

Emilio jacinto's trading cooperative

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A1457 Cooperatives: Principles and practices in the 21st century Kimberly A. Zeuli and Robert Cropp ABOUT THE COVER IMAGE: The “ twin pines” is a familiar symbol for cooperatives in the United States. The Cooperative League of the USA, which eventually became the National Cooperative Business Association (NCBA), adopted it as their logo in 1922. The pine tree is an ancient symbol of endurance and immortality. The two pines represent mutual cooperation—people helping people. COOPERATIVES: ii Chapter 1 An introduction to cooperatives 1 Chapter 2 Historical development of cooperatives throughout the world 5

Chapter 3 Cooperative history, trends, and laws in the United States 59 Chapter 8 Procedures for organizing a cooperative 69 Chapter 9 A summary of cooperative benefits and limitations 77 Notes 81 Glossary 85 Cooperative resources IN 49 Chapter 7 Cooperative financial management PRACTICES 39 Chapter 6 Cooperative roles, responsibilities, and communication & 27 Chapter 5 Alternative business models in the United States PRINCIPLES 15 Chapter 4 Cooperative classification Contents Publication notes ? 89 THE 21ST CENTURY i Publication notes This publication is the fourth and most extensive revision of the Marvin A.

Schaars' text, *Cooperatives, Principles and Practices*, University of Wisconsin Extension—Madison, Publication A1457, July 1980. What has come to be known simply as “ the Schaars book,” was originally written in 1936 by Chris L. Christensen, Asher Hobson, Henry Bakken, R. K. Froker, and Marvin Schaars, all faculty in the Department of Agricultural Economics, University of Wisconsin—Madison. Since its first publication, the Schaars book has served as a basic reference for cooperative members and leaders,

cooperative instructors and development specialists, and students of cooperatives throughout the United

States and world. It has been translated into several languages. Although the Schaars book has been out of print for some time, the University of Wisconsin Center for Cooperatives (UWCC) continues to receive regular requests for copies. Its straightforward, basic information on the organization, structure, financing, and management of cooperatives is as needed and relevant today as ever. The revisions in this version, which reflect over two decades of learning about cooperative development as well as new cooperative laws and ways of doing business, will hopefully make it even more useful.

Although we focus on cooperative businesses in the United States, and draw most of our references from the agricultural sector, most of the book's content is pertinent to cooperatives anywhere, in any sector. Readers are encouraged to seek out other publications that deal more extensively with cooperative laws in their own states and countries, and provide more detailed information on consumer, service and worker-owned cooperatives and credit unions. ii Kimberly Zeuli and Robert Cropp, Assistant Professor and Professor Emeritus in the Department of Agricultural and Applied Economics, University of Wisconsin—Madison, are responsible for all of the editing and most of the revised text. The following individuals also contributed to various chapters: David Erickson, Director of Member Relations, Wisconsin Federation of Cooperatives E. G. Nadeau, Director of Research, Planning and Development, Cooperative Development Services David Trechter, Professor, University of Wisconsin—River Falls Richard

Vilstrup, Professor Emeritus, Department of Animal Science and Agricultural and Applied Economics, University of Wisconsin—Madison. This revision would not have been possible without generous funding from The Cooperative

Foundation, Inver Grove Heights, Minnesota. COOPERATIVES: CHAPTER 1 ?

An introduction to cooperatives According to the International Co-operative Alliance (ICA): a cooperative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.

Cooperative leaders around the world recognize the ICA, a non-governmental organization with over 230 member organ

Although the word “cooperaizations from over 100 countries, as a leading tive” can be applied to many uthority on cooperative definition and values. 2 different types of

group activities, in this publication The ICA definition recognizes the essential

the term is used to reference element of cooperatives: membership is voluntary. Coercion is the antithesis of cooperation. Persons a formal

business model, compelled to act contrary to their wishes are not which has relatively recent origins. The earliest coopera- truly cooperating. True

cooperation with others arises from a belief in mutual help; it can't be tive associations were created in Europe and North dictated. In authentic

cooperatives, persons join The first signs of

America during the 17th and voluntarily and have the freedom to quit the cooporganized hunting 18th centuries. These associ- erative at any time. 3

The forced collectives prevaactivity based around lent in the former Soviet Union, for example, were ations were precursors to communities are

associated with not true cooperatives. cooperatives. The pioneers Homo erectus, of the Rochdale Society in Another widely accepted cooperative definition is modern human 19th-century England are ancestors who lived the one adopted by the United States Department between 500, 000 and celebrated for launching the f Agriculture (USDA) in 1987: A cooperative is a 1. 5 million years ago modern cooperative user-owned, user-controlled business that distributes in Africa. movement. The unique conbenefits on the basis of use. This definition captures tribution of early cooperative organizers in what are generally considered the three primary England was codifying a guiding set of principles cooperative principles: user ownership, user and instigating the creation of new laws that control, and proportional distribution of benefits. helped foster cooperative business development. The " user-owner" principle implies that the people

Today, cooperatives are found in nearly all countries. Chapters 2 and 3 trace the remarkable history who use the co-op (members) helpfinancethe coof cooperative development internationally and in op and therefore, own the co-op. Members are responsible for providing at least some of the the United States. cooperative's capital. The equity capital contribution of each member should be in equal proportion to that member's use (patronage) of the coop. This shared financing creates joint ownership The cooperative model has been adapted to (part of the ICA cooperative definition). numerous and varied businesses.

