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COOPERATION IN FOREIGN COUNTRIES

LETTER

FROM

THE CHAIRMAN OF THE FEDERAL
TRADE COMMISSION

TRANSMITTING

A REPORT OF THE FEDERAL TRADE COMMISSION
ON COOPERATION IN FOREIGN COUNTRIES

PURSUANT TO THE PROVISIONS OF
SECTION 6 OF THE FEDERAL TRADE
COMMISSION ACT



DECEMBER 2, 1924.—Referred to the Committee on
Agriculture and Forestry

WASHINGTON
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1925

REPORTED BY MR. NORRIS

SENATE RESOLUTION 277

IN THE SENATE OF THE UNITED STATES,
December 8, 1924.

Resolved, That the report of the Federal Trade Commission on cooperation in foreign countries, transmitted to the Senate on December 2, 1924, be printed as a Senate document, and that as many additional copies be printed for the use of the Senate as can be printed within the limit of \$500.

Attest:

GEORGE A. SANDERSON,
Secretary.

LETTER OF TRANSMITTAL

FEDERAL TRADE COMMISSION,

Washington, November 29, 1924.

SIR: I have the honor to transmit herewith a report of the Federal Trade Commission on cooperation in foreign countries. This report was prepared and is submitted pursuant to the provisions of section 6 of the Federal Trade Commission act.

By direction of the commission:

HUSTON THOMPSON, *Chairman.*

PRESIDENT of the SENATE of the UNITED STATES,

Washington, D. C.

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ACKNOWLEDGMENT

This report is the result of an investigation in Europe by Chairman Huston Thompson, of the Commission, and Dr. William Notz, chief of the export trade division. Acknowledgment is also made of the services of Miss Ellen L. Love in the preparation of the report.

LETTER OF SUBMITTAL

FEDERAL TRADE COMMISSION,
Washington, November 29, 1924.

To the Congress of the United States:

The Federal Trade Commission submits herewith a report on cooperation in foreign countries. The report is the result of an investigation in Europe during the summer of 1923 by Chairman Huston Thompson, of the Commission, and Dr. William Notz, chief of the export trade division. During the trip 15 countries of Europe were visited and a study made of cooperative conditions through personal interviews at the principal office headquarters of the various cooperative organizations discussed in the report. These interviews were supplemented by detailed examinations and investigations of farms, dairies, mills, stores, warehouses, banks, and educational agencies of the various cooperative societies. In addition, the report covers a study of the laws of the countries visited which relate to cooperation, and of typical rules, regulations, and agreements of retail and wholesale producers, consumers, and farmers' cooperative societies.

Chapters I, II, and III of the report cover information concerning consumers', agricultural and credit cooperative organizations. No attempt has been made to include cooperative insurance, house-building, craftsmen, and other similar organizations.

Chapters IV, V, VI, and VII include cooperative banks, cooperative education, women and the cooperative movement, and international cooperation.

Chapter VIII gives a comparative analysis of foreign legislation in support of cooperation.

The appendix includes (1) a table of figures covering membership and turnover of the three groups of cooperative organizations in all parts of the world, and (2) copies of by-laws adopted by some of the more important cooperative societies of Europe (translated from the original) which are typical of the organization of types of societies discussed in this report.

World-wide extent of the cooperative movement.

The cooperative movement is of such magnitude and importance at the present time that it challenges attention. More than 285,000 organizations in all parts of the world are connected with it. The total membership probably exceeds 40,000,000 persons, but as some of these members are connected with more than one cooperative society, it is estimated that the total number of persons represented by these organizations is upwards of 30,000,000. As in most cases each individual member represents a family averaging four persons, it may be said that a total of more than 120,000,000 people are linked up with the cooperative cause.

Changes due to the World War.

Already strong in numbers and well organized prior to the war, the needs of the time and the stress of necessity in the course of the World War and subsequently have given such an impetus to cooperation that it stands out as one of the most prominent features of the economic structure of the world today. During the World War the State authorities in a number of countries found in the cooperatives the best if not the only large-scale organization available for distribution of the necessaries of life and a serviceable agency for protecting the public against profiteers. Their patriotic services met with widespread popular approval, netted them the good will of governments, and prompted thousands of new members to swell their ranks. Moreover, in the postwar era the network of cooperative societies stretching out over whole nations and tying together all classes of society, formed in many cases the strongest basis upon which the reconstruction and development of trade and industry could proceed, and without which certain economic reforms seemed impossible of achievement. In Finland, the Baltic Republics, Poland, and Czechoslovakia, where the World War destroyed most means of livelihood, the State authorities are availing themselves of the cooperative organizations, established prior to the war, as the most serviceable means for reconstruction.

Economic importance of the cooperative movement in different countries.

