



A POPULARIST VIEW OF COOPERATIVE PRINCIPLES

“A Good Principle Not Rightly Understood May Prove as Hurtful as Bad”

John Milton, Eikano Klostes, 1649

Almost monthly I'm asked to meet with small groups of farmers, orchardists, growers, and/or agribusinessmen to review with them the prospects and problems related to forming a cooperative. Most of these people already recognize that some form of collective action might improve their economic welfare, or at least better address a problem common to the members of the assembled group. Many people attending such meetings are already members of cooperative enterprises without even recognizing the unique characteristics of a cooperative. Others are remotely familiar with cooperative operations. Some retain lasting memories of cooperative failures. Regardless, the group has generally assembled to explore the organizational means by which they can pursue, collectively, a common goal.

Within this context, I'm regularly asked to address the “principles of cooperative activity.” In substance, people really want to know how cooperatives are organized and how they function. How cooperatives are organized and operated may appear important to the members of the group, but their interests would be better served if first they were told what cooperatives are. And, what cooperatives are is generally a reflection of its principles. Those principles, in turn, are

merely a reflection of a rather pointed sociological perspective.

Early in this century, Monsieur Farequet, a French philosopher, stated that cooperative principles are not rules fixed by custom, but comprise the moral postulates from which such rules derive. This transition from how cooperatives function to what cooperatives are is often difficult for agricultural groups seeking a rapid “fix” to an immediate issue or a problem. Yet, a failure to make this transition and a failure to address these moral postulates or philosophical perspectives will soon impose on the groups an extremely myopic view of what cooperatives are, how they are organized, and how they function.

This general level of cooperative illiteracy is not unique to our agricultural population. Just last fall, I asked a class of 28 college seniors in agricultural economics to outline the basic distinguishing principles of an agricultural cooperative. While a few students acknowledged that cooperatives were somehow “different,” they were largely unable to describe those differences and no one could list even the most basic cooperative principles. I then cited the names of several cooperatives, which operate in this region. At that point, several students could convey a lay description of cooperative practices. But once again, none could link those practices to underlying cooperative principles.

It really matters little whether you are pro- or anti-cooperative in your sentiments. This pervasive failure to know and understand cooperative principles serves poorly the arguments on either side of the issue. Even my own academic colleagues, many of whom

are accomplished economic theorists, find they are rapidly confused and disillusioned in their attempts to model cooperative behavior. Capitalist theories of “value” provide a quagmire into which most such attempts fall. The moral postulates on which cooperative principles rest do not fit well the constructs of welfare economics. Our dedicated search for measures of value, and a means to transfer them to cooperative patrons, fails the test of quantification.

OBJECTIVES

I'll attempt a brief review of cooperative principles, including a short historical sketch of their origins. My objective is not so much to promulgate those principles on the reader. Rather, I hope to enhance your appreciation of the linkage between simple moral postulates and the means by which cooperatives seek to serve those desired ends.

It was nearly 25 years ago that I first met Professor Laslo Valko. Professor Valko, a Hungarian immigrant, was one of the nation's last remaining cooperative academicians. While his professional exploits were largely unsung by his academic colleagues here at WSU, his writings on cooperatives were highly regarded by the world community. Professor Valko's background afforded him a unique perspective of cooperative organizations. He argued that it was because of our own theoretical inadequacies that we treated all cooperatives alike, when most often they were not¹. He argued that our evolution of cooperatives is one of vertical development, starting with rather primitive organizations based largely on state or institutional support, and culminating with more complex and modern cooperatives based largely on membership interests and a kind of independence comparable to other forms of private enterprises. Valko's evolution theory of cooperatives contributes a great deal to our appreciation of cooperative

¹ Valko, Laslo. Essays on Modern Cooperation. WSU Press, 1964, pp. 23-27.

principles and how they have changed over time.

Most cooperative researchers attribute the origin of cooperative principles to the Rochdale Society of Equitable Pioneers. Principles agreed to by this English society in 1844 include: (1) open membership to all who will cooperate in good faith, without restrictions regarding race, color, or creed; (2) one member has only one vote; (3) no proxy voting; (4) limited return on capital; (5) net savings distributed on the basis of patronage; (6) trading on a cash basis only; (7) audited accounts made available to members; and (8) regular membership meetings in support of cooperative education.