In 1942 Ivan G rroups of individuals around the world and throughout time have worked together in pursuit of commongoals. Examples of cooperation, or collective action, can be traced back to our prehistoric predecessors who

recognized the advantages of hunting, gathering, and living in groups rather than on their own. What is a cooperative? Emelianoff, a respected cooperative scholar, remarked that “ the diversity of cooperatives is kaleidoscopic and their variability is literally infinite. ” 1 As a consequence of this diversity, no universally accepted definition of a cooperative exists.

Two definitions, however, are commonly used. PRINCIPLES & PRACTICES IN THE 21ST CENTURY 1
The “ user-control” concept means that members of the co-op govern the business directly by voting on significant and long-term business decisions and indirectly through their representatives on the board of directors. Cooperative statutes and bylaws usually dictate that only active co-op members (those who use the co-op) can become voting directors, although non-members sometimes serve on boards in a non-voting, advisory capacity. Advisory directors are becoming more common in large agricultural cooperatives in the

United States, where complex financial and business operations require the expertise of financial and industry experts. Only co-op members can vote to elect their board of directors and on other cooperative actions. Voting rights are generally tied to membership status—usually one-member, one-vote—and not to the level of investment in or patronage of the cooperative. Cooperative law in a number of states in the United States and in other countries, however, also permits proportional voting. Instead of one vote per member, voting rights are based on the volume of business the member transacted the previous year with the cooperative. Generally, however, there is also a maximum number of votes any member may cast to prevent control by a minority of members. For example, a grain cooperative might permit

one vote to be cast for each 1, 000 bushels of grain marketed the year before, but any single member would be limited to a maximum of ten votes. Democratic control is maintained by tying voting rights to patronage. Equitable voting rights, or democratic control (as written in the ICA definition), are a hallmark of cooperatives. "Distribution of benefits on the basis of use," describes the principle of proportionality, another key foundation for cooperatives. Members should share the benefits, costs, and risks of doing business in equal proportion to their patronage. The proportional basis is fair, easily explained (transparent), and entirely feasible from an operational standpoint. To do otherwise distorts the individual contributions of members and diminishes their incentives to join and patronize the cooperative. 2 Co-op benefits may include better prices for goods and services, improved services, and dependable sources of inputs and markets for outputs. Most cooperatives also realize annual net profits, all or part of which are returned to members in proportion to their patronage (thus, they are aptly called patronage refunds). Cooperatives can also return a portion of their profits as dividends on investment. In the United States, however, federal and most state statutes set an 8 percent maximum on annual dividend payments. The purpose of these limits is to assure that the benefits of a cooperative accrue to those who use it most rather than to those who may have the most invested; the importance of capital is subordinated. Today, some co-op leaders and scholars consider this dividend restriction arbitrary and harmful to cooperatives. From their perspective, the 8 percent maximum makes investing in cooperatives less attractive than investing in other forms of business. It makes cooperatives less competitive

as well, especially in the agricultural processing sector, which requires a lot of capital for start-up and growth. An overview of the federal laws that govern cooperatives in the United States is included in chapter 3. Why cooperate? People who organize and belong to cooperatives do so for a variety of economic, social, and even political reasons.

Cooperating with others has often proven to be a satisfactory way of achieving one's own objectives while at the same time assisting others in achieving theirs. Farmers create farm supply and marketing cooperatives to help them maximize their net profits. This requires both effective marketing of their products for better prices as well as keeping input costs as low as possible. The farmers recognize that they are usually more efficient and knowledgeable as producers than as marketers or purchasers. By selling and buying in larger volumes they can also usually achieve better prices.

COOPERATIVES: CHAPTER

Employees organize bargaining associations and labor unions to negotiate collectively with management and owners. In some cases, employees form worker-owned cooperatives. As the name suggests, a worker-owned cooperative is owned and controlled by its employees. 4 Employees establish bargaining units and cooperatives in the hopes of increasing their wages and fringe benefits, improving their general working conditions, and ensuring job security. Cooperatives do not, as is sometimes assumed, contradict the goals of capitalism. If that were the case, cooperatives would not play such an important role in the American economy.