In some of the larger countries of Europe, like the United Kingdom, Germany, and France, the consumers' cooperative societies rank among the largest producers and distributors of necessaries of life. In England and Germany nearly half of the population is affiliated with the consumers' wholesale and retail societies. In Czechoslovakia it is estimated that about 8,000,000 people are directly interested in cooperative enterprises. The farmers of Finland owe their present economic prosperity primarily to cooperation. By establishing cooperative consumers' stores throughout the rural districts, Finnish cooperators have performed a valuable service to the farmers of that country. In that way they have brought city and country life closer together, made accessible to the farmer the things which he needs for his household, and given him new facilities for marketing his crops and for the purchase of new materials for operating his farm.

In the new Baltic States the credit necessary for agricultural development was procured in the main through the agency of local cooperative credit societies. The flourishing butter, cheese, bacon, and egg export trade of Denmark and Holland rests on the farmers' cooperative societies in those countries. The work of Sir Horace Plunkett and of the Rev. T. A. Finlay in Ireland for the uplift of agriculture through cooperative methods has attracted wide attention. The web of cooperative societies which binds together the peasants of Russia proved one of the important factors which resisted complete economic disintegration in that vast country.

While all classes have shared in the advantage of cooperation in the various countries of Europe, it is mainly the urban wage-earners' families and the middle classes generally as well as the population in the agricultural districts which have attached themselves to the cooperative movement.

Magnitude of business turnover.

An idea of the volume of business done by the cooperative consumers' societies may be gained from the money value of the sales by retail societies in 17 of the leading countries of Europe, which in 1914 amounted to \$761,429,996, while the sales of the wholesale societies in the same countries for the same year amounted to a total of \$312,790,674. Since that year the volume of goods handled by the same organizations has increased many times.

As an instance of the success of cooperative agriculture, the work of the cooperative agricultural movement in Ireland may be mentioned, with its total turnover of more than \$500,000,000 from 1889 to 1922, inclusive.

Advantages of consumers' cooperatives.

One of the features of the cooperative consumers' societies is the return of a greater part of the profits in the form of dividends to the members in proportion to their purchases. The large aggregate savings effected in this way may be illustrated by the fact that the net surplus of the retail consumers' societies in the United Kingdom in 1922 amounted to approximately \$70,000,000. As a further example the societies affiliated with the Union of Swiss Consumers' Societies may be cited, which had a net surplus of 14,455,218 francs in 1921, of which 12,510,842 francs were distributed in the form of dividends.

A further feature of the cooperative system of distribution consists in the elimination of unnecessary middlemen's profits, the aim being to distribute goods as directly as possible from the producer to the ultimate consumer. Most retail societies are members of a cooperative wholesale society and obtain their stock of supplies from the latter. Some retail societies and most wholesale societies manufacture a large part of the goods handled by them. Members of retail societies, therefore, practically obtain their goods at the cost of production plus a small charge for distribution.

Other outstanding advantages of the cooperative consumers' societies include the promotion of cash buying, the teaching of thrift, the inculcation of democratic business methods and the dissemination of useful information through illustrated lectures, printed matter and other means of organized publicity.

Conflicting interests of consumers' and producers' societies.

The large volume of business done by the consumers' cooperatives makes them a powerful and in some cases the dominant factor in the price market. Although they usually sell as a matter of cooperative policy, at prevailing market prices, they aim to keep prices down to a reasonably low level of profit. This is in accord with their self interest as purchasers and ultimate consumers.

It is to their interest to follow the market up to a certain point, because they return the additional charge in the form of dividends, and at the same time avoid competition in price with the retailer. If, however, prices get too high, the consumers' cooperatives are likely not to follow the market for the reason that excessive prices may decrease the demand and reduce sales.

In this respect in some countries the policies observed by consumers' cooperative societies and by farmers' cooperative sales so-

cieties do not always harmonize. Not infrequently the interests of the one party, being primarily producers, tend toward high prices, whereas the interests of the other party, the consumers, call for lower prices. Conflicts along these lines have caused a number of large retail consumers' cooperative societies to establish milk distributing plants and dairies of their own in order to make themselves independent of milk producers' rings. The nearest approach to a working together of agricultural producer and agricultural producers' cooperatives, and city consumer and consumers' cooperatives has been reached in countries where agriculture produces for export. Under those conditions it has been found practical for agricultural cooperative societies to form export federations and sell their products to the wholesale importing societies of another country. Thus the Danish central export federations have for many years been regular suppliers of the English Wholesale Cooperative Society, and the German wholesale societies prior to the war imported butter from the cooperative export federations of Finland and Siberia. Considerable progress has also been made in Switzerland in establishing a closer working together of the consumers' societies and the agricultural cooperative producers' organizations. In Freiburg in Baden the local consumers' and the farmers' cooperative societies jointly operate a market where the local consumers can supply themselves with fruit and vegetables.

