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Journal of Cooperatives

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New Comments on a Classic

Among the respected leaders and thinkers about cooperatives in the earlier half of this century, E. G. Nourse surely ranks near the top. Much of his philosophy of cooperation was summarized in a short article published by the American Institute of Cooperation in American Cooperation 1942 to 1945, *pp. 33–39. This reprint makes more accessible this classic paper. Two retrospective commentaries by Joe Coffey and Ronald Cotterill address the relevance of this piece to the 1990s.*

The Place of the Cooperative in Our National Economy

Edwin G. Nourse

It would be very easy to write an article under this title along the simple and enthusiastic lines of a "pep talk." One could point out that the legal foundations of the cooperative association and federation have been well laid and generally recognized; that sources of finance have been provided and financial methods adapted to the peculiar needs of cooperatives; that managerial and accounting practices have been greatly improved; that the growth of cooperative business is impressive, and enthusiasm for further development is at a high level. In a word, we could predict that cooperative business is destined to take a successful and prominent place in our economy—even a dominant position as it is reported to have done in Sweden.

On the other hand, it would be very easy to write an article couched in terms of caution, apprehension, and disillusionment. One could dwell upon the perennial difficulties of getting members to be "loyal" or of striking a working balance between showing current cash benefits and still accumulating the necessary capital to build a sound and growing organization. One could wax pessimistic about the cooperatives' ability to bid successfully for the kind of managerial talent necessary for conducting the larger type of enterprises, or dilate upon the dangers, imaginary as well as real, of "trying to run before we have learned to walk." One could look only at the dark side of the cooperative picture and become a "Gloomy Gus" just as, by looking only at the bright side, he might become a Pollyanna.

My brief remarks will attempt to steer a sound and helpful middle course between these two extremes, combining sober enthusiasm with undis-

mayed facing of difficulties and dangers. I have been a lifelong believer in the economic soundness of the cooperative form of business organization and of its particular suitability to the farmers' business needs. My recent studies in the realm of industrial structure and practice tend to strengthen my belief in the soundness of the cooperative form and to enlarge my estimate of the economic area to which it may effectively be applied.

In laying out our plans for the future, however, it is well that we keep in mind certain general principles that underlie all economic functioning, that our strategy of advance may be so planned as to save men and material and to apply our efforts at the point where they will do most to promote our own economic well-being and the health of the whole economy. I should like, therefore, to comment on just two broad issues that seem to me of basic importance in determining the part which cooperative business can be expected to play in our national life in the future.

I. How Large a Place?

The place in the nation's business logically marked out for the agricultural cooperative is primarily that of "pilot plant" and "yardstick" operation. Its objective is not to supersede other forms of business but to see that they are kept truly competitive.

The farmer's role in the economy is that of raising crops and producing livestock. He properly expects that, under traditional principles of division of labor and economic specialization, industrial agencies will do the country's manufacturing, mercantile agencies will do its distributing, transportation companies will carry its traffic, and financial concerns will furnish its credit. When such services are furnished efficiently and economically (which means in a truly competitive manner), there is no occasion for the farmer to occupy the field and divert some of his capital and some of his managerial time and effort to these tasks and away from his main enterprise of farm production.

It is of the utmost importance, however, that farmers shall have both the legal institutions and the organizational "know-how" to step into these fields when and to the extent that service is inadequate or unduly high in cost. It is important also that they remain in each of these fields with an organization sufficiently large to attain high efficiency so that farmers shall be protected against any subsequent lapse in the quality of service or temptation to profiteer in charges by the noncooperative service agencies.

But it is just as important that the cooperatives recognize when they have in fact attained their real objective by demonstrating a superior method of processing or distribution or by breaking a monopolistic bottleneck, and that they should then be content merely to maintain "stand-by" capacity or a "yardstick" operational position rather than try to occupy the whole field or a dominating position within it. In some cases, they may be well advised in entirely terminating operations once they have stimulated regular commercial or manufacturing agencies to competition amongst themselves.

The success of the cooperative movement is to be judged more by the quality of its performance than by the size of its membership or volume of

its operations. When a cooperative has to maintain its position by constant and intensive evangelism, sentimental appeals to membership, or government favors and special aid, the presumption is justified that it has overgrown or outlived its true economic need and value. Cooperation is hard-headed business, not an ideological crusade.