About 48, 000 cooperatives, operating in nearly every business sector imaginable, serve 120 million members, or roughly 4 out of 10 Americans. 5

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The top 100 cooperatives in the United States, ranked by revenue, individually generated at least \$346 million in revenue during 2002 and in the aggregate, \$119 billion. ⁶ They represent agriculture, finance, grocery, hardware, healthcare, recreation, and energy industries (figure 1. 1). An introduction to cooperatives Consumer cooperatives are established to sell the products a group of consumers want but cannot find elsewhere at affordable prices. The consumer members are primarily interested in improving their purchasing power—the quantity of goods and services they can buy with their income. They naturally wish to get as much as possible for their money in terms of quantity and quality. As owners, the members have a say in what products their stores carry. ¹ ? Cooperatives are especially important to agriculture. In 2002, ³, 140 agricultural cooperatives provided roughly 3. 1 million farmers (many farmers are members of more than one cooperative) with agricultural marketing, farm supplies, and other farm-related services. They captured 28 percent of the market share. Figure 1. 1. Top 100 revenue generating cooperatives in the U. S. by sector, 2002

PRINCIPLES & PRACTICES IN THE 21ST CENTURY ³ In terms of non-agricultural cooperatives, 84 million Americans are members of 9, 569 credit unions, 865 electric co-ops serve 37 million people in 47 states, over 1. 5 million families live in housing cooperatives, and over 3 million people are members of 5, 000 food cooperatives. ⁸ The involvement of so many people in cooperatives in such a highly competitive economy reflects the general satisfaction of members toward their companies and the apparent efficiency and solid financial performance of these businesses. Chapter 4 provides a more comprehensive discussion of the various types of cooperatives and the

extent of their economic success in the United States. In short, cooperatives are organized to serve member needs and are focused on generating member benefits rather than returns to investors. This member-driven orientation makes them fundamentally different from other corporations. Additional cooperative structural characteristics and guiding principles further distinguish them from other business models. In most countries, the cooperative model represents only one of several different ways a business can choose to legally organize. Chapter 5 presents a comparison of the six major alternative business models in the United States. Cooperative management and development To prosper, cooperatives must be well organized, well financed, well managed, and governed well by a committed membership. They must be progressive, adapting to changing business climates, and responsive to their members' changing needs. Members, the board of directors, and management each have responsibilities within the cooperative. Strong, viable cooperatives require all three groups to do their share.

Chapter 6 describes each group's unique and important role. Although capital, employees, business volume, and good management practices are all very important for successful operations, a co-op's members are its most important asset. Cooperative success also hinges on effective member education and communication. Indeed, providing education, training, and information to members is one of the seven cooperative principles adopted by the ICA. The unique education needs of cooperatives and the essential elements for a successful education and communication program are also discussed in chapter 6.

Cooperative financing is also critical and in today's complex cooperative organizations it can be quite complicated. Adequate capital is one of the fundamental principles of sound business operation and at the same time one of the biggest challenges facing cooperatives today. Financing options must be consistent with principles of cooperation as well as with federal and state laws. Chapter 7 lays out the main concepts behind cooperative financing, including alternative sources of capital and equity redemption plans. As with other business forms, cooperatives should be established only to meet a well-defined need in the market. Before cooperatives are created, advance research should be done by a steering committee to ensure sufficient support by other potential members in the community. Chapter 8 discusses in greater detail the procedure for organizing cooperatives. A good feasibility study, strong membership drives, and a comprehensive business plan are essential ingredients. A final analysis of the cooperative model's benefits and limitations, to members and the broader community, is presented in chapter 9.

COOPERATIVES: CHAPTER Revolutionary roots in England The first cooperative businesses created in Europe rose during periods of great social upheaval and distress caused by dramatic shifts in agricultural and industrial production practices. Prior to the Industrial Revolution (about 1750-1850), most families in England and other parts of Europe were largely self-sufficient, creating enough food and goods for their subsistence and small amounts for trading. The Industrial Revolution introduced the factory system of production and was marked by a rapid succession of remarkable inventions that accelerated the industrialization of business. Examples of inventions during this period include smelting iron

with coal instead of charcoal, the cotton gin and power loom, and the steam engine. The writings of Adam Smith at the time, especially his advocacy of the laissez faire principle (no government intervention in the economy), further spurred the revolution. The industrial system gradually replaced cottage industries and home-based production. Workers were required to move into cities to find work. Away from land, their families were increasingly integrated into a market economy; instead of producing most of their household requirements, especially food, they had no other choice but to purchase them. Advances in production were not, unfortunately, accompanied by fair labor standards. Workers were typically paid very low wages and were subjected to harsh working conditions. People remaining in rural areas were not much better off. An agricultural revolution was already well underway in the 18th century. The introduction of new cultivation methods and crop varieties supported a dramatic change in land tenure patterns. Scattered, small plots of farmland were aggregated into large, enclosed estates, primarily for the purpose of grazing sheep and other livestock. The historical development of cooperative businesses cannot be disconnected from the social and economic forces that shaped them. Co-ops then, as now, were created in times and places of economic stress and social upheaval. Between 1760 and 1843, nearly seven million acres of agricultural land in England were enclosed in estates. As a result, large numbers of small farmers were driven from their land into neighboring towns and villages with few remaining jobs. A movement towards greater freedom of expression was another hallmark of this revolutionary period. The citizens of England began to publicly dissent with

