

LAW OF COOPERATIVES
—Do Cooperatives Create or Destroy Value—

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In fall 1947, the co-op movement was under attack in the United States. Some cooperators said that the totalitarian forces of Fascism and communism were lined up against cooperatives. In that day, the biggest lobby in Washington was the anti-cooperative lobby. One co-op proponent described this lobby as the most sinister and vicious lobby that ever invaded the nation's capital.

The Ways and Means Committee of the U.S. House of Representatives held hearings that fall regarding the tax advantages of exempt and nonexempt cooperatives. Proponents and opponents of cooperatives lined up to testify. Some owners of private businesses threatened to fold up their tents and convert their corporations to cooperatives, and consequently to stop paying federal income taxes if something wasn't done about the advantages that cooperatives enjoyed.

There is nothing like political adversity to hone and polish the articulation of arguments for and against ideas, and the hearings of the House Ways and Means Committee were no exception. More recently, one of the questions posed for discussion at the 2007 Farmers' Cooperative Conference in St. Paul, Minnesota was whether cooperatives create or destroy value. We think the testimony of select co-op proponents from those 1947 hearings explains as well as anything how cooperatives create value. What follows is a selection of that testimony regarding the value co-ops provide to their members and the economy as a whole:

Showing Private Industry What's Possible. Statement of Jerry Voorhis, Executive Secretary of the Cooperative League of the United States of America, Chicago, Illinois:

“Let me just briefly point out in the field of world electrification, the situation where the power company said we cannot carry electricity into the rural areas, and then when the cooperatives came along and did bring electricity into those areas, they did so to the extent that about 1,200,000 farms have been electrified, and only half of that was done by the cooperatives. The other half of it was done by the electric companies who said it cannot be done, who found that if you brought electricity into the farms at a fair price on a mass production basis, that they would take it. That has been brought about as a result of the efforts and activities of the cooperatives.”

Co-ops Are Nongovernmental Yardsticks Against Which to Measure Private Industry. Mr. Voorhis' statement continued:

“Yardsticks of service, quality and price have been established, not by the government, but by the people. Believe me, gentlemen, this is the real reason for the opposition to cooperatives. The big fellows who have been able through the years to keep their margins, their formulas, their methods of restricting production secret don't like yardsticks in the hands of the people. . . . [B]ut, these yardsticks can restore economic health just the same. Cooperatives give the little people of the country a chance to compete with the big ones. In so doing, they afford a means of solving the monopoly problems which does not involve any of the disadvantages and even dangers which are involved in increasing government controls. . . . [B]ut, cooperatives cannot perform this great task unless the general point of view toward them is one of at least live-and-let-live, and I believe they are entitled also to the moral support of all people in positions of public trust.”

Economic Prosperity. Statement of the Honorable Wright Patman, U.S. Representative in Congress from the state of Texas:

“But, I am just as sincere from my viewpoint, that cooperatives are part of the free enterprise system and part of the profit system. Ask these farmers who have profited by it; they will tell you. The farmers are paying income taxes today who never paid income taxes before, because of cooperatives. So it is a part of the free enterprise system and the profit system.”

The Co-op as “Honest Broker.” Statement of M.J. Briggs, general manager of the Indiana Farm Bureau Cooperative Association, Inc.:

In supply activities: “[T]he average margin on a ton of fertilizer was \$12 a ton. I took it from the records of a fertilizer corporation which I saw myself in 1920. The average margin on a gallon of gasoline used in a tractor was 6.9 cents a gallon. . . . [T]he margin on a ton of chick mash feed was \$22. I saw that invoice. The influence of the cooperatives in this State have reduced these average margins to \$5 a ton on fertilizer . . . [a]nd the margin of gasoline to 3½ cents per gallon. That is on the nose. And it is about \$5 per ton on feed. That saving is reflected in the farmer’s individual income-tax report when he pays his Federal income tax.”

In marketing activities: “Indiana Farm Bureau Cooperative Association, Inc., in June 1947, instituted the first egg marketing on a Federal grade basis ever established in Indiana. . . . [T]he first day after the cooperative price was announced, the quotations of competitors jumped 12 cents per dozen on current receipts, and that is a statement of absolute fact.”

