<b>\$ 10.00</b>	<b>-</b>	<b>+\$10.00</b>
<b>GROUP C (non-member patrons (clients) of the aggregate)</b>					
1	-	-	-	- \$8.00	-\$ 8.80
2	-	-	-	- 12.00	- 13.20
<b>Total C</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-\$20.00</b>	<b>-\$22.00</b>

\* See table 1.

\*\* See table 2.

\*\*\* See table 3.

\*\*\*\* Calculated from data of tables 2 and 3.



The conceptions of capital stock and of dividends on stock thus interpreted, being the corollaries of the aggregate structure of cooperative associations, are justified by the practice of existing cooperative associations. They throw light on the empirical prejudices of *bona fide* cooperators against such members as refuse to patronize the cooperative, and such patrons as for various reasons do not assume the rights and responsibilities of membership.

From the standpoint of such a setting of the problem of capital stock and of dividends on stock in cooperatives, one cooperative principle appears to be perfectly clear, namely, that all the members are obliged and only the members are entitled to be the patrons of or the active participants in the cooperative associations.

*Illustration:* The following table based on the information available with regard to 28,392 currently operating agricultural cooperative associations in the United States shows that the agricultural cooperative associations existing in this country are essentially the associations of member-patrons. As it may be easily anticipated there are deviations from this pattern among the cooperatives and that such deviations have a different amplitude in different groups of cooperative associations: some groups of cooperatives are strictly associations of member-patrons (credit or insurance associations, for instance); in other groups (such as cooperative irrigation societies and service associations) the outsider-participants are normally rare and their role is indeed negligible; in the group of marketing and purchasing cooperatives the business transactions with non-member patrons are rather common and in some associations are dangerously excessive. The table indicates it unmistakably.

The table represents a comprehensive survey of the agricultural cooperatives in the United States, yet its representative character for all cooperatives in all countries should not be overestimated: the number of outside clientele in the American marketing and purchasing cooperatives appears to be abnormally high and suggests that many of such associations are far on their way of transformation into acquisitive economic units (enterprises). About two thirds of all cooperative

**Number and Percent of Member Non-Patrons, Member-Patrons and Non-Member Patrons  
in Various Groups of Farmers' Cooperative Associations in the United States, 1936-1937**

Groups of cooperative associations	Number of					Percent of			
	Number of associations	Member non-patrons	Member-patrons	Non-member patrons	All participants	Member non-patrons	Member-Patrons	Non-member patrons	All participants
<b>I. CREDIT</b>	11,763	-	4,574,125	-	4,574,125	-	100.0	-	100.0
NFL Ass-s	4,205	-	610,000	-	610,000	-	100.0	-	100.0
Prod. Cr. A-s	232	-	255,869	-	255,869	-	100.0	-	100.0
B. for Coop-s	13	-	1,840,000*	-	1,840,000	-	100.0	-	100.0
F. Cr. Un-ns	2,763	-	627,256	-	627,256	-	100.0	-	100.0
Stock. Cr. Un-ns	4,250	-	1,241,000	-	1,241,000	-	100.0	-	100.0
<b>II. SERVICE</b>	5,877	3,754	3,909,578	3,879	3,917,211	0.1	99.8	0.1	100.0
Insurance	1,909	-	3,263,264	-	3,263,264	-	100.00	-	100.0
Telephones	2,067**	-	302,686**	-	302,686	-	100.00	-	100.0
Electr. Power	259	-	170,000***	-	170,000	-	100.00	-	100.0
Irrigation	2,442	3,754	173,628	3,879	181,261	2.1	95.8	2.1	100.0
<b>III. MARKETING</b>	8,151	410,585	2,002,984	972,197	3,385,766	12.1	59.2	28.7	100.0
Nuts	49	686	12,615	53	13,354	5.1	94.5	0.4	100.0
Citrus Fruits	294	2,050	24,812	1,534	28,396	7.2	87.4	5.4	100.0
Milk barg-ng	114	17,523	128,489	2,098	148,110	11.8	86.8	1.4	100.0
Poultry	180	18,593	93,847	9,287	121,723	15.2	77.1	7.7	100.0
Milk mark-ng	240	13,741	89,004	12,917	115,662	11.8	77.0	11.2	100.0
Other fruits	255	4,456	30,758	5,638	40,852	10.9	75.3	13.8	100.0
Livestock term.	38	9,731	343,446	112,868	466,045	2.1	73.7	24.2	100.0
Misc. products	300	8,583	56,867	12,052	77,505	11.0	73.4	15.6	100.0
Cotton	22	86,737	202,733	12,425	301,531	28.8	67.2	4.0	100.0
Vegetables	316	6,786	39,126	12,639	58,551	11.6	66.8	21.6	100.0
Livestock local	974	23,857	171,948	64,194	259,999	9.2	66.1	24.7	100.0

Berries	134	6,441	15,904	3,911	26,456	25.1	60.1	14.8	100.0
Gins	362	9,085	41,925	20,532	71,542	12.7	58.6	28.7	100.0
Creameries	1,385	58,979	324,796	173,712	557,487	10.6	58.3	31.1	100.0
Wool	139	31,661	47,491	4,561	83,713	37.8	56.7	5.5	100.0
Tobacco	14	38,376	52,848	5,980	97,204	39.5	54.4	21.3	100.0
cream	56	3,055	6,815	2,675	12,342	17.0	53.4	29.6	100.0
Cheese	543	3,503	10,992	6,081	20,576	5.8	48.4	45.8	100.0
Potatoes	105	3,292	7,863	5,967	17,122	19.3	45.9	34.8	100.0
Grain elevators	2,614	63,131	299,709	500,109	862,949	7.3	34.7	58.0	100.0
Misc. cotton	17	683	999	2,964	4,646	14.7	21.5	63.8	100.0
<b>IV. PURCHASING</b>	<b>2,601</b>	<b>85,158</b>	<b>770,862</b>	<b>706,478</b>	<b>1,562,498</b>	<b>5.4</b>	<b>49.4</b>	<b>45.2</b>	<b>100.0</b>
Feeds	490	7,048	244,331	134,205	385,784	1.8	63.4	34.8	100.0
Miscellaneous	334	11,363	85,515	51,197	148,075	7.6	57.8	34.6	100.0
Gas. stations	1,057	34,020	287,966	272,522	594,508	5.8	48.4	45.8	100.0
Exchanges	396	8,709	61,065	89,088	158,862	5.5	38.4	56.1	100.0
Misc. supplies	324	24,018	91,785	159,466	275,269	8.8	33.3	57.9	100.0
<b>ALL ASSOCNS.</b>	<b>28,392</b>	<b>499,497</b>	<b>11,257,549</b>	<b>1,682,554</b>	<b>13,439,600</b>	<b>3.7</b>	<b>83.8</b>	<b>12.5</b>	<b>100.0</b>

SOURCES: This table was compiled from materials contained in the following publications of the Farm Credit Administration:

- a) *A Statistical Handbook of Farmers' Cooperatives*, by F. Hyre, 1939;
- b) *The Story of Farmers' Cooperatives*, by R. H. Elsworth, 1939; and
- c) *The Sixth Annual Report of the Farm Credit Administration*, 1939.

- \* Estimated membership of 1,680 stockholder associations.
- \*\* Only those with switchboards included.
- \*\*\* Customers, estimated.

associations in all countries are the cooperative credit associations, i.e., pure associations of member-patrons and the rough estimate of possible total number of non-member-patrons in all cooperatives is that it can hardly exceed five percent of their aggregate membership.

### Conclusions on the Non-Incorporated Cooperative Associations

An examination of representative cases of elementary non-incorporated cooperative groups and associations leads to the following inferences:

1. All cooperative organizations examined represent aggregates of economic units, coordinating their acquisitive or spending functions, but each economic unit participating retains its complete economic integrity.
2. Their aggregate character is most clear in the simplest forms of such organizations, namely, in the cooperatives created for single transaction;
3. In the lasting cooperative organizations their aggregate structure is beclouded because of (a) desynchronization of the economic actions of the members, and (b) adoption of necessary technicalities designed to protect the individual economic interests of the participants of the aggregate.
4. These technicalities deceive superficial observers since they imitate certain functional features of collective enterprises.
5. The principal technical devices necessitated by the continuity of cooperative organizations are:

- a) the interest-reckoning among the members of cooperative associations to correct the disproportionality between the advances contributed and the volume of business done by the individual members; such intra-aggregate interest reckonings imitate the distribution of profit (dividends on stock) in collective enterprises and are usually confused with this procedure;
- b) the final reckoning with the members on their current transactions (patronage payments); such reckonings are commonly misinterpreted as a process of distribution of profit among the members of the cooperative aggregates.

Both devices are used by only those cooperative aggregates in which, because of the continuity of their functioning, the advances proportional to future volume of the individual transactions and the future current expenses of the aggregate cannot be adequately computed in advance.

6. To be a perfect aggregate of economic units the cooperative organization - as analysis of these representative cases suggests - should be composed of the active patron-members only and only the members should be allowed to participate in its work.

### **Incorporated Cooperative Associations**

The analysis of the economic nature of cooperative associations previously made is based on an examination of informal non-incorporated associations. An act of incorporation facilitates all economic activities of cooperatives. With incorporation not only economic relations among the members of association become legally regulated, but all the economic transactions of membership with outsiders are legally and technically simplified. For all practical purposes an act of incorporation enables the cooperative aggregates to

act on a market as if they were the regular economic units despite their structural complexity.

Such practical importance of incorporation increases, obviously, with the growth of the volume of business of the association or of the complexity of its functions. Hence, incorporation is needed more:

- a) in the lasting or permanent associations than in the temporary cooperative groups;
- b) in associations with large membership than in the aggregates composed of a small number of participants;
- c) in associations with many and diverse lines of economic activities than in those designated to perform few or simple economic functions;
- d) in cooperatives with a more or less lasting investment of capital than in those which can normally work with relatively small funds for current expenses only and because of the nature of their work are not in need to operate any establishment worthy of consideration; and
- e) in cooperative aggregates unable to work without considerable credit transactions than in associations which by the very nature of their functions (some marketing associations) have no pressing need for credit.

It is noteworthy, however, that regardless of the practical importance of incorporation, this procedure is not absolutely necessary for the completion of cooperative organization and for its normal existence and work; for informal non-incorporated cooperative associations may come into being and live as accomplished cooperative aggregates. An act of incorporation by itself does not add any new economic element to cooperative associations, it only covers its aggregated body with legal vestments. Impressive testimony in favor of the possibility of perfect economic aggregates without legal clothes is

given in the fact that all Danish cooperative associations, universally accepted as the patterns of purely cooperative bodies, are non-incorporated organizations. There is not even a law in Denmark providing for the incorporation of cooperatives.