Basic Relationships Define Opportunities

The proper place for the cooperative cannot be assessed in absolute terms but must be relative to other developments in the economy. It may serve to explain to some readers of AMERICAN COOPERATION the reason for and import of some of my recent work in industrial price policy if I describe it as an attempt to show the *philosophy* of cooperation is sound practice even in the area where the cooperative *form* is unfamiliar and is presumably inapplicable. It is hard to conceive of a cooperative railroad, bus, or air transport line. It would be hardly more possible to apply the cooperative form to the metallurgical, electrical, or chemical industries. Some of the more daring spirits amongst us believe that such a limitation does not apply in the petroleum industry and that cooperation should boldly expand over this field, from the exploration of prospective territory to the servicing of the consumer's pleasure car. Others believe that cooperation should carry the farmer's food products through to the consumer's doorstep.

It remains to be seen whether these expansionists will succeed in securing the capital necessary for such ambitious undertakings and the technical and managerial personnel which will enable them to match or surpass the operational efficiency of existing oil companies, food processors, and chain stores. I believe it has been fully demonstrated that the savings which the distributive co-ops effected for the farmer as a quantity user of gas and oil made the early developments in this field a competitive pacemaker and amply justified the effort and the very moderate risk entailed. If, in the next 20 years, producing co-ops demonstrate that the need is as great in the refining and crude oil area and the gains commensurate with the cost, their experience will shed considerable light on how fast and how far farmers could reasonably expect to go in improving the situation as to supplying their needs for farm machinery and perhaps even for household furniture and equipment.

The question here seems to be not merely one of how fast a farm-generated and farm-controlled industrial concern could move in developing its own efficiency but of how rapidly industrial leadership will see the wisdom of supplying their services to the public on a long-run cost basis. It is conceivable that the mere prospect of cooperative expansion into fields that have been rich pasture for profit-making corporations in the past or that hold for them a bright prospect of post-war development may be a significant factor in accelerating the adoption of low-price policy in corporate business.

In a word, the place economically indicated for the cooperative in our national economy is not to displace other forms of business, but to occupy certain strategic points and there to set a plane or pace of competition which will assure for the farmer efficient service at true long-run cost.

So much for the first part of our answer to the question of the place of the cooperative in our national life. We have considered *how large* a place it is designed to occupy. Now we turn to the no less important question, *What kind of a place?* To some extent my own answer to that question is implicit in what has been said about the size of the cooperative field. But I shall now try to make that view more explicit and more complete.

II. What Kind of Place?

The true place of the cooperative is that of economic architect, not commercial Napoleon. If its practitioners grasp the distinctive economic philosophy of this business form, they will view it as a means to improve the lot of both farmer and consumer by improving the efficiency of the economic machine, not by using group force to exact the largest possible return for a special interest.

Early cooperatives were small and performed simple local services for their members. There was no possibility that they would exploit anyone else or "get too big for their britches." But, as small Davids, they did a great job of breaking down the Goliaths of various market monopolies. They are still holding the good fort Competition at many places and resisting monopolistic aggression at new points as occasion arises.

But cooperation, as we are discussing it here in terms of its future outlook, has attained to the importance and the responsibilities of "big business." This growth in size and power has been accompanied in the thinking of some cooperators by a desire or intention to "throw their weight around." Remembering flagrant abuses from which farmers suffered in the past, or chafing under a sense of present wrong, these people look to the cooperatives as a power device to be used militantly to improve the farmers' position wherever and to what extent that accumulated power permits. This was the essence of the old Sapiro doctrine that each commodity should form its trust or domestic cartel and turn to collective bargaining with a "big stick." It was to repeat for the farmer the pattern of monopoly power, first developed by tightly organized corporate business and more recently repeated in the structures and practice of craft and industrial unionism.

It may be argued that these are democratic trusts both because of the division of benefits and the safeguarding of the one-man vote, and that they are therefore good. But a democratic monopoly is no better in its impact on the economy than an autocratic monopoly, even if its individual members are more comfortable or better satisfied. For a time, it could be argued that there was another material difference, in view of the fact that a cooperative could not control the volume of production of its commodity as could a great corporation. This difference was easily magnified as to specialty crops and it became insignificant even as to the staple crops when the government entered as a supporter of prices, manipulator of supplies, and even a party to the control of production.