government policies, taking issue with the status quo and demanding more personal rights. Therefore, the widespread poverty, unemployment, and general social deterioration that were left in the wake of the industrial and agricultural revolutions were met with a public outcry to the government for improved working and living conditions. THE 21ST CENTURY Historical development of cooperatives throughout the world The historical development of cooperative businesses cannot be disconnected from the social and economic forces that shaped them. Co-ops then, as now, were created in times and places of economic stress and social upheaval. 9 Ancient records and archeological discoveries point to the existence of cooperative organizations created by early civilizations in diverse parts of the world (China, Greece, Egypt, etc.). But it is the founders of the Rochdale Society in 19th century England who are celebrated for launching the modern cooperative movement. The Rochdale pioneers, and the early European cooperative thinkers and organizers who laid the foundation for their success, are responsible for codifying a guiding set of principles that helped guide the development of cooperatives across the world. 2 ? 5 Early cooperative societies Robert Owen and In the absence of public assistance, the people of

Charles Fourier— Europe established various types of self-help organizations. Mutual fire insurance companies Cooperative visionaries existed in London and Paris as early as 1530, although the first highly successful and wellknown example was organized in England in 1696, the Amicable Contributionship. 11 The people of England also created Mutual Aid Societies (they eventually became known as Friendly Societies) that offered financial

payments and assistance to members in times of sickness, unemployment, or death. 12 By the mid-18th century many well-established societies were already in operation.

They were legalized with the passing of the first Friendly Society Act (also called the Rose Act) in 1793. A number of bills were introduced in the 19th century to encourage Friendly Societies since they lessened the public burden. 13 Workers organized labor unions to bargain with employers for more favorable working conditions and to lobby the government for improved labor legislation. Cooperative or quasi-cooperative industrial businesses were in operation in England by 1760. Most were consumer-controlled organizations focused on flour milling and baking industries. Cooperative corn mills for grinding flour appeared in a number of cities shortly after the turn of the 19th century to cut the cost of flour and prevent tampering by greedy millers. Purchasing cooperatives already existed in most Western European countries by the 18th century. The Weaver's Society in Fenwick, Scotland (often referred to as "penny capitalists") began to purchase supplies as a group in 1769. 14 The precursors to mutuals and unions were guilds, the associations of merchants, artisans, and craftsmen that date back to Medieval times. Guilds had binding rules for production and business practices.

Although guilds were created partially in an attempt to establish local trade monopolies, they incorporated socialist practices: member control, equitable treatment of all members, and financial support of members who were ill or faced family crises. 6 " Often men wish to escape the realities of life, and when they do, they dream of Utopias. " 15 The first cooperative movement,

that is, the establishment of a coherent argument for the cooperative form of organization, gained momentum in the early 19th century with the writings and advocacy efforts of Robert Owen (1771-1858) and William King (1786-1858): "The Father of Cooperation." France. Robert Owen and Charles Fourier were both well-known Utopian Socialists; not only did they envision ideal societies, they tried to create them in Europe and the United States. 16 Robert Owen (1771-1858) was a prominent industrialist who began to advocate the establishment of a new type of community to alleviate the poverty and suffering caused by the Industrial Revolution. Charles Fourier (1772-1837) was a bourgeois, famous French social philosopher whose plans for self-reliant communities were motivated by the French Revolution and his view that the working class was being dehumanized and repressed. They both envisioned rural villages composed of farms and small-scale industry, all operated cooperatively by the citizens who would also live together communally. Owen originally conceived of these communities as a solution for unemployment, but later believed (like Fourier) that they were a better alternative to private capitalism and competition, providing self-employment opportunities and other conditions that would provide universal happiness. Fourier called his planned communal cities "phalanxes." COOPERATIVES: CHAPTER Fourier never found philanthropists willing to fund the creation of a phalanx. After his death, several were attempted in France and more than thirty organized in the United States. 18 The most notable in the United States were Brook Farm, near Cambridge, Massachusetts (1842-1846), and one in Fond du Lac County (now the city of Ripon), Wisconsin (1845-1850). The phalanxes suffered from

a conflict between treating everyone equally and rewarding those who provided more capital and labor. The phalanx model, however, influenced the successful kibbutzim in Israel (discussed later). Owen was a visionary idealist, not a realistic cooperative developer.

He was not at all interested, therefore, in helping the early consumer cooperatives in England: "Joint stock retailing is not the Social System which we contemplate...and will not form any part of the arrangements in the New Moral World. " 19 In 1839 he did not even bother to respond to an urgent request by Charles Howarth to visit Rochdale, England to discuss organizational plans for a new retail cooperative. Owen's attack upon individualism, the family, competition, private property, the market economy, and organized religion, alienated many people from cooperation and provoked condemnation of cooperatives from various religious groups.