For the purposes of this study, the true meaning of incorporation is of considerable importance. Every student of cooperative problems should constantly and clearly keep in mind that in the process of an economic analysis of cooperation he should sooner or later emancipate himself from the legal shades of the problem with all their implications.

### Basic Legal Conventionality

Emphasis has previously been laid upon the necessity of maintaining distinctly the economic aspect of cooperative organizations in the course of their examination. Of special significance is the necessity of keeping separate their economic and legal aspects. This is because the legal form of cooperative associations does not exactly correspond to their economic character. This aberration of the legal and economic contours of the cooperatives is misleading to such a degree that it makes impossible an exhaustive economic analysis of the problem. And yet this momentous side of the problem has been unnoticed and disregarded.

Such aberration of legal and economic aspects of organizations is not alone confined to cooperative organizations but can be traced in many other economic formations. Not only their structure, but also their economic behaviour and economic policies cannot be adequately conceived nor properly interpreted as long as this divergence between their economic bodies and their legal superstructure is overlooked.

A few illustrations may help to reveal the significance of the divergence under discussion. An attempt has been made in the foregoing discussion to outline pointedly the conception of economic units, individual and collective, as one of the cardinal economic con-

cepts in the analysis of cooperative associations. A legal form for a collective economic unit is the stock corporation. This may explain but does not excuse, however, the fact that in popular economic literature the concept of stock corporation is customarily identified and very often uncritically confused with the conception of the collective economic (business) unit. Among actually existing organizations there are wide deviations from this basic case of perfect legal and economic unity of organization. Such deviations might be traced in the following three principal cases:

1. one economic unit may be embodied in more than one legal unit;
2. one economic unit can be incorporated as an independent single legal unit; and
3. more than one economic unit may function through one legal unit.

These three basic types of correlation of legal form and economic character of organization are presented as embracing, with numerous intervening transitory forms, the entire range of economic formations. They deserve to be examined in some details:

- a) An economic unit organized in a plurality of legal units can be best illustrated by the cases of stock companies which find it necessary or expedient to incorporate some parts of their activities as separate legal bodies. There are usually very important practical reasons behind such decisions. The management of the company, for instance, might be willing to organize a new department within existing enterprise with the idea of experimenting in some untried fields involving considerable risks in case of failure. The management would be perfectly justified in taking every possible precaution to assure the economic interests of the company in the hazardous endeavor, e.g., the incorporation of such experimental branch of the economic unit as a legally separate subsidiary company, owned by the parent organization. This procedure is perfectly justifiable, efficient, and commonly used in practice, viz., a legal device to protect the vital interests of the parent company.



In this case a new legal unit obviously does not cover a separate economic unit, but only a part of an economic unit. All economic functioning of such a stock company can be adequately understood only as the economic behaviour of a branch of the parent enterprise, pretending legally to play the role of a separate business unit. The legal mask of separate enterprise conceals and distorts all the structural and functional characteristics of such an organization. Thus the profits or losses of such an enterprise obviously do not represent entrepreneurial profits or losses, but in a strictly economic sense are only ledger items on which a computation of the entrepreneurial income of its parent enterprise may be based. In fact, virtually all the bookkeeping of such a subsidiary is hardly more than a special account in a ledger of the parent economic unit. Hopeless confusion cannot be escaped in the interpretation of such branches of enterprises, incorporated as independent legal units, unless we constantly keep our eyes on the wide discrepancies between their economic character and legal form and do not forget that all structural and functional terms employed in the description thereof are wholly conventional.

- b) An economic unit incorporated as a legal unit represents the only case where the legal superstructure of the economic body of organization corresponds exactly to every structural and functional characteristic of the economic unit. The legal concept of the stock corporation is designed to represent an economic unit. This is the only case where the legal terms relating to all structural and functional details of a stock company become perfectly synonymous with corresponding economic conceptions; thus:
- (1) capital stock represents truly entrepreneurial capital of the acquisitive economic unit;
  - (2) profits or losses of such a corporation are entrepreneurial profits or losses;
  - (3) a body of common stockholders in such a company is the true corporate collective entrepreneur of the economic unit;

- (4) dividends on common stocks of the company represent fractions of true entrepreneurial income, divided among participants (fractions) of the collective entrepreneur;
- (5) only the holders of common stock with power to vote are the true participants (fractions) of the collective entrepreneur in such economic units;
- (6) the holders of fractions (common stocks) of entrepreneurial capital have the right of fractional voting through the legally complete body of stockholders; their fractional voting power corresponds to their shares of entrepreneurial capital, hence -
- (7) voting by stocks is an innate irrevocable feature of incorporated collective economic units.

In popular usage the legal terminology relating to collective economic units gradually replaces the economic terms and such legal designations as capital stock, dividends on stock, etc., are uncritically employed as exact equivalents of corresponding economic characteristics and conceptions. Such replacement is defensible - though not imperative - in the only case of perfect coincidence of legal and economic unity of organizations - that is, in case b. In all cases (a and c), deviating from this standard, the legal terms do not reflect exactly the economic connotations they supposedly express and create much confusion. Meanwhile legal terms predominate in common use in describing incorporated economic organizations to such a degree that the economic terms are almost entirely abandoned and economic conceptions remain foggy and underdeveloped. This confusion of terms and nebulosity of conceptions is seriously impairing the analysis of the parts of economic units, incorporated as independent legal units (case a) and is particularly detrimental in all attempts to interpret the pluralities of economic units incorporated as single legal units (case c).

c) A plurality of economic units incorporated as a single legal unit. This case should be examined with special care, since the cooperative organizations belong to this type of economic formation. As in the case of the parts of an economic unit incorporated as legal units (case 1) the incorporated pluralities of economic units under the title of stock corporations (case 3) represent an obvious conventionality. A legal unit in this case covers coordinated functioning of many economic units. Such stock corporations, if taken simply as a collective enterprise (case 2) have, in fact, nothing in common with the collective acquisitive economic units. Such a stock corporation, being a legal unit without an economic entity of its own, is not capable of performing any of its own economic functions which are actually performed by the economic units composing its conventional body: it does not acquire nor spend, just as the flock of birds by itself does not fly. As a flock is only a group of flying birds, this stock corporation is only a group of acquiring (enterprises) or spending (households) economic units. The sharp incongruity of legal and economic contours, exhibited by pluralities of economic units incorporated in the form of legal units (stock corporations), if it remains unnoticed, frustrates every conceivable effort to make a coherent economic analysis and interpretation of such organizations. Almost every term describing such stock corporations is void of corresponding customary economic connotation. The following illustrations reveal the irreconcilable discrepancies:

- (1) As aggregates of economic units the stock corporations under examination are inherently non-acquisitive (non-spending) organizations and therefore their cash surpluses (or deficits) do not represent their income, nor their profits (losses).
- (2) Not being collective enterprises, the aggregates cannot have a collective entrepreneur, but are controlled by a plurality of independent entrepreneurs, each representing his own individual economic unit functioning through the association.

- (3) Being, as aggregates, non-acquisitive, incomeless, profitless, and entrepreneurless economic formations, these stock corporations cannot have their own entrepreneurial capital. In other words, their capital stock has nothing really in common with the entrepreneurial capital of true collective enterprises.
- (4) Their member-stockholders, therefore, are not the fractions of collective entrepreneur; in other words, they are not identical in an economic sense with the stockholders of the true collective enterprise (case 2).
- (5) Not being entrepreneurial fractions of a regular collective enterprise, the member-stockholders of the cooperative stock corporations under discussion cannot employ the specific method of self-expression assured the participants of a collective entrepreneur, i.e., voting by shares owned.

In short, the legal structure and legal terms of the stock corporation correspond precisely to economic structure and economic terms only in cases when the true collective enterprise is embodied in a stock corporation. In all cases which deviate from this standard and unique type, the legal terms become conventional and lose their synonymity with the economic connotations.

Cooperative associations being pluralities of economic units functioning as legal units deviate sharply from the type where the legal and economic characteristics of organization completely coincide. This significant lack of synonymity of legal and economic aspects in cooperative associations has remained unnoticed by all the students and interpreters of cooperation. The mask of a legal unit covering an aggregated plurality of economic units has been always uncritically taken for the economic face of cooperative organizations. This lamentable error is one of the principal sources of the confusions and contradictions in the tests of true cooperation quoted in the first part of this study.

In connection with this discussion of legal and economic contours of economic organizations the following considerations are worthy of

note. Incorporation is not an unavoidable phase of existence for separate branches of economic units (case a) or for pluralities (case c) of economic units. Both adopt this legal procedure only if their incorporation for some reason becomes practically expedient. They can and do normally exist without incorporation, and removal of the legal toga from the incorporated cooperative aggregates does not necessarily mean their economic end; they may conceivably continue to function as aggregates without the slightest distortion of their economic character.

Both the cooperatives of the Rochdale type and the so-called non-stock, non-profit associations can be incorporated. In existing literature, hardly any doubts ever were recorded about incorporated capital stock cooperatives. They are understood as cooperative modifications of collective enterprise. Opinions about incorporated non-stock, non-profit cooperative associations are somewhat indecisive and loose, since these cooperative enterprises are deprived of all the customary features (capital stock, dividends on stock, stockholders, etc.), of a typical collective economic unit. However, they are treated by law as collective spending economic units (households) – similar to other collective households (charitable institutions, funds, church organizations, etc.). Thus the double error in current interpretations of incorporated non-profit associations can be stated; (a) they are loosely understood to be economic units, being the aggregates of these units, and (b) they are legally treated as collective households, being in most instances aggregates of acquisitive (enterprises) and not of spending (households) economic units.

The case of incorporated capital stock cooperative associations is entirely different in the minds of cooperators. These associations have all the external traits of a collective economic unit and are treated in law as collective enterprises of a peculiar kind with some modifications relating to limitation of profits, limitation of stock ownership, and limitation of voting power. Structural mimicry of the cooperatives of Rochdale pattern, in fact, is so complete and astounding, that it has always been alike deceptive to lawmakers and economists.

### An Important Technical Confusion: Enterprise vs. Establishment

Failure to distinguish the economic body of cooperative aggregates from their legal clothes in current discussions is not the only cause of mistaking them for enterprises. Confusion or insufficient distinction between the technical and the economic aspects of the processes of "wealth getting and wealth using activities of men" (Ely) is another source of errors. As the terms are used here wealth getting and wealth using processes are understood as the price processes and only as price processes are they thought to be of direct concern to economists; as the physical processes of production (or consumption) of tangible goods they are designated here as the technical processes and as such they are thought to be not within the sphere of the economist. These two angles under which the phenomena of wealth getting and wealth using can be contemplated and examined normally coexist but they do not always or necessarily coincide and should not be identified or confused. In this study in anticipation of this particular difficulty, the terms acquisition and spending were intentionally adopted instead of the customary but technically tainted terms production and consumption. It is of singular importance for the purposes of this study to distinguish clearly the concept of the technical unit (here designated as establishment) from the concept of the economic unit (enterprise or household).

