

Cooperatives in the U.S.

Cooperative associations have been organized throughout history to carry out many different activities, often in response to economic and social stress. Cooperative organizations in the United States appeared very early, reflecting both the European heritage of early settlers and the basic need for cooperative solutions to rural conditions.

European Influences

The development of U.S. cooperative organizations are rooted in the upheavals that characterized the Industrial Revolution in England during 1750-1850. During this period many small, home-based enterprises disappeared, forcing workers to move to cities where they faced harsh working conditions and low wages. In rural areas, the enclosure movement and changes in land tenure patterns drove many small farmers off their lands into towns and cities looking for work.

Building on trade and social guild traditions, mutual aid and "friendly society" organizations sprang up to address the conditions of the times, and contributed to the development of the cooperative business ideas. Arguments that provided a broader rationale for cooperative organizations were articulated by Robert Owen (1771-1858) and Charles Fourier (1772-1837), who were inspired by conditions of the period to search for paths to a more harmonious, utopian society.

The more pragmatic William King (1786-1865) advocated the development of consumer cooperatives to address working class issues, and his self-published magazine, "The Cooperator", provided information on cooperative practice as well as theory. King emphasized starting small cooperatives with capital that could be supplied by its members. He stressed the use of democratic principles of governance, and the education of the public about cooperatives.

The wave of consumer cooperatives that followed included the Rochdale Cooperative, which is often cited as the prototype for the modern cooperative association. A group of struggling weavers pooled their funds so that they could purchase quality goods and supply themselves at cost. These efforts were part of a broader vision in which other social needs could be met through cooperative action. Building on the successes and failures of organizations that preceded it, the Rochdale pioneers codified the principles of a successful cooperative business operation. These were widely publicized and distributed, and are the basis of the seven

cooperative principles that continue to influence cooperative practice.

The 1840's was a period of extreme famine and hardship in Europe, and cooperative responses emerged in other European countries as well. In Germany, F.W. Raiffeisen and Herman Schulze organized cooperative loan and credit organizations. These were models for the cooperative banks that spread across Europe, and were the forerunners of credit unions and the cooperative farm credit system in North America.

Cooperative farm marketing and farm supply organizations took hold and flourished in Denmark in the 1870's without government assistance or subsidies. The success of these cooperatives has been attributed in part to the Folk High School system. The schools were established to provide a non-formal, liberal arts education to adults, giving them the tools to be the active and engaged citizens who are key to a well-functioning democratic society.

Development in the United States

Early history

Cooperative development in specific economic sectors sometimes followed divergent paths, influenced by the social and market conditions of a given time and place. Periods of significant cross-pollination between sectors also occurred, especially when broader socio-economic forces were at work. It is in the agricultural sector, however, that cooperatives have made the most significant economic impact in the U.S.

The first recognized cooperative business in the U.S. was a mutual fire insurance company, founded in 1752 by Benjamin Franklin, which continues to operate today.

The first recorded dairy and cheese cooperatives were organized in 1810, and cooperatives for other agricultural commodities followed. These early cooperative efforts on the part of agricultural producers were local, independent of any larger organization, and relatively short-lived.

Several small, localized cooperatives during this time were organized to purchase products in bulk for members and sell them at cost. Many of these consumer cooperative ventures developed independently throughout the 19th century; by 1866 they could be found in most important industrial towns nationwide. (Parker, p.25)

The westward expansion in the first half of the 19th century created a surplus in agricultural production as those lands were settled and

cultivated. Adverse economic conditions for farmers included low prices, wide marketing margins, high freight charges, and high interest rates. Marketing cooperatives were organized by farmers to counter these conditions. (Bakken and Scharrs, p. 47)

A more organized effort to develop consumer cooperatives occurred in 1845. The First Workingmen's Protective Union, which focused on a broad range of social issues that affected its members, organized a bulk purchasing program for its members in Boston. The organization grew, and the cooperatives began to be operated according to the Rochdale principles. However, poor business practices and widening disparities in member priorities contributed to the Protective Union's decline.

The latter nineteenth century and the Progressive Era

A sponsor of "cooperation in all things", the Order of the Patrons of Husbandry, known as the Grange, was formed after the Civil War to improve farming conditions. As the first organization that actively promoted cooperative development, the Grange sought to eliminate the costs associated with the middleman by bringing farmers and manufacturers, and producers and consumers, into direct relations.

In 1875 the Grange endorsed the Rochdale Principles, and its cooperative development efforts led to the formation of hundreds of agricultural marketing and purchasing cooperatives, as well as cooperative stores for consumer goods. Its diversification into many business activities, however, contributed to its decline in the 1880's, as poor business practices and a lack of member participation took their toll.

Other organizations emerged to support the development of agricultural cooperatives. The Farmers' Alliance and the Society of Equity were both more political than the Grange and were aligned with the progressive agendas of the day.

The Alliance was also active in the southern states, where the use of crop liens created chronic debt for many small tenant farmers and sharecroppers. However, racial discrimination practices made it difficult for black farmers to participate in the Alliance, and a segregated branch of the movement, the Colored Farmers' National Alliance and Cooperative Union, was established in 1886. The Alliance introduced cooperative practices to some Southern black farmers, but discrimination and the passage of Jim Crow laws in the 1890's significantly affected cooperative development. (Reynolds, pg.6).