Even so, Owen is often called the "father of cooperation. " Despite his failures, Owen continued preaching that cooperative production and living were the best medicines for the ills of society. His advocacy stimulated the creation of cooperative societies, labor exchanges (where handicrafts were traded based on the amount of labor involved in their making), and trade unions. Although most of the organizations he started lasted only a short time, PRINCIPLES & PRACTICES IN they provided the groundwork for another generation of cooperative development in Europe and North America. William King—

A cooperative developer and pragmatist Dr. William King (1786-1865), another social reformer in England, was in many respects more responsible than Robert Owen for spreading the cooperative idea and for the actual

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organization of cooperatives. Although he accepted much of Owen's socialphilosophy, he disagreed on how to reach those goals. King was more realistic about cooperatives, advocating and inspiring the development of consumer cooperatives across England. As a physician, King became interested in improving the welfare of the working people of Brighton, England. He was involved in organizing numerous social and educational institutions, including an infants' school, a mechanics' institute, and a library. Between 1828 and 1830, King published (at his own expense) a small magazine called " The Cooperator" that was widely distributed throughout England. Its 28 issues were a source of inspiration, information, and instruction on cooperation in theory as well as in practice. The magazine advocated a more realistic type of cooperation within reach of the working class. King believed that cooperatives should start small with the original capital supplied by members, a significant deviation from Owen and Fourier's large-scale operations funded by wealthy investors. King did not necessarily object to Owen's self-sustaining cooperative communities, as long as they were funded with the members' own capital and were restricted to Christians. King was a religious fundamentalist who believed that biblical scripture should guide the ethics and operations of cooperatives. He also taught that cooperatives should not pay patronage refunds, but instead reinvest all net profits to increase the scope of their activities and to employ as many members as possible. King also proposed the following guidelines for consumer cooperatives:

THE 1ST CENTURY Historical development of cooperatives throughout the world Owen and Fourier were not abstract thinkers; they laid out very specific details for their communities. For

instance, they believed that the communities should contain 1, 000-1, 800 people living on a relatively small tract of land. Fourier was more explicit: the area should be three square miles. 17 Wealthy supporters of Owen's ideas were willing to finance the creation of such communities. Four were eventually created: New Harmony, Indiana (USA); Orbiston, Scotland; Ralahine, Ireland; and Queenswood, England. All ultimately failed. 2 ? 7 1) members should pay cash for all merchandise purchased at the cooperative; (2) the co-op should adopt democratic principles of governance; and (3) it should publicize the cooperative movement. In addition to the advocacy of Owen and King, the cooperative movement in England was supported by a number of short-lived cooperative journals, which were circulated between 1825 and 1830. Cooperative congresses also advocated and promoted cooperation; the first took place in 1830 in Manchester, the second in 1831 in Birmingham, and the third in 1832 in London. Owen's influence and rhetoric were exhibited in these and later congresses.

For instance, the Third Congress stated that " the grand ultimate object of all cooperative societies is community on land. " What began with a few cooperative societies in 1826 quickly grew to about 300 consumer cooperatives by 1830, many patterned after King's Brighton Cooperative Trading Association. King's ideas may have also influenced early American cooperatives. A treasurer of a cooperative in Brighton, England, William Bryan, helped organize a consumer cooperative in New York City in 1830. King was compelled to discontinue his active role in the cooperative movement in the late 1830s for two reasons: his medical practice was suffering and poor management and internal discontent plagued individual

co-op stores. By 1840, the cooperative movement in England was basically at a standstill and King's ideas were forgotten, ignored in the cooperative literature for several decades. The Rochdale Pioneers In the first wave of consumer cooperatives, a shortlived society was created in Rochdale, England in 1833. James Smithies, one of the original organizers, was inspired by King's cooperative magazine and shared it with his co-founders. Their ultimate cooperative goals, however, echoed Owen's teachings.

Although their first co-op effort failed after only two years, a core group of 28 continued to work actively for social reform and eventually created the prototype cooperative model for a modest shop on Toad Lane in 1844. The so-called Rochdale Pioneers were ambitious and had lofty goals for their co-op: (1) to sell provisions at the store; (2) to purchase homes for their members; (3) to manufacture goods their members needed; and (4) to provide employment for their members who were either out of work or poorly paid. In sum, they wanted to " establish a self-supporting home colony of united interests" nd to " arrange the powers of production, distribution, education, and government" in the interests of its members. In addition, they hoped to open a " temperance hotel" in one of the cooperative houses to promote sobriety. The foundation for the Rochdale cooperative was built upon the intelligent combination of various ideas that had been tried by previous cooperatives. The Pioneers learned from the co-op failures of the past. For example, the business practices they adopted for their small store, later called the Rochdale Principles (sidebar), were novel primarily in their combination; many had been borrowed rom other cooperatives. The original Rochdale Cooperative shop on Toad Lane. It is now preserved as a

museum. 8 COOPERATIVES: CHAPTER The Industrial and Provident Societies Act, authorized in England in 1852, was a major development in the cooperative movement. Prior to the enactment of this law, the Friendly Societies Acts of 1834 and 1846 regulated the registration of cooperatives, even though these acts were designed for mutual-aid groups and not for businesses engaged in trade. Therefore, the consumer cooperatives did not have the proper legal protection essential for their business operations.