The overwhelming majority of cooperative associations by the nature of their activities organize and run the establishments of one kind or another. Usually, they are in need of certain items of technical equipment, which require investment of capital for years of use of this equipment by the membership of the association. The stores, gain elevators, warehouses, gasoline stations, fruit grading plants, etc., represent kinds of widely used simple establishments operated by cooperative aggregates in this and other countries. Some cooperative associations are engaged in complicated processes of manufacturing: they operate dairies, cheese factories, wine cellars, factories of canned fruits and vegetables, bacon plants (Scandinavian countries), bakeries, laundries, electric lamp factories (Swedish cooperatives), the factories of fertilizers (Federazione Italiana dei Consorzi Agrari), etc. In current literature, such organizations are usually described as cooperative

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enterprises, similar to any other business enterprises engaged in production of goods.

Such uncritical and loose identification of the plants, factories and other establishments operated by cooperative associations and their unions with business enterprises is further strengthened by conventionalities of accounting in the establishments under discussion, since every organized establishment of this kind has usually its own complete system of accounting: they buy products from their members or sell them goods and services at certain prices; as business enterprises they compute their costs and calculate their profits and losses.

This technical imitation of economic units by the establishments operated by the cooperatives beclouds still more their economic character and works in the same direction as the legal conventionalities previously pointed out. For the purposes of the economic analysis of cooperative organizations the concept of cooperative body should be carefully isolated from its technical sides and implications. Therefore, a brief consideration of the clear distinction between enterprise (acquisitive economic unit) and establishment is necessary.

The concept of establishment<sup>40</sup> is used here to indicate any unit where the physical processes of production or exchange of economic goods or services take place. The term thus employed relates to a technical and not to economic conception.

It is essential that the student of cooperative organizations makes a clear separation of the concept (1) of establishment as a productive unit from that (2) of enterprise as an acquisitive economic unit. As we have seen, in case of legal interference with the economic structure of cooperative associations, technical processes of production may interfere with the economic processes of acquisition, and such interference, if unnoticed, leads inescapably toward serious confusions. With regard to

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<sup>40</sup>The concepts of establishment and enterprise, as they are stated here, correspond to the conceptions of "Betrieb" and "Unternehmung" as they are used in German economic literature.

the particular case of productive and acquisitive units, at least three basic variants deserve to be specially considered:

- a) one economic unit (enterprise) may be embodied in one technical unit (establishment); illustrations: farm of an independent farmer, retail store of an independent retailer, the plant of one-plant independent manufacturer, the shop of a small independent shopkeeper, etc.;
- b) one economic unit (enterprise) may work through more than one technical unit (establishment); illustrations: one chain store company (enterprise) selling through many of its retail outlets (establishments), multi-plant manufacturing enterprise working through its several factories (establishments), etc.
- c) more than one economic unit (enterprise) may work through one technical unit (establishment); illustrations: partnerships acting through one establishment, the cartels, and some groups of trade associations using one common establishment, etc.

It appears to be self-evident that only in the case (a) when the economic unit is embodied in one and only one establishment all the descriptive technical features of such an establishment are closely correlated with and directly correspond to the economic characteristics of an enterprise functioning through this establishment: its accounting terminology, for instance, is the accounting terminology of an enterprise; its profits and losses are the profits and losses of an enterprise; and so forth. In all cases, however, where the aberration of technical and economic shades takes place (cases b and c), all technical and accounting terms habitually used lose their customary economic connotations and become deceiving conventionalities. Thus, the economic policies of single outlets of a chain store company only indirectly reflect the entrepreneurial plan and policies of their corporate enterprise. Their profits and losses are not the entrepreneurial residua of the chain store company, but only the single items used for calculation of entrepreneurial income of these commercial leviathans. As such they are strictly identical with the profit-loss items closing the special accounts in a ledger of economic units.



In case of many economic units (case c) working through one establishment, there is a still wider divergence between the terms of accounting and the economic meanings habitually attached to them. The capital stock of such establishments is not the entrepreneurial capital of a normal economic unit, but a fund advanced by the enterprises participating in the collective work through a common establishment. The profits and losses of such an establishment have not the least kinship with entrepreneurial income, but can only be either accounts payable to or receivable from the enterprises participating in the common work in the course of mutual reckonings among the participants.

**Illustration: Cooperative Associations of Retailers in the Grocery Trade in the U.S.A.** <sup>41</sup>

Some significant developments in the grocery trade in this country illustrate clearly this distinction between a collective establishment and a collective enterprise. The cooperative associations of grocer-retailers were initiated in this country about 1887 – many years after the first commercial grocery chains were established and under their direct and powerful competitive pressure. That is, cooperation here, as everywhere, was a matter of dire necessity. Though the Atlantic and Pacific Company has been operating since 1858, the rapid growth of commercial chains in the grocery trade began after 1915. The following table gives the picture of the relative growth of chains which, as it is known, combine the wholesale and retail functions and of independent grocer-wholesalers in the grocery trade in the decade following the War of 1914–1918: <sup>42</sup>

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<sup>41</sup>Such cooperative associations of retailers were also numerous and well established in the countries of Central Europe before the current war.

<sup>42</sup>W. L. White, *Cooperative Retail Buying Associations*. N.Y., 1930. Chap. III.

**Indexes of Sales of Independent Wholesalers and  
Corporate Chains in Grocery Trade in 1919-1928**  
(Average for 1923-1925 = 100)

Years	Independent Grocer Wholesalers' Sales	Corporate Grocery Chain Sales
1919	118	45
1920	126	66
1921	93	59
1922	93	69
1923	100	85
1924	101	97
1925	99	118
1926	98	143
1927	94	174
1928	95	208

The following factors made the chain stores powerful: (a) concentration of distribution units; (b) complete food market; (c) effective propaganda that the goods are cheaper in the chain stores; (d) absorption of wholesaling; (e) clean stores; (f) privately controlled brands; and (g) special quantity discounts from manufacturers.

The retail grocers, to preserve their opportunities and their very existence, were forced to create a device working at least as well as the corporate chains. The early cooperative efforts of the retailers consisted merely in collective purchases; later warehousing, delivery service, advertising and the use of various improved merchandising plans were added.

The growth of cooperative chains of retailers was steady as the following figures<sup>43</sup> suggest:

Years	Number of Cooperative Chains
1888	1
1908	13
1910	13
1915	37
1920	90
1925	93
1927	96

In the last decade the cooperative chains have expanded rapidly, and in March 1936, there were, according to estimates of the American Institute of Food Distribution, 802 cooperative chains of grocers with 107,141 independent retailers participating. The total volume of business done through cooperative chains is considerable. Out of 400,000 food retail outlets in the United States, approximately 200,000 units are midgets of little importance; out of the remaining two hundred thousand outlets, roughly fifty thousand are owned by the corporate chains, while 107,144 retail stores<sup>44</sup> were buying through cooperatively owned and controlled warehouses (including 508 chains with 77,891

<sup>43</sup>W. L. White, *op. cit.*, p. 15.

<sup>44</sup>*An Index to the Operating Methods of Voluntaries and Cooperatives.* The American Institute of Food Distribution, Income., New York, 1939.

retailers of semi-cooperative wholesaler-sponsored voluntary associations. The total volume of business of the cooperative chains of retailers about equals, if it does not exceed, that of the corporate chains (only approximate data are available).

One aspect of this spectacular development is of general interest. From the days of the Rochdale Pioneers the leaders (particularly English Christian Socialists, French School of Nimes headed by Prof. Ch. Gide, and others) have maintained that the consumers' cooperative stores are designed to eliminate the middlemen and particularly the retailers (non-productive agencies) from the economic scene. In our time the retailers themselves show unanswerably that they can use cooperative tools in their own interests and obviously without aspiring to eliminate profit from the existing economic order and thus to realize the ideals of Robert Owen. The fallacy that cooperative organization is a specific economic instrument of the underprivileged classes is a deep conviction in the minds of many cooperators, but the cooperative achievements of retailers are very helpful in shattering this misconception. For the immediate purposes of this study, we find in these developments in the grocery trade materials admirably adapted to illustrate the relations between technical and economic aspects in business organizations.

There are three distinctly different groups of economic organizations in the modern grocery trade in this country:

- a) independent retailer-grocers working with independent wholesalers;
- b) corporate chains combining wholesale warehousing with retail outlets owned and controlled by huge corporate economic units;
- c) cooperative aggregates of independent retailers working through their individually owned retail stores but coordinating their efforts in wholesaling through their collective wholesale establishments.

These three groups correspond precisely to the scheme previously mentioned (p. 164) as the extreme cases of theoretically contemplated combinations of enterprises and establishments:

- a) The first case (a) is the simplest one. Here we find a perfect coincidence of the economic (enterprise) and technical (establishment) contours of organizations. The independent retailer or wholesaler in this case represents the true economic unit in the sense adopted in this study and their individual establishments (store, warehouse) are physical embodiments of these economic units. Therefore the accounting terms in these stores and warehouses correspond exactly to the economic concepts they habitually express: the capital of the retailer or wholesaler is entrepreneurial capital and profits or losses are truly entrepreneurial residua.

A lack of correspondence between technical and economic aspects is traceable in both corporate and cooperative chains:

- b) The corporate chains represent economic units working through pluralities of establishments (case b, see p. 164). Single retail outlets or wholesale warehouses here are technical units, but only fractions of an economic unit. Functionally, the wholesaling and retailing here are integrated in one economic unit and all accounting terms (capital, profits, losses, etc.), in these establishments are obviously conventional without the usual economic connotations. Entrepreneurial capital and entrepreneurial income here can be looked for only in the entire economic unit comprising such multi-establishment formations. Sometimes such accounting may be attached to the wholesale establishment, but even in this case it should not be confused with this establishment.
- c) In cooperative chains we find a plurality of economic units working through a collectively owned and controlled single technical unit (wholesale warehouse).<sup>45</sup> All processes of entrepreneurial acquisition here, in contrast to the corporate chains, are decentral-

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<sup>45</sup>It is assumed here, for the purpose of clarity, that a cooperative chain has only one wholesale warehouse.

ized, and entrepreneurial income accrues to the individual coordinated enterprises. The collective establishment (warehouse) in such an aggregate performs technical functions of purchasing, storing, deliveries, etc., but has not economic functions of its own, since the members of the cooperative chain act through such an establishment. It is economically sterile and serves only as a clearing house for aggregated plurality of independent retailers. Its capital stock, if any, its stockholders, if any, its profits or losses, if any, should be thought of only as technically expedient conventionalities of accounting.

