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Staff Paper

UNITED STATES COOPERATIVE THEORY AND EXPERIENCE

by
Larry G. Hamm

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INTRODUCTION

In the United States of American, October is officially designated as National Cooperative month and is the way American's recognize the historical and current significance of U.S. cooperatives. Our first cooperative was established in 1752; fully a quarter of a century before America declared its independence. Today our cooperatives number 45,000 and provide services for over 90 million member-owners.

United States cooperatives are both similar and dissimilar to cooperatives around the world. In the short period that I have with you today I would like to discuss both the theory and experience of U.S. cooperatives. Our experiences, both are successes and failures, may provide some useful guidance to those of you currently embarking upon the formulation and application of cooperative associations in your own Republic.

THE COOPERATIVE CONCEPT

In its most basic form, a cooperative is an organization established by a group of persons or firms to perform services for themselves. This universal definition of cooperatives embodies the essence of the cooperative concept. A cooperative is a group of individuals or firms working together. The purpose of that group activity is to fulfill a basic need or service that is either not available or is desired at lower cost and higher quality.

The cooperative concept is powerful. The enduring power and nature of cooperatives arises from group interaction. A famous U.S. sociologist, Carl C. Taylor, has described three

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different types of human behavior. These include cooperation, competition, and conflict. Professor Taylor explains that there is a common relationship among all three of these types of human behavior. That common denominator is the fact that the actions of other people stimulate a person to a higher level of activity and enthusiasm. In conflict, the motivation and actions of individual contestants or participants are opposed to one another. In competition, they may be either opposed or parallel. However, in cooperation the actions and the motivations of people are parallel and form mutual interest.

Some people have a firm belief that progress is made only through conflict. Still others including the U.S. society firmly believe that competition is the main stimulus to individual and social action. However, social observers can point to many studies and examples to show that persons can achieve higher levels of performance and personal attainment when working in group situations than can be attained by them either working alone or working in competition with others. This fact has lead many of us involved with cooperative theory and practice to label human cooperation as a higher calling of mankind.

Historical evidence across all cultures and societies would seem to suggest that most societies value cooperation so highly so that they provide public sanction and promotion of the use of cooperative mechanisms, organizations and associations. In the U.S., public sanction is only through authorizing legislation and support of cooperative education and research. There is almost no political involvement in the operation or oversight of cooperative businesses.

Cooperative group activity is only valuable to the extent that it fulfills a basic need or service of the individual association member. If the group need is satisfied currently by a service or product of acceptable quality and cost, a cooperative would not likely arise. In addition, sometimes the service or the product exists but for various reasons is not available to an individual citizen. Under circumstances where services are unavailable or are of such poor quality and/or high cost, cooperative group action provides the mechanism through which the needs of individuals can be met.

Because human needs vary and change, cooperatives arise world-wide in almost innumerable variety of activities. Herein again lies the power of cooperatives. All cooperatives are similar in that they are based on the same basic concept. Yet each is unique, different and specific to the attitudes, aspirations and socio-economic needs of its members.

OPERATIONALIZING THE COOPERATIVE CONCEPT

Perhaps only social philosophers and members of scientific academies can find practical relevance from the concepts just enumerated. However, people who want to operationalize the cooperative concept desire and need more straightforward and understandable statements of cooperative principles. The first formal written set of cooperative principles can from England in 1844. A century later in 1937, the International Cooperative Alliance agreed upon a list of cooperative principles to be used by cooperative associations world-wide. In 1966, the International Cooperative Alliance reaffirmed those principles. Of the seven principles enumerated, three have been adopted and form the basic structure for all modern U.S. agricultural cooperatives. These principles include:

1. Cooperatives are voluntarily owned and democratically controlled by those who use their services.

2. Returns to invested capital are limited.

3. Net margin or cooperative "profits" are distributed to members in proportion to their use of the cooperative.

These three basic cooperative principles provide the legal and organizational structure for most U.S. cooperatives. Cooperative principles form the basis of the laws governing associations and also the framework within which the governing documents of cooperative associations are framed. These principles are captured by the current operating definition of cooperatives in the U.S. A U.S. cooperative "is a business voluntarily owned and controlled by its users and operated for them on a service-at-cost or not-for-profit basis."