During this time labor organizations such as the Knights of Labor and the

Sovereigns of Industry also experimented with developing cooperative stores for their members. The Rochdale Principles were successfully used to operate many of these stores. (Parker, pg.20)

Numerous retail cooperatives also developed independently to meet the needs of their members. Often independents were not geographically concentrated enough to successfully federate for wholesaling purposes, and failures could often be attributed to insufficient capital, poor management, or lack of patronage (Parker, pg. 31).

Interest in cooperatives intensified around the turn of the century, as many reacted to monopolistic practices and what were seen as the excesses of capitalism. Cooperation was identified as one avenue to a more socially responsive economy. The Cooperative League of the United States of America (CLUSA) was organized in 1916 to promote a broad cooperative agenda.

CLUSA drew support from consumer cooperation movements in other parts of the country, most notably from the social democratic Finnish cooperatives in the Upper Midwest and the agricultural cooperative purchasing associations.

The first credit union statute was passed in Massachusetts in 1909. The number of credit unions significantly expanded during the 1920's under the strong national leadership of Edward Filene and Roy F. Bergengren, who promoted the adoption of credit union legislation at the state and federal levels.

Emerging in the early 1900's, the American Farm Bureau and the National Farmers Union became significant forces in farmer cooperative development by providing technical assistance to new cooperatives, and by lobbying for the enactment of state and federal legislation favorable to cooperatives. Several of the largest modern agricultural cooperatives grew out of the development efforts of these organizations.

The Sherman Antitrust Act, which made the constraint of trade through contract or conspiracy illegal, had been passed in 1890 to counter the negative effects of monopolies on the economy. However, since agricultural cooperatives were a vehicle for farmers to set a common price for their products, there were subsequent attempts to declare agricultural cooperatives in violation of the antitrust law.

The controversy eventually led to the 1922 passage of the Capper-Volstead Act, which authorized the right of farmers to market or process their agricultural products cooperatively if certain criteria were met.

Aaron Sapiro (1884-1959) and Edwin G. Nourse (1883-1974) were two influential American cooperative thinkers active in the agricultural sector during this time. Rather than emphasizing cooperatives as part of broader social and political philosophies, both focused on building efficient cooperative business models that would meet farmer needs.

A lawyer from California, Sapiro promoted large-scale, centralized co-ops organized by commodity that would function monopolistically, and allow producers to capture greater market share and achieve better prices for the farmer. He created a uniform cooperative marketing law in 1919 which was adopted at least in part by 26 states, and which influenced the language of the Capper-Volstead Act.

Nourse, in contrast, promoted locally organized and controlled cooperatives and the use a federated structure to capture only enough market share to promote competition.

The federal government supported cooperative development in the agricultural sector in a variety of ways. The Smith-Lever Act of 1914 created the Cooperative Extension System, a partnership funded by the U.S. Department of Agriculture (USDA) and land-grant universities. This program translated university-based agriculture, food, and natural resources research into practice, and many cooperatives were started through this system's research and extension services. The Cooperative Marketing Act of 1926 broadened the USDA's support of farmer cooperatives.

The Great Depression

The challenges of the Great Depression brought further federal support for cooperatives. The Farm Credit Act in 1933 established Production Credit Associations to make production loans to farms, and created a system of banks for agricultural cooperatives. And in 1934, the passage of the Federal Credit Union Act permitted credit unions in states without credit union statutes to be chartered at the federal level.

Until the 1930's, most agricultural operations were still operating without electric power, as most investor-owned utilities were unwilling to invest in the infrastructure required to serve rural areas. The Rural Electrification Act of 1937 established a lending agency to finance this effort. Farmers, familiar with the cooperative model, quickly established rural electric cooperatives to take advantage of the program. The REA provided ongoing organizational support to these cooperatives, which contributed to

the overall success of the program (Parker, pg. 135). Rural electrification created profound changes in rural life and agricultural practices.

During the 1930's, urban interest in cooperatives increased, resulting in part from the role that cooperatives played in many of the New Deal government programs. There was also increased coordination of cooperative activity nationwide. (Parker, p.126, 153).

Farm purchasing cooperatives continued to grow and thrive during this period, especially in the Midwest. Not only did they provide fertilizer and feed, they expanded into the production and distribution of petroleum products, and offered insurance and credit. (Chambers, pg. 68)

Post World War II

The federal government continued to maintain an interest in cooperatives, but with more minimal support.

The years following World War II were marked by increasing sales volume and an increased use of cooperatives in the agricultural sector, although cooperative consolidation led to a smaller number of larger cooperatives. As the scale of operations increased, agricultural cooperatives entered into a wider variety of value-added processing ventures.

A more moderate political outlook came to dominate CLUSA as the political and social landscape changed. The rise of a business managerial leadership that could effectively manage increasingly complex cooperative enterprises also contributed to a more pragmatic approach.

The civil rights movement embraced cooperatives as a way to support independent black farmers in the south. Organizations such the Federation of Southern Cooperatives recognized the wide range of services needed to promote operating independence and land retention among black farmers, given the legacy of segregation and discrimination, and took a broad approach to cooperative development.

Consumer food cooperatives experienced a resurgence during the mid-1960's and early 1970's, driven by a lack of access to natural and organic foods, and interest in alternative food systems. Although many eventually failed, those that survived have been a major influence on the growth and development of the organic and natural foods market.

Some agricultural cooperatives are now among the largest corporations in the country and are part of the global marketplace. Strategies and

structures are now dominated by economic considerations, and agricultural cooperatives play a role in influencing national agricultural policy (Cobia, pg. 119).

Cooperatives today can be found in all sectors of the U.S. economy.

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