The Co-op as Community Builder. Statement of the Honorable Wright Patman, Representative in Congress From the State of Texas:

“[I] want to tell you an interesting story, very briefly. It will not take over a minute. One of the best cooperatives in the West was organized by a public-spirited man, who told me that he believed that at the first meeting he had, 95% of them were extremely radical and people who would be considered as Socialists or Communists now, but after we organized them [in a cooperative], they began to profit from their marketing and buying operations and they became prosperous, and now they have many hundreds of members in the association, and there are only two in that group who are the least bit radical, which demonstrates the fact that cooperatives help to get them out of that radical status, and I have not seen any Communist leaders among the cooperatives around in this country with whom I have come in contact. I do not know of any at all.”

Concluding Thoughts. Congressman Patman’s statement continued:

“In conclusion, I would like to summarize some thoughts for the consideration of this committee:

“1. Cooperatives are borne out of economic necessity. They protect people from exploitation who would be helplessly unorganized – in other words, these individuals whose standing alone would be exposed to the greed of vested interests.

“2. Cooperatives have done more to protect poor and helpless people from the chisellers, cheaters and racketeers than any other one effort that I have known of during my lifetime.

“3. The cooperatives build community life. They protect, preserve and encourage the three great institutions on earth – the home, the church and the school.

“4. Cooperatives are the greatest protection to the little man of the farm, ranch and orchard. The cooperative makes a businessman out of every member, regardless of how small an operator he is, which results in a better citizen. His one voice would never be heard, but organized in the cooperative way, the collective voice of thousands of little fellows is heard throughout the length and breadth of the nation, in the state legislatures and also in the National Congress. Incidentally, this is what the big lobbyists object to – being so successfully opposed by representatives of farm organizations who are permitted to be here with the aid of cooperatives.

“5. Cooperatives keep their profits at home in the hands of its members, and they are deposited in a local bank, thereby making additional credit available for people in that area to further help in building the community.

“6. Cooperatives prevent the concentration of wealth in the hands of the few, which is the life blood of a democracy.

“7. Cooperatives are the greatest bulwark against monopoly, Communism and Fascism. No real cooperative association exists in Russia or any other totalitarian government.

“8. Small business generally is in a more favorable position in areas of the United States where farmer cooperatives are the strongest. This is also true in other countries.

“9. Cooperatives represent an important part of the free enterprise system. They are not confined to farmer buying and farmer marketing cooperatives. Mutual fire, health, casualty, automobile and life insurance associations, mutual banks, mutual building and loans, credit unions and world electrification associations are also involved. Credit unions protect the people from loan sharks where they would be charged from 50-1,000% interest on loans. The REA cooperatives have provided the farmers with one of the greatest blessings of mankind, electricity.

“10. Farmers who are members of these cooperatives, handicapped by less manpower and more war machinery than ever before, produced more food during our great war emergency in the second World War than ever before, despite these handicaps. Food was just as important in winning the war as bullets. Should we so quickly forget this great contribution the farmers made in the war effort by slapping them in the face with a death tax against their cooperative organizations?

“11. Cooperatives usually prosper and survive either by their members having an interest in common, which enables them to unselfishly work in the interests of the entire group, or by reason of necessity to protect themselves from exploitation. There was no objection to farm cooperatives until they commenced to step on the exploiters' toes.

“12. The charge is made that cooperatives should be stopped as a way of doing business because some of them are large. I'm glad they are large. This is the only way they can bargain collectively with large concerns. Until a cooperative becomes as large as the largest private corporation in that field, there should not be any complaint against the cooperative.”

Our economy has evolved a long way since 1947. Some of the co-op proponents' arguments might seem a bit overdone or zealous now. Look at how our state and federal laws have developed and how much more the law protects consumers and businesses from illegal competition and untoward business practices. In 1947 though, many of today's protections did not exist, and co-ops really were under attack.

We cannot overstate how well the co-op community and the general public have supported cooperatives in the intervening 60 years. Co-ops are still deeply respected today for their integrity, and they are trusted by consumers all over the world.

At the end of the day, the raw emotion, the will to succeed, the hope of fairness, and the desire for a level economic playing field that were reflected in the testimony of participants in those 1947 hearings are still familiar to each of us, even today. And all of the values that existed and were articulated by participants in 1947 are the same values held close today.