Successful efforts to harmonize opposing elements have been made in Finland. There the cooperative consumers' societies of the cities make it a point to teach the rural cooperatives the need of united action for the general welfare of their country. A helpful influence in bringing urban and rural elements together is exercised also by the various central unions and federations of cooperatives in other Baltic states, in Czechoslovakia, Germany, Switzerland, and elsewhere.

If the cooperative movement in the United States is to develop successfully and without injury to the public welfare, it will be necessary to avoid friction between organized consumers and organized producers. To this end a study should be made of how these two groups can be made to assist rather than antagonize each other. The experience along this line in Finland, Denmark, Germany, Switzerland, and other countries may be helpful in finding a solution suitable for our own needs.

Cooperative education and State aid.

The factors which have contributed to the development of the cooperative movement vary in the different countries. It is generally recognized, however, that popular education and training in cooperative methods and principles, by means of systematic educational propaganda and through special schools established for this purpose, is the one agency which has been most fruitful throughout the world in causing the cooperative idea to take root and to prosper. Leaders of the cooperative movement have time and again emphasized the fact that the best aid which the State is able to give to their cause consists in promoting the study of cooperation, its aims and agencies, but otherwise to allow it freedom to develop independently by its own initiative and through its own resources and

agencies. Experience in the United Kingdom and in continental European States shows that state aid along other lines has in the long run proved more of a hindrance than a benefit to the cooperative movement. In some of the newly formed States of Europe, where war had practically wiped out industry, there has been an exception to the principle of no state aid in the matter of reconstruction. Here the governments have given at least temporary financial assistance directly to the cooperatives.

Recommendations for further development of cooperation in the United States.

The commission recommends consideration of the following features of the cooperative movement in foreign countries, with a view to their application in the United States, so far as they may be compatible with the economic and social conditions of this country. Due consideration should be given to the fact that cooperative methods which have proved successful elsewhere may not under conditions as they exist in this country be wholly adaptable.

1. Farmers' cooperative sales societies for marketing agricultural produce as directly as possible from the farm to the urban household. As an aid to such a system of distribution the establishment of numerous cooperative warehouses and elevators, where produce from the surrounding country is assembled, stored, and shipped, is recommended. The joint purchase of farm supplies (seeds, fertilizers, implements, etc.) is carried on successfully by numerous foreign agricultural sales cooperatives. It is believed that the operation of wholesale agricultural purchasing societies covering larger geographical areas, such as States, should be studied and where the demand and need for them is clear, should be encouraged.

2. The simple, elastic and inexpensive system of rural credit societies of the Raiffeisen deposit and loan type, adapted to local conditions and needs, managed by the farmers themselves, limited to small areas, but with a centralized auditing system and central banks for diverting funds from one section to another as needed. It is believed that a greater development of the cooperative credit system in rural districts would materially promote thrift, self-help, and teamwork, draw in considerable unused wealth of the countryside and make it available for credit purposes.

3. The distribution of electric power in rural communities through farmers' cooperative societies has proved so advantageous in Europe that a greater development of this means of furnishing light, heat, and power to the American farmer is recommended for the consideration of our farmers.

4. It is recommended that the establishing of retail consumers' cooperative societies be promoted in the thickly populated rural districts of the United States.

5. Cooperative distribution of household coal is looked upon in some of the leading coal consuming centers of Europe (among them London, Manchester, Edinburgh, Glasgow, Hamburg, Prague) as the best solution found thus far for keeping down the high cost of household fuel. The English Wholesale Cooperative Society handled about 2,000,000 tons of coal last year which it bought at wholesale prices and transported in its own coal cars from the mines to the coal depots of its retail societies. In this way the distributing cost

of coal from the mouth of the mine to the bin of the household consumer was reduced to a minimum. Similarly, the distribution of motor fuel through cooperative societies has been carried on with success in a number of foreign countries.

6. The distribution of milk by consumers' cooperative societies in certain large cities of Europe, notably Basel and Belfast, has met with the well-nigh universal approval of the populace. Unreasonable price increases have been prevented thereby, and a supply of milk of good quality and handled along approved sanitary lines has been assured. In both cases mentioned, the cooperative consumers' societies, in addition to procuring a part of their milk supply from farmers' cooperative milk producing societies, operate dairy farms of their own. The problem of the milk supply of Basel, in particular, has been solved by the joint action of the local consumers' society and the farmers' cooperative dairies under the supervision of the municipal authorities.

7. It is believed that through the agency of cooperative export associations the market for American farm products could be substantially enlarged in foreign countries, just as the farmers of Denmark, Holland, Finland, Czechoslovakia, and Esthonia have succeeded in developing remunerative oversea markets for their products by cooperative methods.

Attention is called to the export trade act (Webb-Pomerene law) which may offer advantages for marketing American agricultural products in foreign countries. Under this act an association or combination, by contract or otherwise, of two or more persons, partnerships or corporations, may be organized for the sole purpose of engaging in export trade from the United States or any territory thereof to any foreign nation.