Temporary Gains May Prove Costly

This kind of development, invoking government aid and support to enlarge the power of the cooperative, means not the ultimate triumph of

the cooperative or of the farmer but their defeat in terms of independent business life. The price that must be paid for immediate and temporary gains is directed marketing and controlled production. Even if government in the first instance becomes a party to these restrictive features, an outraged public opinion will eventually kick the props out from under any such artificial economic structure. Eric Johnston gave a striking, though somewhat colored, statement of this as far as capital and labor are concerned, in his famous Boston speech—"A Warning to Labor and to Management." He said:

> Gentlemen of labor. . . . Right now you're just where we of management were ten years ago. What a chance we in management missed! From 1921 to 1930 we had everything all our own way. A friendly administration in Washington. Low taxes. And a friendly public. And what did we do with our power?. . . We gave this country a balloon boom that had to burst.
>
> So what did we get? Beginning with 1933, we got the biggest public beating that any group of Americans ever took. . . .
>
> Gentlemen of labor, I must accuse you of not being very original. How faithfully you have imitated us of management! From 1933 to 1942 you rode high. You were tops. A friendly administration in Washington. All sorts of favors fed to you daily from the Washington political table. Management weak and intimidated. So what did you do with your power?. . . You gave yourselves a labor boom, regardless of the consequences to any other element in the population. . . . You forgot the very thing we forgot: In the architecture of American society it's just three jumps from the master bedroom to the dog-house. Now the dog-house is yawning for *you.**

These words may well be pondered by cooperatives—and indeed by all farmers. It is to be hoped that agriculture will learn from the lessons of management and labor rather than imitate their plainly revealed mistakes. It is not yet too late. The cooperatives have not effected national organizations of power comparable to the great centralized or federated unions or the greatest corporations or trade associations, nor have they used such power as they had to halt reconversion now or to prolong depression in the 30's.

Contributions Must Be Positive

But merely to refrain from flagrant economic offense is not enough for the future of cooperative organization. Cooperation must make constructive contributions to the health of the economic system consistent with its basic philosophy of bringing equitable benefits to the worker and the consumer. Here it must be said that, while we have done much, we have conspicuously failed in particular instances or opportunities.

**Address at Boston University, March 13, 1944.*

To be concrete, How much have the cotton co-ops done toward keeping as big a cotton market as could be supplied by the most economical distributing system and the most efficient practices of production, rather than participating in the move to get artificial support to prices that accelerated the advance of synthetic fibers and of every kind of cotton substitute? Have the fresh fruit and vegetable cooperatives been deeply concerned to help low income consumers get the greatest nutritional values for their money? How much have the dairy co-ops done to see that the dairy market and dairymen's jobs as a whole were protected by getting fluid milk and butter and cheese and ice cream to all consumers at the lowest prices possible by a progressively more efficient producing, processing, and distributing system? Have they not been more concerned—like Caesar Petrillo or the Railroad Brotherhoods—to get maximum return for certain favorably situated groups while letting others (farmers or workers respectively) as well as the public "go hang?"

As I see it, the cooperative objective is twofold: (1) It is to make the most economical and efficient market channel by which whatever volume of product farmers see fit to produce gains access to the attention and the purchasing power of all who might use such a product.** Thus a true supply-and-demand price is allowed (and aided) to express itself for the guidance of producers. (2) It aims to reflect these market conditions back most promptly and fully to producers in ways that will both guide and, so far as possible, assist them in changing their methods so as to continue in production and to prosper or to shift to more suitable lines of production.

This is what I mean by referring to the place of cooperation as that of "economic architect" seeking to fit agriculture into its place along with other industries in the economy, and each branch of agriculture into its best adjusted place within the industry or the community or the individual farm set-up.

Finding Our Place Requires Constant Study

Having participated pretty actively in the American Institute of Cooperation during its formative days, I think I can say with confidence that it was in this economically constructive sense that this institution was originally conceived. I am much gratified that it is now being revived as an independent self-help organization for the study of cooperation's usefulness to agriculture and the education of farmers (and city people too) to a fuller understanding of this broad purpose and the most effective ways in which it may be accomplished.

The new Institute has set up a Research Committee and has projected an active research program in which the staff of the cooperatives and the staffs of state experiment stations and various federal agencies, such as the Research and Service Division of the Farm Credit Administration, will all join. Many of these study projects naturally will be related to organizational or operational problems of the various associations. But it is to be hoped that a proper share of attention likewise will be devoted to broad issues of cooperative principle and to the policies that cooperatives develop to guide them toward better playing their role in the nation's economic life and making their place in the economy ever more sound and more adequate. How successful the American Institute proves to be as a leader of the cooperative movement will depend in no small part on how actively the cooperative associations and their individual members participate in this study program.

***For supply-buying co-ops, this statement is simply changed to read: ". . . .most economical access to the best sources of the goods they need."*