The acts further prevented them from selling to people other than their members. 1. Voting is by members on a democratic (one-member, one-vote) basis. 2. Membership is open. 3. Equity is provided by members. 4. Equity ownership share of individual members is limited. 5. Net income is distributed to members as patronage refunds on a cost basis. 6. Dividends on equity capital are limited. 7. Exchange of goods and services at market prices. 8. Duty to educate. 9. Cash trading only. 10. No unusual risk assumption. 11. Political and religious neutrality. 12. Equality in membership (no discrimination by gender). Adapted from David Barton, "Principles," in David Cobia (ed.), *Cooperatives in Agriculture*. Englewood Cliffs, NJ: Prentice Hall, 1989. Some of the Rochdale Principles, such as democratic control (one-member, one-vote) and limited dividends on equity capital, are still followed by most cooperatives around the world. Other principles, such as cash trading, are clearly outdated in most countries where credit cards and (in agricultural co-ops) seasonal loans are the norm. As a set of guiding principles, they are not necessarily appropriate for all types of cooperatives in all locations.

They are after all a product of a historical period and economy and were meant to govern a small retail store (see chapter 4 for further discussion of cooperative principles). The phenomenal success of the Rochdale cooperative, which is still in operation today, was just the boost that the cooperative movement in England needed. Rochdale became the cooperative beacon for others to follow. It provided the organizational pattern that became the prototype for other cooperatives and spurred on the cooperative movement in Europe and North America. PRINCIPLES & PRACTICES IN The Industrial and Provident Societies Act provided both important legal protections for the cooperatives while also imposing some operating restrictions. It protected the property of the societies, gave binding legal authority for their rules, safeguarded the savings of their investors, allowed them to sell to non-members, and provided legal status so that an association could sue fraudulent officials. It allowed cooperatives to pay patronage refunds on purchases but limited dividends on shares of stock to five percent. Although members still faced unlimited liability for cooperative debts, share limits of ? 100 per member were enforced.

The passage of the Industrial and Provident Societies Act of 1862 loosened some of the restrictions and provided limited liability for members, meaning they would be liable only for co-op debts less than or equal to the value of their stock. Share limits were increased to ? 200 per member and cooperatives were permitted to invest in other cooperatives. As a result of these changes, the organization of the North of England Co-operative Society became possible. Established in 1863 to create cost savings for members by purchasing a variety of goods in bulk, today the Co-operative Group

comprises a family of businesses employed in a wide range of activities (food, finance, farms, funerals, etc.). It is a unique consumer-owned business that is the largest of its kind in the world. THE 21ST CENTURY Historical development of cooperatives throughout the world The first cooperative law Rochdale cooperative principles 2 ? 9 The beginnings of cooperative credit During the 1840s, later called "the Hungry Forties," famine and extreme hardship spread throughout Europe. A blight ruined potato crops in many European countries, although Ireland was the most severely hit, during 1845-47. The shortage of potatoes drove up other food prices.

Low fishing yields further exacerbated the food shortage, which caused millions of deaths and led to severe economic depression, high unemployment, and political unrest in the region. The Communist Manifesto was published in 1848. During this same year, F. W. Raiffeisen, a mayor of a group of villages in Northern Germany, created a cooperative society to alleviate some of the suffering in his community. The cooperative gave potatoes and bread to the poor. He soon realized, however, that charity alone could not solve the problems of poor farmers; they needed to become self-sufficient and earn more money. Raiffeisen then started to organize loan societies, which embraced various cooperative features. Although Raiffeisen continued to advocate self-help, his first societies were mainly efforts to transfer money from the rich to the poor. In 1862, he helped the rural farmers of the little town of Anhausen organize a truly cooperative loan society. Early agricultural marketing and farm supply cooperatives in Europe Denmark is generally regarded as the most outstanding example of early and successful cooperative farm marketing and farm supply organizations.

20 The first cooperative creamery in Denmark was established in 1875 at Kaslunde. The early cooperative creameries incorporated some significant improvements in the butter-making process, including a standardized grading system. The high quality butter was marketed under a government brand to reflect their supervision of the grading. The first cooperative creameries were very successful. News of their success and popularity spread to other rural areas of Denmark; many others were soon organized throughout the country. These developments took place without government assistance or subsidies. The early and striking success of cooperatives in Denmark can be primarily attributed to the role of the Folk High School.