In short, a wholesale establishment in the first group is an independent enterprise; such an establishment in the second group is only a fraction of a corporate enterprise, and in the third group it is a collective establishment of a plurality of enterprises without an economic entity of its own. The economic feature common to all economic units aggregated for collective work through a common establishment, is that all the economic units participating in such collective endeavor own and operate their individual establishments (farms owned by each member of an agricultural cooperative association, stores operated by the members of purchasing associations of retailers, households possessed by every member of consumers' associations, etc.), and delegate to their collective establishment only some, and usually few, purely technical functions (baking of bread in cooperative bakeries, purchasing of commodities in cooperative stores and farmers' purchasing associations, marketing transactions for members in marketing cooperatives, etc.). The technical functions delegated to the common establishment are paid for by the participating economic units at their actual costs (hence, the cooperative principle of services at cost) proportionally to their individual use of the common establishment (hence, proportionality as a fundamental principle of cooperation).

Thus we reach a new important step in the analysis of the economic character of cooperative associations. If the cooperatives are forced by the nature of their activities to organize collectively some technical productive units, they organize them in the form of productive establishments. These establishments imitate acquisitive economic units

(enterprises) and usually are described by students of cooperation as cooperative enterprises. This misconception is, and has been for a century, surprisingly widespread among writers on cooperation, a situation that may probably be explained by the fact that the conceptions of enterprise and of establishment are somewhat loosely used in economic literature.

### Cooperative Organization as an Agency of Associated Economic Units

At this stage of our analysis it is pertinent to examine in some details the concept of cooperative organization delineated by Dr. G. Harold Powell - one of the outstanding students of the cooperative problem and a master-builder of the famous California Fruit Growers Exchange. His description of the economic nature of cooperative organization is unique in the literature on the subject because of its clarity and highly suggestive by its implications. Says Dr. G. H. Powell:<sup>46</sup>

Cooperation among farmers may be defined as an enterprise<sup>47</sup> in which the members form an agency through which they conduct the business of their greatest mutual advantage. To be cooperative it must be composed of farmers, exclusively, and managed by them, and the benefits must be returned to them in proportion to the use or the patronage of each. That

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<sup>46</sup>G. H. Powell, *Fundamentals of Cooperative Marketing*: An Address at the National Agricultural Conference, January 25, 1922. Washington, 1922, p. 3.

<sup>47</sup>In the earlier definitions of Dr. Powell the term "enterprise" was not used (see G. H. Powell, *Principles and Practice in Cooperation*, The Californian Citrograph, February, 1920, p. 100; also reference on p. 40 of this study). The term is taken here with the meaning commonly attached to it in colloquial usage and does not correspond to the concept of an acquisitive economic unit.

part of the capital necessary to create the agency and its facilities, which finds an expression in the management of the association through the voting of the members, should preferably be contributed by them in proportion to the use which each makes of the organization. And it is desirable that the capital of each member should be kept progressively proportional to the individual shipments, or purchases, or other uses made of the agency, as nearly as this may be done. Capital in a cooperative agency, which creates the permanent investment, should be considered as a means of providing the facilities needed by the members; it must not be a fund on which a dividend is paid in excess of fair rate of interest. Working capital may, of course, be provided in other customary ways. In forming a cooperative marketing association, it is fundamental that it be a proper legal entity, with sufficient powers to transact the business for which it is formed, to finance its activities, and, when necessary, to secure its obligations – thus, equally with other corporations, safeguarding the interests of its members, as well as of the institutions with which it transacts business.

Membership in a cooperative association should be confined exclusively to producers who are engaged in the production of the particular commodities with which the association is concerned and who actually use its facilities. This is a basic test of its cooperative character. Any person engaged in the same industry in the same locality should be admitted to membership without unjust discrimination. Those who would contribute capital only should never be admitted to membership, because the permanent capital should be the medium through which the members provide the facilities for the transaction of their own business; therefore, it is not desirable that permanent capital be furnished by non-producing business interests which would thereby acquire a power in the association and a voice in its direction. Membership in a cooperative organization carries with it a responsibility on the part of each member to maintain it in periods of adversity –



a responsibility which is not likely to be felt unless the organization is the farmer's own institution, developed and managed by him through his chosen representatives, to promote and safeguard his own interests.

It is not out of place here to point out that this description of the type of cooperative organization is perfectly consistent with the general pattern of cooperative organization, as an association of member-patrons, employed in this study. In the words of Dr. Powell - "This is a basic test of its [the association's] cooperative character."

One point of the formula of Dr. Powell is of special interest at this phase of our examination, namely his designation of a cooperative organization as an agency of its membership. This qualification deserves to be carefully explored.

As it follows from the context and from the very title of the address of G. H. Powell,<sup>48</sup> the pattern of cooperative association delineated relates primarily to the group of farmers' marketing associations only; besides, in his interpretation of the concept of cooperative organization Dr. Powell pursued purely practical purposes: he outlined the pattern of cooperative association which, in his opinion, would be "permanently successful";<sup>49</sup> hence the abundance of "musts" and "oughts" in his description. Despite this, Dr. Powell with his expert knowledge of cooperative organizations has made his interpretation of the economic structure and functioning of cooperatives with such clarity and insight that his fundamentals are valid almost for the entire range of cooperative associations.

An unqualified designation of a cooperative association as an agency of its members bears a certain ambiguity which can lead toward confusion unless the precise meaning of this term is pointedly stated and

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<sup>48</sup>*Fundamentals of Cooperative Marketing*, Washington, 1922.

<sup>49</sup>G. H. Powell, *Principles and Practice in Cooperation*, The California Citrograph. February 1920, p. 100.

unmistakably defined. The idea of a cooperative as an agency functioning on behalf of its members may suggest that being an agency the cooperative is an economic body by itself and is acting independently. Such implication may arise easily since the prevailing interpretations of cooperative organization are based on the same erroneous assumption and the legal conventionalities (see pp. 155-162) and habitual confusion of the technical and economic aspects of the cooperatives previously discussed (see pp. 162-171) are misleading in the same direction.

Dr. Powell himself sagaciously laid emphasis on the fact that a cooperative agency is not an independent organization but only the working tool in the hands of the associated membership when he said:<sup>50</sup>

Cooperation among farmers may be defined as an enterprise in which the members form an agency through which they conduct the business....

Powell states here with perfect transparency that the subjects of economic activities of the cooperative agency are the members of the association and, therefore, that the true cooperative association (an association of member-patrons according to Powell) has not economic functions of its own, but is only a tool facilitating activities of its members, i.e., their economic units.

That a cooperative agency has not a separate economic identity may be well illustrated by a comparison of the corporate and cooperative grocery chains just discussed. Both the corporate and cooperative chains in grocery trade are widespread in this country; we can take for the sake of direct and easy comparison the corporate chain with 300 retail outlets and the cooperative purchasing association of 300 independent grocer-retailers working in the same city. Corporate and cooperative chains in grocery or in any other retail trade are similar in this respect, that both organizations perform their purchasing transactions through one center -

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<sup>50</sup>See definition on pp. 171-172.

in the corporate chain it is its purchasing department, in the cooperative chain it is the cooperative agency (association) of the grocer-retailers. They differ in this respect, that the corporate chain, being a collective economic unit, sells its good through 300 of its own retail stores, while the cooperative chain distributes the goods through 300 associated retail stores owned and operated by the independent economic units of its members. Therefore a cooperative agency of grocer-retailers here is functionally identical with the purchasing agency (purchasing department) of the corporate chain and we can compare them directly:

- a) The purchasing department of the corporate chain being an agency of this chain and acting on its behalf on the market is part of the corporate economic unit, therefore all the activities of this department are ultimately the activities of the corporate chain: the corporate chain itself and not its department really makes all the purchases.

A purchasing cooperative association of grocer-retailers in its capacity of a purchasing agency of these grocers acting on their behalf on the market is part of the economic units of associated grocers; therefore its activities are ultimately the activities of the associated grocers: they themselves and not the association are real purchasers of the goods.

- b) Being part of the corporate economic unit the purchasing department of the corporate chain performs all the technical functions involved in purchasing of goods for the corporate enterprise, such as issuing orders, receiving and warehousing goods, their insurance if necessary, shipping and distribution of goods by request of other departments and retail outlets of the chain, etc.

Likewise being part of the economic units of associated grocers their purchasing cooperative performs for them exactly the same duties.

- c) Being part of the corporate enterprise, the purchasing department of the corporate chain performs all these technical functions at cost.

Being part of the associated grocers, their cooperative performs the same functions on the same basis (cooperative principle).

- d) The purchasing department of the corporate enterprise may have its own accounting but it cannot have its own income; its accounting records represent only the subsidiary bookkeeping data for the corporate enterprise.

The purchasing cooperative association of grocers, being part of associated economic units of its members cannot have for that reason its own income; its accounting data are nothing more than the subsidiary bookkeeping records for the associated enterprises.

- e) The purchasing department of the corporate enterprise may be conceivably incorporated as a separate stock company; this will not change in any degree its true economic character as part of the corporate enterprise.

An incorporated cooperative association of grocer-retailers still remains part of their associated enterprises and not a separate economic body.

- f) The purchasing department of the corporate chain being part of this enterprise is owned and controlled by the corporate economic unit.

Similarly the purchasing cooperative association of grocer-retailers is owned and controlled by them.

- g) The purchasing department under discussion confines its purchasing work exclusively to the needs of its corporate enterprise.

The economic services of the cooperative association of grocer-retailers are offered exclusively to the members of the association (association of member-patrons).

All these findings will be exactly the same for the marketing cooperatives if we will compare them with the sales departments of corporate economic units, or for cooperative credit associations compared with the financial departments of single economic units, etc.

The comparison of the purchasing cooperative association with the purchasing department of the corporate enterprise which is functionally identical with such an association thus reveals the fact of the cardinal significance for orientation in cooperative problem, namely, that a cooperative association is the part of associated economic units of its members, the common department of these units exactly in the same sense that the purchasing department of any enterprise is only the special branch of this enterprise through which it conducts its business transactions.

To make these remarks more general we can examine such huge economic unit as the Ford Motor Company with its numerous departments (financial, purchasing, sales, and others); each department working in its own field represents a managerial branch with certain functions delegated to it by the company; each department is a branch or part of this huge enterprise inseparable from it and inconceivable as an independent economic body. All the economic functions of these departments are the economic functions of the Ford Motor Company which conducts through these departments is business transactions.

Literally in the same sense, the purchasing, marketing, credit, irrigation, insurance, and all other cooperatives are the inseparable parts of the economic units of their members which conduct through their collective departments their business transactions. The only difference between these cooperatives and the corresponding departments of the Ford Motor Company is that while the branches of the Ford Motor Company are parts of one economic unit, the cooperative is the part of many economic units associated.

Dr. G. H. Powell himself, describing the pattern of cooperative marketing association, significantly and with remarkable penetration commented that the members of an association conduct their business through their cooperative agency; in his opinion, therefore, all the economic activities of cooperative organizations are the economic activities of the associated economic units of members and not the activities of the association itself.