Because the U.S. is organized on a private capital ownership basis, U.S. cooperatives are designed to be capitalist businesses. In our system large concentrations of capital often control the distribution of rewards to the other factors of production including labor. By limiting the returns to capital, by organizing the business to serve at-cost and by leaving the control in the hands of the member-owners on a democratic one-person one-vote basis, American cooperatives achieve democratic capitalism. Our cooperatives are designed to reap the benefits of competitive capitalism while trying to assure that the rewards are distributed according to member contribution and not according to member wealth, power and influence. The U.S. cooperative experience and examples must be evaluated within this socio-economic context.

U.S. COOPERATIVE EXPERIENCE

In the United States, there are relatively few food cooperatives and almost no agricultural production cooperatives. We have an extensive network of consumer credit associations. Increasingly consumer cooperatives are becoming important in child care, housing, health care and other consumer related services. However, because I am a member of an agricultural sciences academy and work closely with U.S. agricultural producers, I am most familiar with U.S. agricultural cooperatives. Therefore, my remaining comments deal with cooperatives used to supply agricultural production inputs and to market the produce from our farms.

In 1988, there were 4,939 cooperatives providing marketing or input supply services to U.S. producers. These cooperatives had a total membership of 4.2 million and had a sales volume of 66.3 billion U.S. dollars. The number of agricultural cooperative associations continues to decline as does the number of individual members in those associations. This trend is consistent with our historical trend toward fewer farms and people in agricultural production. However, over the past decade the business volume done by agricultural

cooperatives has increased both in volume and as a proportion of all food marketing and input supply business.

United States marketing cooperatives are associations whose primary business is to market the output of its farmer members and owners. Marketing cooperatives may or may not process the produce before sale but in nearly all cases act as the producers' bargaining representative with the powerful buyers of farm produce. In 1988, about 60 percent of the agricultural cooperatives (2,990) were marketing cooperatives.

Agricultural marketing cooperatives controlled approximately 28 percent of all of the farm produce in the United States. Cooperative importance varies significantly across agricultural commodities. Almost 80 percent of the milk produced in the United States is marketed by cooperative associations. Grain such as maize, soybeans and cotton had about one-third of their production marketed by agricultural cooperatives. Cooperatives were relatively unimportant in the U.S. livestock, wool and poultry industries where only 8 percent of the marketed volume was controlled by agricultural cooperative associations.

The remaining 40 percent of agricultural cooperatives either provided farm inputs or services. Farm supply and service cooperatives handle all types of farm production supplies and equipment such as feed, seed, fertilizer, petroleum products, farmstead equipment, building supplies and the like.

Cooperatives supplied approximately 26 percent of the major farm production input supplies in the U.S. Supply cooperatives were most important in supplying petroleum and fertilizer needs of U.S. farmers. Also 30 percent of the farm chemicals were supplied by cooperative associations. And it is probably not an overstatement to say that without cooperatives much of our rural population would be without financial credit, rural electrification and rural communication services.

Most of our cooperatives are organized around local supply regions or around the production of individual agricultural commodities in a local region. The members are individual

farm units. Very often these region or commodity specific local cooperatives form a federation to create a large cooperative to generate the benefits that can accrue to multi-region and multi-commodity cooperatives. The controlling members of these federated cooperatives are the local associations who created the federation. Cooperative federations often build and operate processing plants and input supply facilities in addition to those owned by local cooperatives. Federations are also very important when dealing with the political process in Washington, DC.

THE ECONOMICS OF COOPERATIVES

United States agricultural cooperatives have been very successful in gaining lower cost supplies and higher priced produce. Their success comes from two basic elements. First, by joining together individual producers gain bargaining power in dealing with those who purchase their farm products. For example, a producer with a few hectares of potatoes to market has no influence over how much he will receive for his potatoes and family labor. However, a cooperative association which markets potatoes from its' members thousands of hectares can have a significant influence over the price and delivery provisions of the crop. Similarly, managers of supply cooperatives can negotiate with the owners of the petroleum refineries, fertilizer and chemical factories in order to gain the lowest possible input prices for their farmer members.

Even though in the United States prices for products sold and inputs purchased are not fixed, individual producers would not receive just compensation or fair prices because for the most part the investor owned firms with whom they deal are much larger and more powerful. The essence of bargaining power through cooperatives is that working together through one voice will certainly have more influence than standing alone and speaking with thousands of individual voices.