More recently in 1937, and again in 1966, the International Cooperative Alliance revised this list of principles, reducing them to: (1) open membership; (2) democratic central; (3) distributing surplus to members proportionate to their transactions; (4) limited interest on capital; (5) political and religious neutrality; (6) cash trading; and (7) promoting education.

Still later, USDA's Agricultural Cooperative Service published its list of modern cooperative principles which included: (1) cooperatives are owned and democratically controlled by those who use their services; (2) net margins are distributed to users in proportion to their use of the cooperative; (3) returns on investment are limited; and (4) cooperatives are financed substantially by those who use their services².

A PROBLEM WITH PRINCIPLES

While I have no quarrel with the lists provided above, in many regards their contents refer more to operating procedures than to principles. And herein lies the dilemma. Students and patrons of cooperatives are left to judge cooperatives more by what they do, or don't do, and not by what they are or could be. The third item listed just above (returns

² USDA. “Cooperative Principles and Statues.” ACS Research Report @54, March 1986, p. 4.

on investment are limited), is a classic example of such a problem. My students, and cooperative patrons in general, are told that funds (capital) invested in a cooperative agribusiness firm can earn only a fixed and limited annual rate of interest. This accurately describes a procedure, but it does not carry with it an explanation or a reason for its existence. When students learn of this procedural restriction, they immediately attach a “less desirable” label on cooperative enterprise. They are broadly schooled in microeconomics and the fundamentals of a capitalistic economy. Any procedural restriction on the level of investment earnings is therefore suspect or judged wanting. The true principle on which this procedural restraint is based is not provided. Thousands of cooperative patrons probably are equally confused regarding the true principle underlying limited returns on cooperative investment. And their views of cooperatives are thereby tainted by what coops do rather than what they are.

A POPULARIST’S SOLUTION

In my search for simplicity and function, I have chosen to describe cooperation principles in singular terms. Moreover, those terms are easily understood. They serve less to describe what cooperatives do, and more to convey a sense of what cooperatives are. Finally, they draw heavily on the works of T. W. Mercer and J. J. Worley. Each was a philosopher and writer in the 1930s and 1940s. I’ll also rely on the 1964 work of Emery S. Bogardus of the Cooperative League of the USA³.

In brief, cooperative principles adhere to the following descriptive terms: (1) democratic, (2) voluntary, (3) autonomous, (4) equitable, (5) mutual, (6) universal, and (7) evolutionary. Now let’s review each in a little more detail.

³ Bogardus, E.S. “Principles of Cooperation.” C.L.U.S.A., Chicago, 1964.

THE DEMOCRACY PRINCIPLE

Most of my students would proclaim their loyalties to the election-based democratic process. After all, it’s the “American way” to govern all human activities in the best way. But those same students cringe a bit when democracy, as practiced by investor-owned corporations, results in: (1) pyramiding the power of stockholder voting, (2) conveying of power through proxy voting, and (3) the scalar impact of voting wherein level of investment weights the count. Conversely, the principle of cooperative democracy remains pure and intact, much as the writers of our Constitution intended it to be; i.e., one person, one vote; no weights applied, no proxies to covet.

A true democracy (one person, one vote) results in a cooperative where the power to control is evenly distributed. Unfortunately, not all members are equally willing to accept and exercise that control and management efficiency is thereby reduced. Large cooperative organizations, in particular, find they are sometimes burdened by this principle.

Alternative means are available for dealing with this problem. For example, some large cooperatives organize their membership by area, region, or common interest into smaller groups. These smaller groups meet much as do precincts in political elections. The democratically derived results of these smaller group deliberations are then used in the control of the larger entity. Another method is a representative one where members vote by districts for delegates. Those democratically elected delegates then serve to govern the larger entity.

In any case, if the process is to function effectively, all members of the cooperative must be kept well-informed of the current issues being considered and those members must sense that their individual input is having an actual effect (not just a pretence) on cooperative operations.