Through such an organization they can seek markets for their surplus production and keep overhead expenses down to a minimum.

8. In various foreign countries efforts are being made to bring about a greater degree of decentralization of power and administration in cooperative organizations. A study of the possible drawbacks arising out of the overcentralization would, it is believed, open the way for more efficient methods in the field of cooperation.

By the commission.

HUSTON THOMPSON,
Chairman.

GENERAL INTRODUCTION.

A cooperative society is a voluntary association of persons, with equal responsibilities and rights, organized for the purpose of carrying on a joint economic enterprise in accordance with economic principles. The laws of all countries relative to cooperative organizations require that the object of a cooperative society must be commercial. Organizations exclusively for charitable purposes can not be registered as cooperative societies. The commercial element is essential, and distinguishes cooperative societies from trade unions and friendly societies.

Numerous types are found, but on account of the variety of functions of some cooperative organizations, it is difficult to make an all-around satisfactory classification. Many cooperative societies fulfill two or more functions simultaneously.

For practical purposes this report groups cooperative societies into three classes, viz, (1) consumers' cooperative societies, (2) agricultural cooperative societies, and (3) credit cooperative societies. The so-called "workers' cooperatives," where workingmen are their own employers and work under a self-appointed manager, as well as cooperative insurance and building societies, are not included.

The functions of the consumers' cooperative, or as it is also known the distributive society, is to supply its members with unadulterated goods free from the middleman's profits. For this purpose consumers' societies operate retail stores, where members purchase their household supplies. The retail cooperative stores generally purchase their supplies from a cooperative wholesale society of which they are members. The total number of cooperative consumers' societies throughout the world is in excess of 90,000, with about 40,000,000 individual members. Consumers' organizations in the United States number about 3,000, with a membership of about 775,000.

The cooperative agricultural societies obtain for the individual small farmer the benefits of large-scale organization, either through collective buying of farm supplies or through joint disposal of farm products. There are more than 80,000 cooperative farmers' societies with millions of members in the various countries of the world. Agricultural organizations of this class in the United States number about 15,000.

The function of the cooperative credit society is to promote thrift among its members by accumulating their savings and to make loans to them. It supplies its members with cheap credit facilities. The total number of cooperative credit societies in the world exceeds 105,000. Of these, about 536 are in the United States.

This report presents information regarding cooperative organizations in foreign countries, but it is well to note at this point that along some lines much progress has been made by cooperative or-

ganizations in the United States, and much more will undoubtedly be accomplished.

Leaders of this country have not been unmindful of the possibilities for further development of organizations which may serve to solve the problems of American producers and consumers. In an address at Idaho Falls not long before his death, the late President Harding said:

We realize that the real producer, under our elaborate and costly system of production, is not permitted a fair share of his product for his own use and enjoyment. We have become convinced that somehow our system of distribution has grown too cumbersome, too costly, too complex, too indirect, too unrelated to the interests of real producers and legitimate consumers. * * * The need of the time is to shorten the bridge between producer and consumer and to reduce the toll that must be paid for passing over it. * * * On the whole, I think the agricultural community has been more alive to the promotion of its interests along these lines than has the urban community. The farmers have seen where their interests lay, and have been more prompt and energetic in adopting effective measures to promote them than the people of the city and town have been.

There is need to have working and practical cooperative associations of producers in the country, and at the same time to have equally effective cooperation among the consuming communities of the cities and towns; and finally to link these sets of cooperators together in a coordination for mutual advantage to both.

In a message to the National Council of Farmers' Cooperative Marketing Associations, at their annual meeting in Washington in February 1924, President Coolidge said:

I have many times declared my conviction that the development of a powerful cooperative movement in this country is one of the needs of this period of economic readjustment. Much has been accomplished along this line in many American communities, but it can not be said that the cooperative idea has found a very firm lodgment in the actual practice of the great majority of the American people. Yet the examples of its advantages which have been set before us in this and other countries are so numerous and impressive that one can not but wish that every encouragement may be extended to such organizations as your own which are seeking to establish a national cooperative purpose and spirit.

Especially in regard to agricultural statements, when we consider how high a price the consumer pays in proportion to the price the producer receives, we can not but feel that here is a great opportunity for service to both the consuming and producing groups of the public. We are all included in one or the other of these groups, and most of us in both of them. In the long run we will all be bettered if we can lessen the burdensome costs of conveying our necessities from the producer to the consumer. There is need for cooperative organizations among agricultural producers to help them both in selling their products for a better price and buying their requirements more cheaply. There is likewise a need for organizations of the urban consumers to give like benefits. The establishment of a close-working relationship between these two groups ought to be the ideal to which the larger cooperative movements of the country should aim.