In this study we have come to the same conclusions with regard to the economic nature of the activities and functions of cooperative organizations and they are described here in the same terms.

The idea of a cooperative association as a business agency of its members calls for one more remark: this characteristic is perfectly accurate for some groups of cooperatives (purchasing, marketing, credit, and some other associations); however, in a considerable sector of cooperatives the part of association is reduced to a role of a center for mutual reckonings only (insurance, irrigation societies, control associations, many livestock breeding associations, considerable number of informal cooperative groups, etc.). Thus being only partially descriptive, this characteristic cannot serve as the test of the cooperative nature of organizations. In that respect the test of the cooperative character of an association is that in all cooperatives rural and urban, informal and incorporated, elementary and most complicated, the association itself is the center where the economic activities of members are coordinated.

### **Rochdale Principles of Cooperation**

Traditionally, only reverential approach is allowed to the "Principles of Rochdale." No treatise on the cooperative movement fails to emphasize the Principles as the archstone of cooperation, its ultimate test, and its ethical and socio-economic justification. Surprisingly little attention has been paid, however, to the fact that these Principles represent cooperative "Commandments" and are completely void of explanatory value.

The Principles are usually formulated as follows:

1. Goods are sold at regular retail market prices.
2. Business is conducted on a cash basis.
3. Number of shares that one member may own is limited.
4. Dividends on capital stock are limited.
5. Profits are distributed in proportion to patronage.
6. One man - one vote.

The Principles are usually treated as all-inclusive rules, designed to give to bona fide cooperators unerring criteria in all the intricacies of their economic behaviour. Yet they were initially offered for the needs of a newly organized cooperative store in Rochdale in 1844 and, therefore, they have not and cannot have universal application for the entire range of cooperative organizations. It is not within the scope of this study to evaluate the practical significance of these Principles either for the Pioneers themselves, for consumers' associations, or for cooperative organizations generally. An item of this study is to answer the following questions regarding the Principles:

1. Are these Principles really inherent in cooperative organizations?
2. If they are inherent, why?
3. What do they reveal about the economic nature of such organizations?
4. Do they correctly, clearly and completely reflect the cooperative character of organization?

In brief, how much do they answer to the question put by Mr. R. Pattee's statement "what have we got to do to be entitled to be considered cooperative?"

For purposes of examination, the Principles may be divided into two distinct classes: the first two rules are purely practical suggestions and relate primarily to the organizers of the initial store in Rochdale in 1844. Only the last four rules, i.e., limitation of stock-holding by one member, of dividends on stock payable to members, of voting power, and of the rate of patronage dividends are generally considered as the fundamental requisites and indisputable indicators of a truly cooperative character of an association.

1. That the first rule of Rochdale, "Goods are to be sold at market retail prices," is but a practical suggestion and that this recommendation is offered primarily to the initial store and to consumers' cooperative stores generally, is self-evident. This advice obviously has not universal character and cannot be followed, for instance, by all purchasing cooperative associations - so important in our time - due to the very nature of their activities. For the Pioneers themselves, however, it was a wise warning against the temptation to win new adherents to their noble cause by price-cutting methods, which might hazard the financial stability of their weak endeavour. Not designed as a rule of permanent significance, this practical advice, nevertheless, is not only reconcilable with the conception of the aggregate structure of cooperative bodies, but finds in this assumption its final justification. For we have seen that the prices paid by members to their association in single transactions are not the prices in the exact sense of word, but only the advance payments to be corrected at the end of the business year by patronage reckonings. The members of the cooperative aggregate generally pay only the actual cost of goods and services when they purchase them through their aggregate. In other words, there cannot be any price policy of the aggregate toward its members. The true economic interest of members themselves requires that they be sagaciously overcharged at the first stage of reckoning of current transactions and thus keep their common establishment in good running shape, since, in any case, they are entitled to receive what is due to them in the form of patronage payments at the end of the business year.



2. The second practical rule of Rochdale is that "business shall be conducted on a cash basis." For the original Rochdale store with its twenty-eight members and proverbially meagre funds there was no possibility of credit sales. But the temptation to resort to credit sales was considerable. The rule was obviously adopted by the Pioneers as a specific and emergency measure for their particular case. The cooperators themselves never regarded this rule as sacred dogma, and they violated it frequently and systematically. Among the consumers' associations themselves the cases of violation of this principle are most common. It is safe to say that credit transactions, if properly conducted, are no more dangerous among the membership of cooperative aggregates than they are elsewhere. Only six years after the Rochdale store had been opened, the cooperative credit association was originated by Dr. Schultze Delitzsch in Germany, and the credit cooperatives represent now the most numerous and most powerful sector of the cooperative movement. In British India alone, there are more than one hundred thousand cooperative credit associations working successfully.

The other four rules are generally considered to be the fundamental principles of truly cooperative organizations and deserve, therefore, to be examined with special attention.

3. The principle of limited number of shares that one member may own is a specific clause relating, obviously, to a group of the cooperatives of the Rochdale pattern only (capital stock associations), and cannot be applied to non-stock associations. Being thus only a sectional characteristic, this principle cannot be considered as one disclosing the economic character of the cooperative bodies generally.

The Pioneers themselves believed unquestioningly that their cooperative enterprise was an ordinary business unit modified in such a way as to eliminate all its sinister capitalistic features. They replaced control by capital investors with democratic control. Taken by itself, this principle explains little, if anything, as to why free holding of the shares of stock is incompatible with

the cooperative character of associations. We can assume, theoretically, a regular collective economic unit (stock company) with a clause in its by-laws limiting the number of shares that can be owned by the individual stockholder, or even providing for an equal number of shares per member. Yet such a hypothetical stock company will still remain a collective enterprise, i.e., an acquisitive economic unit without any elements of cooperative structure.

The current interpretations of this Principle usually lay stress on this rule, only as a safeguard to the democratic control of cooperatives. The Principle can be adequately understood, however, only if we examine it in the light of the aggregate structure of cooperative associations. As it has been stated before, capital stock of a cooperative aggregate is not entrepreneurial capital of collective enterprise dissociated into anonymous and transferable fractions (shares of stock)<sup>51</sup> but a plurality of individual advances. These advances are made by the enterprises (or households) participating in the aggregate to finance their individual transactions through cooperative associations. Such individual advances should be kept strictly proportional to the volume of business done by each member. In actual practice of cooperative associations even slightest deviations from an absolute proportionality of advances contributed and volume of transactions done are corrected by the interest payments of members which exceeded their quota of transactions to the members who did not make the volume of business corresponding to their advances. Such interest payments are made under the deceiving title of dividends on stock.<sup>52</sup> Shareholding in cooperatives, thus, only reflects the potential volume of business of the individual members of the aggregate of economic units and for that reason is limited.

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<sup>51</sup>See above, pp. 135-136.

<sup>52</sup>See above, pp. 137-142.

If, in some associations, special precautions are provided against concentration of shareholding, it is only a device to safeguard the economic homogeneity of the aggregated membership – an essential prerequisite of its vitality and stability.

4. The Principle of limited dividends on stock is one of the most revered commandments of cooperation. This rule has always been promulgated as a device invented by the Pioneers of Rochdale in order to reduce the role of capital from mastership to stewardship, and to control profits – a sinister attribute of the capitalistic system. Our examination of the economic character of the sources of profits in cooperative aggregates has shown conclusively that in truly cooperative (aggregate) organizations the dividends on stock are not an income of the association, but merely interest reckonings among the members themselves. These reckonings rectify with perfect accuracy disproportionality between advances contributed and the use of services of the aggregate made by individual members. In spite of its strong socio-reformistic implications (the Webbs, Prof. Ch. Gide and many others) this Principle of Rochdale is very prosaic and reveals with utter simplicity that a cooperative association is a plurality of independent economic individuals coordinating their work, but each pursuing his individual economic interests most consistently and uncompromisingly.
5. Patronage dividends practice is also thought of as a device discovered by the Equitable Pioneers and designed to distribute the profit of a cooperative association among its patrons, instead of the capitalistic method of dividing it among the contributors of capital. The following sprightly comment on the subject by G. J. Holyoake<sup>53</sup> – the Herodotus of the cooperative movement – is fairly typical of current interpretations of patronage dividends:

At length the time came when substantial profits were made – palpable profits, actually paid

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<sup>53</sup>*History of Cooperation*. Vol. 2, pp. 40–41. London, 1906.

over the counter, tangible in the pocket, and certain of recurrence, with increase with every subsequent quarter day. It took some years to attain to them. But time was not counted when they did come. The fact was so unexpected that when it was generally divulged it had all the freshness and suddenness of revelation for outsiders. The effect of this patient and obscure success was diffused about, as we might say, in apostolic language - "noised abroad." There needed to advertisement to spread it.

When profit - a new name among the work people - was found to be really made by members quarter by quarter, they were copiously heard of. The cooperator who had never had any encouragement from his neighbor, felt a natural pride in making him sensible that he was succeeding. As he had never had any success to boast of before, he was not likely to make little of this. Besides his animated face suggested that his projects were prospering. He appeared better fed, which was not likely to escape notice among hungry weavers. He was better dressed than formerly, which gave him distinction among his shabby comrades in the mill. The wife no longer had "to sell her petticoat," but had a new gown and she was not likely to be silent about that; nor was it likely to remain much in concealment. It became a walking and graceful advertisement of cooperation in every part of the town. Her neighbors were not slow to notice the change in attire, and their very gossip became a sort of propagandism; and other husbands received hints that they might as well belong to the store. The children had cleaner faces, and new pinafores or new jackets, and they propagated the source of their new comforts in their little way, and other children communicated to their

parents what they had seen. Some old hen coops were furbished up and new pullets were observed in them – the cocks seemed to crow on cooperation. Here and there a pig, which was known to belong to a cooperator, was seen to be fattening, and seemed to squeal in favor of the store....

Surprisingly insufficient attention has been paid by students of the problem to this economic feature of cooperative associations. Usually the patronage dividends are vaguely described either as profit of the association distributed among its membership on the basis of greater socio-economic justice than in capitalistic enterprises or the savings of members from their transactions with the association. As has been stated previously, the patronage payments represent the final stage of reckonings between the collective establishment of an aggregate and the economic units composing this aggregate and participating in its work. To be exact, we should treat them as accounts payable to or (in cases of deficits) accounts receivable from the members on their current transactions through cooperative associations. In pure aggregates, the surpluses (or deficits) of associations have nothing in common with the entrepreneurial income of acquisitive economic units. As long as a cooperative association is treated as an enterprise and its surpluses are misunderstood as profits, the economic enigma of patronage dividends cannot be solved. This consequential error, unfortunately, is common to all current and old writings on cooperation in economic literature.