THE VOLUNTARY PRINCIPLE

An extension of the democracy principle requires members to recognize that cooperative membership is voluntary. This voluntary principle means that any member of a cooperative association may choose to withdraw at any time. A critical component of this principle implies that persons are not made victim of pressure to join or leave the cooperative. By implication, a member-investor in such an association should be able to claim his/her investment and have it returned in full at any time on notice of withdrawal from the cooperative. This implied privilege is critical insofar as it became the major distinguishing feature between a cooperative and a collective society. While in a collective organization, property invested becomes the property of the collective entity; in the cooperative organization, investment remains a person's private property, to be treated as such.

A second important aspect of the voluntary principle means that members are not compelled to patronize their own cooperative organization. It is this principle, which encourages cooperatives to achieve and maintain efficiency, to provide satisfactory service and to supply goods at least as economically as any other trader or enterprise. Voluntary participation preserves and develops the freedom of the individual. It, too, is the American way and a fundamental aspect of the democratic way of life.

THE AUTONOMY PRINCIPLE

Closely related to the freedom implicit in the voluntary principle is the concept of autonomy. Simply stated, a cooperative, which seeks to retain its identity as an autonomous enterprise does so by asking no special favors from government. It seeks no privileges, no subsidies, nor preferential treatment. In short, a cooperative asks only for the freedom to function as an autonomous enterprise under such rules as a democratic government may wish to place on all other types or forms of business enterprise. This is

a major distinguishing feature for American cooperatives. Elsewhere in this world (particularly in less-developed countries), cooperatives sometimes function as vehicles for the state or representatives of a political movement. While American history contains examples of government entities encouraging formation of cooperatives, they never functioned as agents thereof. The autonomous nature of cooperatives becomes apparent early in their history; the Rochdale Pioneers were the first group to declare their freedom from connections with any political party. However, autonomy does not imply immunity. Cooperatives must function within the parameters permitted by state and federal law.

Through a concept sometimes labeled "active price policy," cooperatives have historically exercised a most important autonomous principle. For example, where farmers were found subject to monopolistic exploitation, cooperatives activated their autonomy as business enterprises by entering the market themselves for purposes of reestablishing competitive prices.

THE EQUITY PRINCIPLE

Perhaps no other principle has sparked more debate in cooperative circles than has equity. The debate has focused on the differences between, or confusions over, the terms "equal" vs. "equitable." Perhaps the best way to distinguish between the two terms is to say that the first would treat all persons alike. The latter takes human differences into account. Part of the confusion also lies in the fact that both terms apply to cooperative activity. For example, an equality of member rights is practiced with regard to membership voting and member participation in the cooperative organization. Yet, equitable treatment of membership is also evident via the cooperatives' system of sharing those benefits accruing from cooperative patronage.

It is the equity principle, which underlies a cooperative's patronage refund policy. Under

this policy, a cooperative's surplus after total annual costs are deducted, is treated for what it really is; i.e., overcharges to the consumer/patron whose purchases have generated the cooperatives' gross business volume. As such, the overcharges are to be returned to the member/patron as their private property and taxed accordingly. In accordance with the equity principle, the return of these overcharges is set proportionally to the volume of business contributed by each member/patron. This is not a trivial matter because its practice sets the difference between profit (expressed as a return on investment) and patronage (expressed as the return of an overcharge on a purchase). They represent two different theories of private enterprise. The patronage refund theory holds that overcharges are due back to those who were overcharged. As such, it holds that overcharges cannot be retained by the firm and subsequently paid to investors who had previously agreed to receive fixed rates of return. In practice, the equity principle serves to reduce the distance between rich and poor without curtailing individual initiative and creative activity. Neither does it confiscate private property nor preclude the exercise of private property rights.

THE MUTUALITY PRINCIPLE

The term "mutual" may have various definitions. As used here, it refers to several individuals working together for the benefit of all. A single individual may possess the motivation required to seek a goal. Yet, that individual soon realizes that others share this common desire and that the goal can be attained more rapidly or more efficiently through mutual cooperation. Mutuality, itself, becomes a motivating force and is expressed not in the drive to get "ahead of others," but rather in the drive to "get ahead with others" in search of a common goal. Individual competitive behavior and cooperative human activity may differ, but each is very evident in the history of this nation. While some may view them as polar opposites, they appear as equals in any historical assessment of our

economic development. Our pioneering tradition is steeped in the proposition that everyone must depend largely upon himself, where "survival of the fittest" is exemplified, and where "God helps those who help themselves" is the doctrine. A closer look at economic development in this nation reveals an equally impressive characteristic of mutuality, i.e. where survival, itself, depended more on the cooperative effects of groups of individuals than on the heroic efforts of an individual. As our forefathers moved west, it was individual initiative, which compelled each of them to strike out for greener pastures. But it was the mutual structure of the so-called "wagon trains" which provided security, comfort and an enhanced prospect of achieving their goals.