An institution unique to the country, this school educated young adults in rural areas. The schools were inspired by the philosopher and clergyman, Bishop Nikolai (N. S. F.) Grundtvig (1783-1873), and popularized by Kristen. Meanwhile, Herman Schulze had created a somewhat similar credit institution among artisans Kold, an educator. Grundtvig established the first in Eilenburg in 1850. He further refined this model Folk High School in 1844; the one created by Kold in 1851, however, was more successful and widely to fit the credit needs of artisans and other smallscale industries and developed other credit organi- replicated.

The mission of the schools was to enlighten Danish citizens (beyond what they were zations. Raiffeisen may have been familiar with learning in primary schools) so they could particithese organizations and used them to inform his pate in the governance of the kingdom. They were own co-op development efforts. Both the not meant to be vocational or cooperative training Raiffeisen and Schulze cooperative bank models schools but rather

designed to expose students to rapidly spread across Europe. Features of both new ideas and experiences. Today, we would call models were used to form credit unions in North them liberal arts schools.

Numerous such schools America. Incidentally, the Credit Union National still thrive in Denmark. Although supported finanAssociation's headquarters in Madison, Wisconsin was called " Raiffeisen House" for a number of years. cially by the state, they are free to set their own curricula and are required to be nonvocational and without examinations. 10 COOPERATIVES: CHAPTER Cooperatives around the world The cooperative movement gradually spread around the world in the 19th century (table 2. 1). Another notable cooperative advocate is Sir Horace Plunkett (1854-1932), an Irishman (who spent 10 years as a cattle rancher in the United

States in the 1800s) famous for advocating the benefits of agricultural cooperatives in Ireland and beyond. 21 He was instrumental in creating an international cooperative movement and promoting the cooperative principle of political neutrality. The Irish Cooperative Organization Society (formerly the Irish Agricultural Organization Society), originally founded by Plunkett in 1894, is located in The Plunkett House in Dublin. Today, cooperative businesses are found in nearly all countries, from the developing nations of Africa, Asia, and South America to the industrial countries of Europe and North America.

Northern Europe, where the cooperative movement took hold very early, still contains a strong cooperative presence, especially in agriculture. Many of the cooperatives in these countries have long histories and are extremely successful. However, as is the case in the United States (see chapter 3),

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economic pressures have been met with cooperative mergers and consolidations. As a result, cooperative numbers in these countries appear quite low (tables 2. 2 and 2. 3). Cooperative numbers in India, even on a per capita basis, are by comparison astounding. In the case of India and other countries with relatively high cooperative numbers, this situation typically reflects the existence of numerous, local cooperatives. More cooperatives do not imply necessarily that the cooperative sector as a whole is stronger or more competitive, however. The spread of the cooperative business model from 18th century England to such diverse countries as India, Korea and Uganda, points to the universal adaptability and diversity of the cooperative model. Cooperative businesses are found in nearly all countries, from the developing nations of Africa, Asia, and South America to the industrial countries of Europe and North America.

PRINCIPLES PRACTICES IN THE 21ST CENTURY

Historical development of cooperatives throughout the world

Folk High Schools created trained, rural leadership. They also established bonds of trust among those who came to live and study at the schools. The students developed a willingness to think together, work together, and play together—in short, to cooperate. Although not an intended outcome, the spirit of cooperation produced in these schools has been, without doubt, an important factor in the growth of Denmark's cooperative movement.

Table 2. 1. Historical cooperative statistics for selected countries

Country	First co-op	First co-op law	Membership (% of population)
Albania	1946	NA	NA
Austria	1794	1873	47. 4
Belgium	1848	1873	35. 4
Czech Republic	1852	1873	13. 4
Denmark	1851	NA	34. 2
Finland	1870	1901	45. 8
France	1750	1887	30. 1
Germany	1845	1867	27. 9
Greece	1780	1914	9. 9
Iceland	1844	1937	20. 0

Ireland 1859 1893 59. 5 Italy 1806 1886 13. 3 Lithuania 1869 1917 6. 8
 Luxembourg 1808 1884 4. 8 Netherlands 1860 1855 41. 1 Norway 1851
 1935 36. 4 Poland 1816 1920 NA Portugal 1871 1867 21. 9 Romania 1852
 1903 28. 5 Russia 1825 1907 9. 5 Spain 1838 1885 11. 1 Sweden 1850 1895
 53. 7 Switzerland 1816 1881 50. 1 Turkey 1863 867 12. 9 United Kingdom
 1750 1852 16. 6 United States 1752 1865 56. 7 Yugoslavia 1870 1925 6. 5
 NA = not available Source: Adapted from Shaffer, J. (1999). Historical
 dictionary of the cooperative movement. London: Scarecrow Press, Inc. (pp.
 437-39). 12 COOPERATIVES: CHAPTER Region Number of countries
 Organizations Individual members Societies Africa 12 19 27, 214 9, 561, 443
 Americas 18 61 43, 945 182, 486, 437 Asia 28 64 480, 648 414, 383, 079
 Europe 35 88 197, 293 118, 473, 862 Total 93 232 749, 100 724, 904, 821
 Source: International Co-operative Alliance, www. coop. org/statistics. html
 (July 1, 1998). Table 2. 3.