6. The *one man – one vote* rule is unique in the importance imputed to it, even among the Rochdale Principles. Unlike the first two practical suggestions or three other partial rules, this Principle is thought of as having a universal character. All cooperative associations, whether they sell goods on a cash basis at market price or otherwise; whether they distribute profits among their membership, or are non-profit organizations; whether they adopt patronage dividends or cannot observe this principle because of the peculiar character of their work, they all are obliged to follow religiously this supreme dogma of truly cooperative behaviour.

From the standpoint of all bona fide leaders and monitors of cooperation, certain departures from cooperative dogmas and some violations of the written and unwritten laws of cooperation can be tacitly tolerated to a certain extent, but the voting principle is thought to be untouchable: like the wife of Caesar, the cooperatives in this respect must be above suspicion.

All the laws relating to cooperation in all countries rely upon this formal rule as the cardinal and unerring indicator of true cooperation.

Not only enthusiasts of the socio-reformistic mission of cooperative movement accept this rule as a guiding light for orientation among the cooperative sheep and goats, but the responsible and unbiased students of the problem hold this Principle as an undisputed and an indisputable test of cooperative organization. At the First Session of the American Institute of Cooperation the following declaration was made by Dr. Ch. W. Holman - one of the leading experts of the cooperative problem:

Mr. Chairman, let me rise to object to the definition of the Department of Agriculture with respect to cooperative marketing associations or any form of cooperation in that respect. It seems to be a particularly well recognized fact among cooperatives throughout the world that an organization is not cooperative unless it votes by the man. There are variations and departures from it. In California I know they vote by trees occasionally. There is not any fundamental difference between voting by the trees and voting by the money you put in, and I stand here to challenge any of those organizations who vote by money or vote by acreage or vote by trees or by volume of products moved. I say they

are not cooperative. They are not pseudo-cooperative. They are quasi-cooperative.<sup>54</sup>

This Principle of equal voting is unreservedly accepted and religiously obeyed by an overwhelming majority of existing cooperative associations.

Finally, this Principle is unique in one more respect. All other Principles of Rochdale hitherto examined have been found perfectly compatible with the aggregate structure of cooperative organizations. An irrevocable corollary of the aggregate character of an economic body is that all relationships of economic units composing the aggregate are based on strict proportionality. Every departure from this principle, as we have seen, distorts the individuality of the participants, crates parasitic maladjustments within the aggregated body and, therefore, undermines the aggregate nature of the whole. Indeed, proportionality in the relationship of members within the aggregate is its very being. Equality, as the principle of voting, is inconsistent with the principle of proportionality underlying all other relations of members of an aggregate.

Thus this last Principle of Rochdale represents a challenge to the whole theoretical scheme outlined in this study. This basic difference can be examined with emphasis on the following points:

- a) The principle of equal voting is a legal rather than economic feature of cooperative organizations. If this rule, however, is emphasized as the cardinal requisite of genuine cooperation,

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<sup>54</sup>*American Cooperation*, Vol. I. Washington, 1925, pp. 166-167. The terms "voting by trees, by acreage, by volume of products moved, etc." indicate the voting power proportional to the economic participation of individual members in economic activities of the cooperative association, i.e., proportionally to the number of fruit trees or number of acres owned or to the volume of business done through the association by individual members.

then it should be either reconciled with the economic character of the cooperative body or reconsidered as its ultimate test.

b) Actual practice of cooperatives shows that equal voting is adopted by an overwhelming majority of associations. Yet, in some groups of cooperatives, proportional voting is also in use. And there are types of cooperative associations where such a practice clearly predominates; e.g., voting by acres (irrigation cooperatives), by cows (livestock breeders' associations or cooperative control societies), by volume of products moved (some purchasing and marketing associations), etc. These procedures are not unusual among cooperators in this and in many other countries. The following two cases illustrate a spread of unequal voting in some groups of cooperative associations in the United States:

1) Purchasing cooperative associations of retailers in the grocery trade were surveyed by the Federal Trade Commission a few years ago. The practice of voting is described in the Report of this Commission<sup>55</sup> as follows:

The number of shares of voting stock that a member may hold may be restricted as to minimum or maximum or both, or each stockholder may hold an equal amount of stock, thus conferring an equal voice in the direction of the affairs of the company on each member. Under still another plan, each member has one vote, regardless of the number of shares he may hold. There is also the informal unincorporated type of cooperative chain in which each member has one vote. The following summary shows the basis of voting power for 100 retailer cooperative organizations arranged in six principal

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<sup>55</sup>*Cooperative Grocery Chains*. Federal Trade Commission, 1932, p. 47. Washington.



groups, according to provisions that fix the voting power:

	Number of Associations
Number of cooperative chains surveyed . . . . .	100
I. Incorporated stock companies basing voting power on number of shares of stock held . . . . .	63
a) basing voting power on unlimited shareholding . . . . .	33
b) basing voting power on limited shareholding . . . . .	18
c) basing voting power on shareholding but requiring equal shareholding per member . . . . .	12
II. Incorporated companies providing one vote per member regardless of shareholdings . . . . .	24
III. Non-stock corporations basing voting power on membership.	6
IV. Unincorporated associations providing one vote per member.	7

The summary shows that only 49 percent of the cooperatives of retail grocers observe strictly the rule of equal voting, while a majority of them violate the Principle in various degrees. It should be borne in mind that cooperative chains of retail grocers here referred to represent almost perfect aggregates of independent enterprises.

- 2) Still more telling is the case of cooperative irrigation associations in this country. They were surveyed by the Farm Credit Administration in 1938 and the following data regarding their practice of voting by members were recorded:

**Farmers' Cooperative Irrigation Societies\***  
**Number of Companies by Location and Basis of Voting**

States	Total no. of soci- eties	Number of associations in which basis of voting was:			Percent of total number in which basis of voting was:		
		One vote/ member	Water rights	Other and unkn.	One vote/ member	Water rights	Other and unkn.
Kansas	6	-	6	-	-	100	-
New Mex.	5	-	5	-	-	100	-
Colorado	419	-	415	4	-	99	1
Arizona	59	4	53	2	7	90	3
Utah	704	61	607	36	9	88	5
Calif.	615	50	529	36	8	86	6
Montana	83	7	69	7	8	84	8
Idaho	327	50	261	16	15	80	5
Nevada	45	6	34	5	13	76	11
Oregon	87	23	55	9	26	64	10
Washington	90	28	54	8	31	60	9
Wisconsin	1	1	-	-	100	-	-
N. Dakota	1	1	-	-	100	-	-
United States	2,442	231	2,088	123	10%	85%	5%

\* F. M. Hyre, *A Statistical Handbook of Farmers' Cooperatives*. Farm Credit Administration, Bulletin No. 26, Washington, 1938, p. 254.

As the above table indicates, eighty-five percent of all reporting irrigation societies adopt the rule of voting proportional to water rights, in other words, to the number of acres of irrigated land. Only ten percent of associations follow the rule of equal voting in this group. It is to the point to add that those groups of cooperative associations in which the members have voting power proportional to their economic participation in the activities of their aggregate correspond exactly to the conception of a perfect aggregate outlined in this study.

The farmers' irrigation societies as a rule are explicitly cooperative. They are not acquisitive associations, they serve the economic needs of their members only, they do not pay any profits, they distribute their surpluses – if any – on the patronage basis, and in every other respect they follow the established pattern of cooperative bodies. The interpreters of cooperation tacitly avoid this intricate question or loosely describe these associations as "quasi-cooperative."<sup>56</sup>

- c) Such a divergence between the actual experience of cooperative associations and the fundamental dogma of traditional teachings has never been closely studied nor satisfactorily explained in existing literature. The overwhelming majority of the students of this problem acknowledge generally the principle of equality among members of the cooperatives, yet in their definitions of cooperative associations they avoid this point and do not emphasize the equal voting as the test of true cooperation.<sup>57</sup> Dr. G. H. Powell, an outstanding leader in the cooperative field, keen observer and one of the most authoritative American students of the cooperative problem, was the first who abandoned the position of blind and unreserved respect for the traditional dogma of equal voting. In his definition of cooperative association he recognized that both principles of equal voting and of voting proportionally to volume of transactions done by each member through association are compatible with true cooperation and may assure the stability and success of the cooperatives.

It is significant, however, that neither the partisans of equal voting nor Dr. G. H. Powell have attempted to explain any causal relationship between the cooperative nature of

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<sup>56</sup>*American Cooperation*. Vol. I, p. 167. Washington, 1925.

<sup>57</sup>See above, p. 29.

organization and the principle of voting in cooperative organizations. The equal voting principle of orthodox experts is considered as dogma inherited from the Equitable Pioneers, and the recommendation of Dr. G. H. Powell is but the pragmatic suggestion offered with the idea of making cooperative associations permanently successful.

- d) One fallacious assumption should be carefully avoided in the examination of this intricate question, namely the identification of a cooperative aggregate of economic units with an economic unit. Such an assumption has an important bearing on all interpretations of this intricate question. It is generally believed that the "Founding Fathers" of the cooperative movement have modified ordinary capitalistic enterprise into a cooperative enterprise, and that their revolutionary contribution was the replacement of voting by capital with voting by man in cooperative enterprises. Attention has been directed to this fallacious point of departure by unceasing propagandistic efforts of the partisans of traditional teachings and this assumption thus became the habitual point of departure in all current discussions of this question. Meanwhile, in spite of the external structural mimicry, a cooperative aggregate has nothing really in common with a collective enterprise. The voting by stocks is the very essence of the corporate entrepreneur in collective enterprises. In fact, such voting is the only channel for their entrepreneurial self-expression. The members of a cooperative aggregate, on the other hand, act within the aggregate, not as the fractions of any collective entrepreneur, but as the independent representatives and spokesmen for their own economic units working through an aggregate. The question of voting in cooperative aggregates ought to be examined from this angle only.
- e) One highly important peculiarity of voting in cooperative aggregates in contradistinction to voting by the shares of stock (voting of the fractions of collective entrepreneur) in

collective enterprises should be clearly borne in mind. In collective enterprises based on the absolute integrity and subordination of all the component parts to the will of the entrepreneur (in the broad sense of this term) the stockholders, by their voting define ultimately all the economic policies of collective economic units. In collective establishments of the cooperative aggregates, which are designed to adjust their activities to requirements of the economic units composing the aggregate, only the questions of the coordination of economic interests and economic policies of associated members are decided by voting. Generally speaking, entrepreneurial voting in collective economic units leads to dictatorial and binding decisions, while voting in cooperative aggregates has a conciliatory and advisory character and is binding only if, and only as much as, the decisions are supported voluntarily by the membership. The managers elected by the votes of stockholders in collective enterprises are within their delegated powers autocratic, while managers of cooperative aggregates elected by the votes of members have hardly more power than power of stewardship.

- f) If all these considerations are accepted they can throw some light on the question, but they do not solve the basic divergence, namely, that on the one hand the equal voting principle is not compatible with the aggregate structure of cooperative associations (as the aggregates of associated economic units they can be organized only on a basis of proportionality),<sup>58</sup> and on the other that the overwhelming majority<sup>59</sup> of these associations adopt in practice the rule "one

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<sup>58</sup>See above, pp. 119-120.