The cooperative's mutuality principle remains as a foundation to its economic and operational character. Its very existence depends on the cooperative spirit where member-patrons work together for the enhanced welfare of all. Perhaps it was because this spirit was so strong among farmers and ranchers that cooperatives were so important in our rural economy and remains so today.

THE UNIVERSALITY PRINCIPLE

This principle implies that cooperatives find their greatest enrichment not in self-centered ambitions but in working toward a goal of "universal" import. This principle is evident in two separate features. First, the growth and prosperity of the cooperative itself is secondary to the enhanced welfare of its member/patrons. To build a larger, flashy, impressive cooperative business at the expense of its patrons is contrary to this principle. The second feature of this principle refers to the fact that cooperatives draw no distinctions based on sex, race, color or creed of its member/patrons. It's interesting to note that this feature does not have its roots in contemporary "affirmative action" legislature dictates. Rather, we find references to this feature in the very earliest cooperation firms. For example, in 1937 the

International Cooperative Alliance issued its statements of principles, which included such references, including a strong declaration of political and religious neutrality. And earlier still, the Rochdale Society incorporated a similar statement of principle. In this regard, cooperatives fulfilled an early leadership roll in developing a statement of conscience, which now is adhered to by all contemporary businesses.

THE EVOLUTION PRINCIPLE

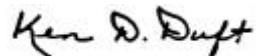
Simply defined, evolution is a process of growth and enhanced vitality. If evolution resulted creating our highest order of plants and animals, then the absence of evolution spells diminution and eventual demise. Much the same can be said of cooperative organizations. Those which grow, respond best to economic and environmental challenges, will improve, survive, and prosper. Those lacking this evolutionary vigor eventually fail and disappear. Unlike plant and animal species, however, cooperatives possess no inherent capacity for self-perpetuation. Evolutionary growth of a cooperative not only in size, but in the variety and quality of services rendered its members, is a characteristic of a healthy organization. All such organizations begin small, like the proverbial acorn, and grow into larger and more viable institutions. Cooperative change may be slow and almost imperceptible. But it does occur. Yet as noted, self-perpetuation is not guaranteed. Cooperatives do evolve and persist for two simple reasons. First, they continue to fulfill a need for which they, alone, are best suited. And second, they survive because of their dedication to cooperative education (claimed by many to be a separate and distinct principle). Cooperative education, while not providing a guarantee for survival, does create an environment within which cooperatives can prosper and evolve. Historically, cooperatives have devoted much time, effort, and money to education. The competitive pressures of a contemporary business world have reduced the depth and breadth of this activity. However, a close look at a truly successful cooperative will uncover

a continuing and dedicated attempt to educate. Recently, Mr. Elroy Webster, Chairman of Cenex, described the current status of his cooperative by stating:

“...there is a great need to educate farmers and producers about cooperative principles so that Cenex can survive consolidation in the farm supply sector. This continued consolidation, Webster represents a major change, which requires increased emphasis on coop education and provides for more control over disbursement programs⁴.”

SUMMARY

Cooperative principles have been described in the form of seven simple terms. How cooperatives function and what cooperatives do are natural end products of what cooperatives are. And what cooperatives are is prescribed largely by the principles on which they are based. Review of these seven base principles produces two awesome conclusions. First, not all modern cooperatives represent the functional epitome of those principles. Specific examples of transgression can be readily cited. Second, those truly successful cooperatives, those which have survived and prospered, those which continue to serve well their member/patrons, do closely abide or adhere, surprisingly so, to those time-worn principles. Understand well those principles and you will more fully appreciate what cooperatives are, and what they can and cannot do.



Ken D. Duft
Extension Economist

⁴ “Cenex Commits Itself to Education Long-Term Plan.” Feedstuffs, February 18, 1991, Vol. 63, Number 7, p. 8.