Agriculture cooperative statistics from select countries Number of co-ops
 Country Membership (millions) Brazil 4, 744 3. 74 Canada 7, 880 14. 52
 Columbia 1, 936 4. 82 Denmark 1, 446 1. 39 Egypt 6, 992 4. 28 46 1. 07 23,
 573 17. 49 Finland France Germany 9, 112 21. 64 India 446, 784 182. 92
 Israel 256 0. 03 Japan 3, 860 42. 84 NA 0. 63 Morocco 9, 635 0. 68 Norway 4,
 259 1. 59 Repub. Korea 7, 669 17. 07 15, 106 Historical development of
 cooperatives throughout the world Table 2. 2. Cooperatives and membership
 by international region 2 ? 4. 78 Mexico Sweden Switzerland Uganda United
 Kingdom United States Zambia 16 1. 51 3, 131 0. 4 42 9. 04 27, 076 156. 19
 2, 174 0. 57 Source: International Co-operative Alliance, www. coop.
 org/statistics. html (April 26, 2002). PRINCIPLES & PRACTICES IN THE 21ST

CENTURY 13 14 COOPERATIVES: CHAPTER The driving forces behind cooperative development in the United States include the following five interrelated dynamics: 1. Marketfailure(monopoly power, excess supply, missing markets, etc.). 2. Economic crises (depressions and recessions). 3. Newtechnology. 4. Farm organizations and cooperative advocates. 5. Favorable public policy (presidential interest, legislative initiatives at both state and federal evels, and judicial interpretation). The relative importance of these forces at different periods will become apparent as we trace the path of cooperative development. Since some of the most significant contributions Americans have made to the cooperative model and movement have been in the agricultural sector, farm cooperatives will dominate this discussion. PRINCIPLES & PRACTICES IN The first American cooperatives The first recognized cooperative business in the United States (a mutual insurance company) was founded in 1752, almost a quarter-century before the birth of the country (America achieved independence in 1776).

Benjamin Franklin, one of the signers of the Declaration of Independence, worked with other members of fire fighting associations to create the first successful fire insurance company in the colonies: The Philadelphia Contributionship for the Insurance of Houses from Loss by Fire. 24 Franklin had already formed the Union Fire Company in 1736, which became the model for volunteer fire fighting companies. Franklin had witnessed the success and importance of mutual societies when he was living in England. The Philadelphia Contributionship was based on a similar London association created in 1696. 25 Although European models and European immigrant

cultures remained influential, it was in agriculture that co-ops began to take root in new and distinctive North American forms. " 26 Cooperative history, trends, Cooperative history, trends, and laws in the United States and laws in the United States C cooperatives are neither indigenous to the United States, nor are they an American invention. As Fairbairn reminds us, " The idea of the co-op was both imported by the colonists from Europe and also independently developed and adapted by settlers of European origin under North American conditions. " 22 Pilgrims coming to the new world on the Mayflower in 1620 signed the Mayflower Compact, which described the operations of an organization, or constitution, with cooperative characteristics. Once they arrived, the early settlers worked together collectively to clear the land, build homes and communities, start farming, and provide protection for their families. 23 The overview of cooperative development in the United States provided here supports the idea that cooperatives in the United States are both an artifact of early settlers' European heritage and a collective response to harsh living conditions in rural areas. ? American farmers first attempted to organize in 1785 with the establishment of the Philadelphia Society for Promotion of Agriculture. The first formal farmer cooperatives were created in 1810: a dairy cooperative in Goshen, Connecticut, and a cheese manufacturing cooperative in South Trenton, New Jersey. On the heels of these organizations, other cooperatives involving different commodities were formed in many parts of the country (table 3. 1). There was no identified coordinated leadership and most cooperatives restricted their operations to their local community. Most of the early agricultural cooperatives were ultimately unsuccessful. THE 21ST

CENTURY 15 Table 3. 1. Selected early cooperatives and mutuals in the United States Year Cooperative 1752 Philadelphia Contributionship for the Insurance of Houses from Loss by Fire (Philadelphia, Pennsylvania) 1810 Dairy cooperative (Goshen, Connecticut) and cheese cooperative (South Trenton, New Jersey) 1820 Hog marketing, slaughtering, and packing cooperative (Granville, Ohio) 1853 Irrigation cooperative (Tulare County, California) 1857 Grain elevator (Madison, Wisconsin) 1862 Tobacco marketing cooperative (Connecticut) 1863