<sup>59</sup>The rule of voting power proportional to volume of business done is adopted in some groups of cooperatives with economically heterogeneous membership, such as irrigation societies, electric light and power

man - one vote." Let us examine from one specific angle this divergence between principle and practice. As has been said, every cooperative aggregate of economic units is organized and can be kept together only under irresistible pressure of dire necessity: the economic units are designed to live and function individually and independently and they gather into aggregates only if they cannot normally proceed individually. Every cooperative aggregate of economic units thus is inherently saturated with centrifugal, disruptive forces. Hence, all the problems of successful cooperative organization and work are centered around one question - how to keep associated economic units together. Hence, the innumerable difficulties connected with membership relations,<sup>60</sup> with specific difficulties and peculiarities of management in cooperative associations (actual and potential frictions, understandable as well as unjustifiable suspicions and jealousies among members, etc.), all should be carefully watched and delicately treated by the leaders at every step of their activities. Only if such disruptive forces are neutralized, or in any way are reduced to a minimum, can cooperatives function.

That is why a socio-economic homogeneity is one of the most important prerequisites of success in cooperative field: the more homogeneous is the cooperative aggregate, the more chances for its survival.

Every cooperative association is a group organization such as (a) the fruit growers' association, (b) the grain growers' elevator, (c) the dairymen's cooperative creamery, (d) the retailers' chain, etc. Homogeneity in such

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associations and some others (see pp. 196-200).

<sup>60</sup>J. W. Jones, *Membership Relations of Cooperative Associations*. Farm Credit Administration, Bulletin #9. Washington, 1936.

associations further strengthened by a choice of one or of few very definite economic tasks to be performed; in countries and regions with a mixed population the fact of racial homogeneity often helps to maintain successful associations. The same is true with religious and even political grouping of cooperators. In Czecho-Slovakia, with her racially heterogeneous population, there were separate cooperative unions and federations of Czechs, Slovaks, Germans, Hungarians, and Ruthenians. Besides, some of these racial cooperations were further subdivided politically into (a) agrarian cooperatives, (b) national democratic associations, (c) social democratic cooperatives and (d) communistic stores. There were definitely separate Catholic cooperative associations also. The cooperatives in Belgium are subdivided on socialistic grouping led by the *Maison de Peuple* in Brussels and Catholic Boerenbond of rural associations. Economic homogeneity of members is just as important for reduction of frictions and suspicions among members. Actually, an overwhelming majority of existing cooperative associations are organizations with distinctly homogeneous membership. A proportional voting power of such homogeneous membership is, in practice, equal voting.

Equal voting power of members in cooperative associations is thus only the special case of proportional voting. Being equal in practice it remains proportional in principle — one more deceiving feature in the structure of cooperative associations. It is of significance that this ambiguity of cooperative equality can be cleared up only after the aggregate character of cooperatives has been established. Cooperators vote equally in their associations because they are, for all practical purposes, economically equal, not because they strive for economic equality. There cannot be a more striking and persuasive illustration of this fact than the very case of the Equitable Pioneers themselves, who were perfectly equal . . . in their poverty.

- g) A small minority of cooperative associations adopt the rule of voting proportionally to their volume of business transactions through aggregates (voting by acres, by cows, by trees, etc.). Such voting conflicts with the rule "one man - one vote." It becomes unequal voting. If our assumption of the proportional character of equal voting is correct, we should expect to find, in those groups of cooperative associations in which voting is unequal,<sup>61</sup> economically heterogeneous membership. Survey of such associations shows that they, indeed, are composed of economic units varying widely in their economic capacities and in their role in the common work through the cooperative aggregate. Many Scandinavian purchasing cooperative associations adopt the practice of voting by number of shares owned by their members. These shares are distributed among the members proportionally to their volume of business through the association, or proportionally to the area of tillable land. It is not rare that among the members are found relatively wealthy landowners capable of a considerable volume of purchases, who therefore are obliged to contribute a proportionally large number of shares and therefore to have correspondingly larger voting power. In some associations a compromise is adopted providing a maximum of votes one member can have regardless of the number of shares owned. In the Federazione Italiana dei Consorzi Agrari, individual landlords are allowed to be members of the unions of primary associations and thus to have a voting power at times equal to the voting power of primary associations (proportionally to the number of shares subscribed). Patronage of such wealthy members is very important for and helpful to cooperative aggregates and they do not hesitate to grant them a voting power proportional to their purchasing capacity. Cooperative irrigation societies, because of the specific character of their work cannot

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<sup>61</sup>It is understood that admittedly pseudo-cooperative associations are not considered in this case.



eliminate from their aggregates the persons owning either relatively large areas or small lots of land within the irrigated district. However, because of strictly proportional distribution of costs of irrigation among the members of the association, they find empirically that it would be unjust and unfair to neglect such wide differences in apportionment of voting power of individual members. As has been shown in the table (p. 190), ninety percent of the existing cooperative irrigation societies in this country use a voting rule which provides for voting power proportional to the number of acres of irrigated area owned by individual members. The same practice, and for the same reasons, is not uncommon among livestock breeders' associations and among European cooperative societies for distribution of electrical energy. Membership among cooperative associations of consumers of electricity is exceptionally diverse. It ranges all the way from stock companies purchasing huge amounts of electrical power for their manufacturing establishments to the rank and file peasants, and even down to individual roomers using one or two electric lamps. Very complicated methods for the estimation of the relative economic weight of every member was in use in Czecho-Slovakia, where these associations originated in 1906. They deserve special mention, since the method of estimation used defines the voting power of each member in the association. The number of shares of capital for individual members is prorated according to their respective purchasing capacity. Such prorating is based on the following criteria:<sup>62</sup>

- a) initial fee equal for every member,
- b) number of lamps needed,

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<sup>62</sup>I. V. Emelianoff, *Kooperativnya Organizatsii aredi Zemledeltzev* (Cooperative Organizations among Agriculturalists). Prague, 1923, pp. 303-304.

- c) volume of electrical power in HP to be used for mechanical work,
- d) area of tillable land owned, and
- e) taxes paid.

The number of shares for each member thus estimated is obligatory and voting power is based on the volume of shares owned, and therefore is proportional to their participation in the activities of the aggregate, yet obviously not equal for every member.

Concluding the analysis of this most sacred Principle of Rochdale, the following summary appears to be justifiable: (a) The voting power of the membership in cooperative association, as in all other structural and functional characteristics of cooperative aggregates, is based on the principle of proportionality which is an essential feature of every aggregate of economic units. (b) proportional voting in associations with economically homogeneous membership appears to be in practice an equal voting; such an equality thus is a matter of fact and not a matter of principle in the cooperatives; the true meaning of this Principle is an appeal for homogeneousness of membership – an essential prerequisite of success for a great majority of associations. (c) In all cooperative associations with substantially heterogeneous membership proportional voting becomes, of necessity, a rule of unequal voting. It is not uncommon among them, however, that this limits the maximum of shares which may be owned by individual members. (d) Both equal and unequal voting power are inherent in cooperative associations, provided that they are based on proportionality of economic participation of the individual members.

It is a significant fact that this conclusion, extremely heretical from the point of view of traditional doctrine on cooperation, coincides with the pragmatic suggestion of Dr. G. H. Powell, who recognized adaptability of both equal and proportional voting in the cooperatives,

but did not endeavor to explain why both these principles are compatible with the cooperative nature of associations.

### Summary on Rochdale Principles

An evaluation of the socio-reformistic significance and implications of the Principles of Rochdale is not within the direct scope of this study. We are concerned here exclusively with the questions:

1. Are these Principles consistent with the economic nature of cooperative associations?
2. If they are inherent in cooperative associations, why are they inherent in them?
3. What is the economic meaning of these Principles?

We can summarize our findings as follows:

- a) At least two practical rules adopted by the Pioneers (sales at market prices and on a cash basis) have nothing specifically cooperative and may be equally adopted (or neglected) by cooperative as well as by non-cooperative organizations.
- b) The other four Principles have no universal application to all kinds of cooperative associations. They prescribe the economic behaviour of cooperators rather than explain anything in the economic character of their organization. More than that, they are in need of an explanation themselves, despite the fact that for more than a century they have been emotionally regarded by all the leaders and students of cooperation, and widely accepted by cooperative associations, as the axioms of cooperative philosophy.
- c) All these Principles in an economic sense represent the corollaries of an aggregate structure of cooperative associations.

- d) Their economic meaning as analyzed in this study differs sharply from the interpretations traditionally attached to these Principles, namely:
1. The dividends on stock in cooperative aggregates do not represent profit or even income of these aggregates, but are the reckonings among the members of association and are employed as a specific device for correction of hardly avoidable disproportionalities between advances contributed and volume of business done by individual members through the aggregate.
  2. Capital stock in cooperative aggregates has nothing in common with entrepreneurial capital of collective enterprises, and the limitation of shareholding by individual members is dictated in cooperative aggregates by a necessity to keep individual advances proportional to volumes of transactions of single members through the aggregate; besides such limitations imply a desirability to maintain economic homogeneity of membership in cooperative associations.
  3. Patronage dividends in cooperative aggregates also cannot be interpreted as profits, income or savings of the aggregate; they represent a final step of reckonings between the aggregate and its members on their transactions through cooperative association.
  4. Voting power of members in aggregates to be consistent with their general structure should be proportional to the economic participation of individual members in the activities of the cooperative aggregate; such proportional voting is actually equal voting in aggregates with homogeneous membership, while it is necessarily unequal in associations composed of heterogeneous membership. Since a majority of cooperatives have fairly homogeneous membership, equal voting is a predominant feature of cooperatives. It should not be overlooked, however, that equal voting in cooperative

associations is thus a highly deceptive special case of proportional voting. Its pragmatic value and justification is in the maintenance of homogeneity of membership – an important requisite of the vitality of cooperative aggregates. Unequal proportional voting (by trees, cows, acres, etc.), is, despite deeply rooted prejudices to the contrary, perfectly consistent with the cooperative structure of associations. Limitations as to maximum votes allowable to the individual members reflect the need to check an excessive heterogeneity among the participants in cooperative aggregates.

Even though these conclusions with regard to the Principles of Rochdale diverge sharply from the traditional dogmas of cooperative philosophy, they seem to be reasonably borne out by the foregoing study.