The second element of cooperatives which generates benefits for members is the gains of efficiency. A potato producer growing only a few hectares of potatoes will require only a small

volume of fertilizer and production chemicals. Providing small volume purchases can be very expensive and cause significance distribution problems. Farmers, by joining together can pool their individual needs. This enables their cooperative association to develop the efficiencies of large procurement, distribution and shipment.

Clearly, power and efficiency are directly related. Individual farm units can only gain the economic benefits of power and efficiency through standing together through cooperative associations.

SOME LESSONS FROM THE U.S. COOPERATIVE EXPERIENCE

Any society contemplating the use of agricultural cooperative associations will have to consider the specific economic and social conditions within its own boundaries. Because individual cooperatives are unique and the cooperatives in any given country are unique to the conditions in that country, it is difficult, if not sometimes dangerous, to generalize what can be learned by comparing cooperatives across countries. With that warning in place, perhaps there are three general lessons that can be learned from the U.S. experience with agricultural cooperatives.

First, U.S. agricultural cooperatives have performed well. Of course, some have failed but others have been created. Over time the involvement of agricultural cooperatives in both the marketing and supply of American farms have been well served by the American cooperative movement. Even where they do not dominate a sector, cooperative associations provide a comparison and a discipline to the existing providers of marketing and input services. Output prices are higher and input prices are lower. In addition, in 1987 agricultural cooperative enterprises generated 1.5 billion U.S. dollars in income from their operations. All of these net savings or "profits" belong to the member-owners. Most all of the 4.2 million U.S. agricultural cooperative members would feel severely disadvantaged and handicapped without their cooperatives.

Second, when cooperatives are used to secure unavailable, higher quality and lower cost services that are currently being supplied, the cooperatives will be somewhat unpopular. Successful use of agricultural producer organizations which gain bargaining power, will redistribute influence in the farm economy. Likewise, where cooperative associations improve efficiencies, demonstrate different and new ways to market produce and serve producers, the poor performance of the existing providers will be highlighted. Discomfort from and jealously of cooperative associations will naturally arise. In the United States these forces have been a constant burden to agricultural producer associations. Legal attacks, predatory market behavior and disinformation campaigns are but a few of the tactics used by those existing firms made uncomfortable and less powerful by cooperative association activity. Yet in the U.S. cooperative associations have endured and grown.

A final lesson from U.S. cooperatives is that cooperatives will disappear unless they are serving their members needs. Cooperatives must change with the times. Sometimes changes in the economy, in the technology of production will make current cooperative association activities obsolete. When this happens the cooperatives will have to change to meet the emerging needs of their members. If the cooperative has members who are dedicated to the cooperative concept, its principles and are actively involved in cooperative's development, the cooperative will change and survive.

In the United States some of our cooperatives have been so successful that their members no longer recognize all of what the cooperative has done. When the cooperative has improved the overall market situation, individual producers or members may no longer recognize the benefits that they are receiving. Because our cooperatives are voluntary membership, often some members leave the cooperative in an attempt to secure the benefits without incurring any of the responsibilities and costs associated with active participation in cooperative associations. In the United States, we call these non-cooperative members "free riders." The potential destructive force of "free riders" can only be overcome with continued

education of cooperative members. The American cooperative movement has a major commitment to the education of cooperative members, governing boards, managers, the general public and policy makers. This educational effort is particularly critical for youth who may not fully appreciate the sacrifices made by their parents in establishing the original cooperative associations.

SUMMARY AND CONCLUSIONS

In conclusion United States agricultural cooperatives have generated significant benefits for their member-owners. These benefits have spilled over into not only the general rural economy but in the operation and efficiency of the U.S. food distribution system. Enough of our critical policy leaders recognize these facts and continue to provide overall societal sanction and support for the American cooperative movement.

The benefits derived from cooperation are not free. They come from a significant commitment of time and energy by the individual members of the cooperative association. Without association member commitment and participation cooperative association success is not guaranteed.

The cooperative concept and cooperative organizations have been around for centuries. They have arisen in innumerable forms and configurations in nearly every society. I have had only a short time in your lovely Republic. But I have sensed your commitment and willingness to work together to develop successful cooperative associations. This commitment assures a cooperative legacy to your children and their children. I wish you all the greatest success in your efforts.