### Origin of Orthodox Doctrine of Cooperation

The Rochdale Principles, with all the socio-therapeutic implications habitually attached to them, represent the core of traditional teachings on cooperation. The glory of the Rochdale store itself and the primacy of the Principles cannot be quite justified, if we recall that hundreds of cooperative associations had been in operation in England before the store at Toad Lane opened its doors for business in 1844. Their existence is certified by Robert Owen himself.<sup>63</sup> Prof. V. A. Kossinsky<sup>64</sup> in his study of the origin of cooperative credit associations in Germany traced their roots in the early raw materials purchasing associations of handicraftsmen in that country in 1830–1850. The acute need of credit for financing purchases of raw materials in these associations has been the principal reason for organization of the earliest

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<sup>63</sup>As quoted by G. J. Holyoake, *History of Cooperation*. London, 1906, p. 142.

<sup>64</sup>V. A. Kossinsky, *Uchregdenia Melkaho Kredita v Germanii* (Institutions of Small Credit in Germany). Annals of the Imperial University of Moscow, 1901.

cooperative credit *Verein* in Eilenburg by Mr. Bürmann. Similar credit associations existed also before 1844, e.g., in Klagenfurt (Austria) and in Laibach (Yugoslavia). The cooperative credit associations (popular banks) initiated later by Dr. Schultze-Delitzsch were designed after the pattern of Eilenburg's *Verein*. Steen Blicher<sup>65</sup> in Denmark suggested his type of cooperative association of livestock breeders as early as in 1839. Certain beginnings of cooperative organizations are recorded in New England on this continent at the end of the eighteenth century.<sup>66</sup> All these cooperative associations undoubtedly were based on the same principles of aggregated economic units and therefore the Rochdale store cannot claim any priority in development of this economic form. Yet we are not accustomed to speak of the "Klagenfurt Principles" or the "Laibach Equitable Pioneers." There obviously are some specific reasons behind such undeserved glorification of the Rochdale case at the expense of its predecessors.

Little attention has ever been paid by historians and students of cooperation to the fact that the Rochdale association was started in the thick of the Chartists' movement in England. Heavy unemployment, particularly drastic among the textile workingmen after 1825, continued for many years. Chartism developed in the atmosphere of industrial disturbances of the second quarter of the nineteenth century. The group of textile workers, as the most numerous, naturally suffered more than any other wage-earning group from the unprecedented burden of unemployment. Workingmen were passing through a period of extreme misery and degradation, and Rochdale, with its wool textile plants, bore a full measure of the hardships of the time. The Rochdalers supported with fervor the historical social movement – so colorful and rich in revolutionary songs and mottoes and so poor in any positive socio-economic program of its own. The workers of Rochdale took an active part in the revolutionary action of 1829. Several local wool textile

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<sup>65</sup>Harald Faber, *Cooperation in Danish Agriculture*. London, 1918, pp. 88-89.

<sup>66</sup>Bemis, E. W. *Cooperation in New England*. History of Cooperation in the U.S.A., 1888.

factories were destroyed. Five Rochdalers were shot to death and twenty-five were wounded before the rioting mob was dispersed.<sup>67</sup> 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."<sup>68</sup> 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.

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

<sup>68</sup>*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."<sup>69</sup> 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 seen<sup>70</sup> 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.<sup>71</sup> 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.<sup>72</sup> 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.

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<sup>69</sup>M. J. Tugan Baranovsky, *Socialnyia Osnovy Kooperatsii* (Social Bases of Cooperation). Berlin, 1922, pp. 96ff.

<sup>70</sup>See above, p. 29.

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

<sup>72</sup>K. 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
<b>Total for all farms</b>	<b>14.5%</b>	<b>16.5%</b>	<b>3.8%</b>	<b>0.9%</b>

\* 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
<b>Total for Denmark</b>	<b>12,363</b>	<b>221,118</b>	<b>7.2</b>	<b>18.0</b>

\* 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.<sup>73</sup> 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:

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<sup>73</sup>I. V. Emelianoff, *Kooperativnaya 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	500
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
Total	KWH 4,587	Crowns 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:<sup>74</sup>

Years	Consumption of Electricity by Groups. Indices. 1912-100				Percent of Consumption by Groups			
	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

<sup>74</sup>Jan Černý, *Organizace opatření a dodávky elektrické energie konsumentum 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.<sup>75</sup> 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.

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<sup>75</sup>E. 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 quotes<sup>76</sup> 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:

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<sup>76</sup>Hilton, 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.<sup>77</sup>

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<sup>77</sup>Hilton, 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 Webbs<sup>78</sup> 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

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<sup>78</sup>See. 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,<sup>79</sup> 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

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<sup>79</sup>R. 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.<sup>80</sup> 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.

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<sup>80</sup>See 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 study<sup>81</sup> 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
<b>Total</b>	<b>96</b>	<b>100.0</b>	<b>80</b>	<b>100.0</b>

<sup>81</sup>*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:<sup>82</sup>

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<sup>82</sup>*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. Thiers<sup>83</sup> 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

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

by work and to prepare<sup>84</sup> 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,<sup>85</sup> 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

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<sup>84</sup>Through the famous "Commission de Luxembourg" - forerunner of the contemporary "soviets."

<sup>85</sup>See 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."<sup>86</sup> 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 Webbs<sup>87</sup> 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.

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

<sup>87</sup>See above, pp. 230-232.

Dr. Fuchs<sup>88</sup> 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

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<sup>88</sup>H. 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 workingmen 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. Fuchs<sup>89</sup> 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:

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<sup>89</sup>*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,<sup>90</sup> 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

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<sup>90</sup>Member-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 workmen 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.<sup>91</sup>

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<sup>91</sup>See 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

pattern, patronage principle versus non-patronage practices, equal voting versus no-equal voting rule, etc.) are *a priori* hopeless: the variability of the external characteristics of cooperative aggregates is kaleidoscopic and infinite.

10. Since in all the aggregates of economic units all the economic functions are ultimately the economic functions of the associated economic units performed through the aggregate as their collective branch of collective department, all economic services of cooperative associations are performed at cost (one of the fundamental cooperative principles).
11. Because of the erroneous assumption that a cooperative organization is an enterprise (an acquisitive economic unit), most of the external structural characteristics of cooperative associations are misapprehended and misrepresented. This is particularly true with regard to incorporated associations of the Rochdale type:
  - a) Their capital stock is not entrepreneurial capital of a collective enterprise, but the sum of advances needed for financing anticipated transactions of individual members of the aggregate.
  - b) Their member-stockholders are not identical with the stockholders of the collective enterprises, i.e., they are not the fractions of collective entrepreneur but the representatives of their individual and independent economic units coordinated into an aggregate.
  - c) Their surpluses and deficits are not entrepreneurial residua (profit-loss) but accounts payable to or receivable from the member-active-participants (member-patrons) of the aggregate on their current transactions.
  - d) Their fund for patronage dividends purposes is not the profit of association, nor its income, but the sums either underpaid



to the members or (in case of deficits) overpaid to them on their transactions through association.

- e) Their dividends on stock do not represent an entrepreneurial profit or any income of the association: they are the intra-aggregate interest reckonings among the members designed to restore a perfect proportionality of the advances (shares of capital) paid by each member and his volume of business done through the association.
12. None of such traits can be unreservedly used as an unerring test of a truly cooperative organization, since these traits only indirectly disclose the economic character of the cooperative aggregate. For instance, two such very popular tests as restricted dividends on stock or patronage dividends are only the technicalities of reckoning among the members and are used only in those cooperatives where there is a need for such technicalities. In those aggregates where a reasonably exact volume of business and, therefore, corresponding share of advanced capital for each member can be stated in advance, the dividends on stock are unnecessary, and in associations where exact and final reckonings with members on their transactions are possible at the moment of these transactions, the patronage dividends are superfluous and not in use. The only comprehensive and indisputable test of the cooperative character of organizations is their aggregate structure.
13. All the Principles of cooperation and particularly the Principles of Rochdale, if freed from the accumulated traditional misapprehensions, are perfectly compatible with the aggregate character of cooperative organizations and are its corollaries.
14. The most deceptive Principle of equal voting seemingly is in contradiction with the basic and irrevocable rule of proportionality innate in every aggregate of economic units; however, the equal voting is actually only a special case of proportional voting of an economically homogeneous membership, and homogeneity of membership is one of the foundation stones of stability and

viability of cooperative aggregates. An overwhelming majority of existing cooperative associations are the aggregates of homogeneous membership and, therefore, adopt the practice of equal voting; such equality, however, is a matter of fact, not a matter of principle. In those cooperatives where certain heterogeneity in economic position of members is unavoidable and can be successfully adopted in practice, the voting power of every member being proportional to his normal volume of business is actually non-equal; this practice, however, harmonizes with their cooperative (aggregate) nature.

15. The so-called pseudo-cooperative associations represent a chain of intermediary links between pure aggregates of economic units (associations of member-patrons) and pure acquisitive collective economic units (associations of member-non-patrons), i.e., collective enterprises. The process of such transformation of cooperative associations begins with admittance of non-member-patrons and consists in a gradual replacement of member-patrons by outside clientele. The degree of such replacement is a degree of pseudo-cooperative degeneration of the aggregates. Changes in structural and functional characteristics of the degenerating cooperatives (decline of patronage dividends, growing role of dividends on stock, tendency toward practice of voting by shares of stock owned, etc.) are only the external symptoms of this interesting and almost completely unexplored process. The term pseudo-cooperation is the specific term of the traditional philosophy of cooperation and should be abandoned, since it has no real and defensible economic meaning.
16. Traditionally, the cooperative associations were interpreted to be the specific organizations of economically weak groups of population. This sociological fallacy is untenable since the aggregates of economic units are actually embedded in all socio-economic strata of existing society. These aggregates of economic units on different sociological levels are widely different from many points of view, but they all have in common their cooperative (aggregate) form.

17. Productive cooperative associations represent a peculiar group of cooperatives. This type of association has always been a favorite type, supported by public opinion, by its socio-reformistic enthusiasts, by governments in various states, and by special subsidies, public and private. Despite this, and notwithstanding never-ceasing attempts to promote and organize such associations, they have not demonstrated any viability and still remain a lifeless theoretical scheme without any chance of realization in a surveyable future. From the point of view of the aggregate nature of cooperative formations, the scheme of productive associations is based on a distorted conception of enterprises organized into incredible aggregates.
  
18. No appraisals of cooperation could be included in the scope of this study and no appraisals of any kind are really possible with regard to the cooperative problem in its entirety. Being economic nonentities by themselves, the cooperatives only reflect the character and aspirations of their membership. Their members - usually fairly homogeneous groups - may belong to all sociological levels, have different racial, moral, political and other characteristics in common. All such differences directly or indirectly have a certain bearing on the character of their association and its cooperative ideals. The purposes pursued by the cooperatives may also vary widely even within kindred aggregates: such purposes may be beneficial or detrimental. With all such diversity the cooperatives have their identical aggregate form.

The analysis of the cooperative problem as a problem of theoretical economics made in this study led us to the conclusions just formulated. They are thought to be a somewhat belated, yet adequate answer to the question of the late President of the American Institute of Cooperation: "What have we got to do to be entitled to be considered cooperative?"

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