

CASE STUDIES OF CONSUMERS' COOPERATIVES

*Successful Cooperatives Started by Finnish Groups in the United States
Studied in Relation to Their Social and Economic Environment*

BY

HOWARD HAINES TURNER

SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
FOR THE DEGREE OF DOCTOR OF PHILOSOPHY
IN THE
FACULTY OF POLITICAL SCIENCE
COLUMBIA UNIVERSITY



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PREFACE

WHATEVER may be of worth in the following pages I hereby dedicate to the hundreds of men and women who are working unselfishly to build cooperative institutions in their own communities and to those thousands of others who may consider the practicability of building still other and greater cooperative enterprises. I hope that the facts I have assembled here will be of some little assistance to them in understanding better the nature of the movement of which they are a part and in making intelligent judgment as to the future development of cooperatives in this country. Cooperative members and officials have generously supplied me with almost any information which I desired. It is largely through their interest in the development of my studies and through their assistance that the work was made possible.

While most of the work and all of the responsibility for this volume has been mine, valuable contributions have been made by many persons with whom I have discussed its progress. My growing interest in cooperative enterprise was early encouraged by Dr. J. Russell Smith of Columbia University. Dr. Horace Kallen of the New School for Social Research made suggestions as to the best approach to the general problem and as to the particular cooperative groups which might be selected for study. Professor Frederick C. Mills of Columbia has kept in touch with the undertaking throughout, and I value highly both the advice and encouragement which he has given me. The most thoroughgoing and extensive criticisms I received from Dr. Robert S. Lynd, also of Columbia. Dr. Lynd criticised large parts of the manuscript page by page on two different occasions, and offered particularly helpful suggestions as to the point of reference from which the work should be presented. Among other persons who read and criticised parts of the manuscript I would especially like to mention Mr. Oscar Cooley, editor of the *Cooperative Builder*;

Mr. Waldemar Niemela, manager of the Boston branch of the Eastern Cooperative Wholesale; and Mr. Werner Regli, head of the Accounting Bureau of the Cooperative League. Mr. Walter Mitchell, Jr. of Dun & Bradstreet not only read over parts of the manuscript but aided greatly by furnishing the statistical information collected by Dun & Bradstreet on the costs of distribution.

In the collection of factual material I was fortunate in receiving the generous assistance of the Cooperative League of the U. S. A., and of the officials of many individual cooperatives, notably the United Cooperative Society of Maynard, Massachusetts, and the Central Cooperative Wholesale of Superior, Wisconsin. Of the numerous individuals who assisted me in the field, I would like to thank in particular Miss Alice Hekkala of Maynard, Mr. Oscar Cooley, and Mr. Lauri Lemberg of the Finnish Daily Publishing Company of Duluth.

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CHAPTER I

INTRODUCTION

THE NATURE OF CONSUMERS' COOPERATION

IN the year 1844 twenty-eight factory workers with a total capital of \$140 ventured to establish their own grocery business. From this small beginning in Rochdale, England, the modern consumers' cooperative movement dates its development. In 1939 cooperative enterprises modeled after the Rochdale Pioneers claimed a membership of seventy million persons in thirty-nine different countries and transacted a business amounting to several billion dollars.

The cooperative movement which has spread so widely is not limited to consumer-owned enterprises. It includes associations for production, for marketing, for the provision of credit, and for numerous other purposes. Of course, cooperation of some sort for mutual benefit is practiced continually by human beings everywhere. But we are speaking of business enterprise. What is it that makes a cooperative different from a private business?

"A cooperative enterprise is one which belongs to the people who use its services, the control of which rests equally with all the members, and the gains of which are distributed to the members in proportion to the use which they make of its services."¹

Effective control by the persons who use its services is the essential requirement. Such control necessitates equal participation by all. It implies, moreover, that while services may not be rendered at cost in the first instance, any surplus will belong to the members for such disposition as they desire. Cooperative societies usually require that each member must subscribe a part of the capital of the business, a provision which is important to effective participation in control.

¹ *Report of the Inquiry on Cooperative Enterprise in Europe, 1937* (Washington: United States Government Printing Office, 1937), p. 19.

These principles were applied to the organization of consumers' cooperatives by the Rochdale Pioneers through establishment of the following rules which have been observed by the movement as a whole:

1. Membership is voluntary and open to all, irrespective of race, nationality, politics, or religion.
2. Each member has one vote, and only one, no matter how many shares of stock he may own.
3. Goods are sold in the first instance, not at cost, but at the prices prevailing in private business.
4. The reward of capital is limited to a fixed percentage.
5. All net earnings above this limit are the property of the members in proportion to their patronage of the business.

Particular consumers' cooperatives differ somewhat in their conscious militancy as regards the going business system. Whether overtly or tacitly, however, they represent a challenge to the kind of cooperation found in trade associations, farmers' marketing cooperatives, and other forms of cooperation among producers. Associations of producers aim not to alter the structure of the prevailing business system, but merely to enlarge their own pecuniary rewards; while consumers' cooperatives aim at taking control of business out of the hands of producers-for-profit, placing it on a cost basis, and returning all savings to the consuming public.²

The cooperative method of control aims to extend the principle of equality, now accepted in political matters in democratic countries, to the field of economic activity. Under this system, individual ownership of the means of production no longer determines their use. The surplus assets built up by consumers' cooperatives, in fact, become "social capital," subject to no individual owners and controlled equally by all the members.³

² Cf. Sidney and Beatrice Webb, *The Consumers' Cooperative Movement* (London, 1921), p. viii.

³ Eighty-three per cent of the "active cooperative investment" in Great Britain now falls within this category. *Cooperative Enterprise in Europe*, p. 48.

Capital as such is not only deprived of the power of control, but it is also denied the privilege of unlimited reward after costs of production have been paid. Profits, as usually understood, are returned to the consumer. One might say that consumers' cooperation took as its premise the orthodox economic doctrine that value is determined jointly by costs of production and consumer demand, concluding therefrom that any excess of value over the costs of production is created by the consumer and ought to be returned to him. The refunds returned to consumers are sometimes called "overcharges." The "overcharges" may include not only profit but elements of waste or inefficiency which the cooperatives succeed in eliminating. The refunds to the consumer obviously provide him incentive to develop and support cooperative enterprise. The economy at large may also benefit, not only from the greater equality in income brought about directly by the return of overcharges, but by the check on prices to consumers in general and the stimulus to progressive improvement in service. Where prices for certain products are lowered throughout the entire economy by cooperatives' influence, as they apparently have been in some European countries,⁴ then a segment of income which would have gone into the pockets of the relatively well-to-do is transferred to the population at large, and the beneficial effects of cooperative operation are multiplied.

THE ISSUE POSED FOR AMERICAN BUSINESS BY CONSUMERS' COOPERATION

The ultimate source of revenue of every business is, of course, the consumer, and the consumer has always been in theory lord of the economic system. The business man, nevertheless, has found his market more closely resembling a flock of sheep than a pack of lions. As consumers Americans have

⁴ For accounts of such cases, based principally on cooperative sources, see the report on the Swedish cooperatives in Marquis Childs, *Sweden the Middle Way* (New Haven: 1936); also *Cooperative Enterprise in Europe*, chapter VII.

seldom exerted any conscious influence on business in any direction. They have instead turned to their local government or to Washington to stem monopolies and other business abuses—with but limited success. Through consumers' cooperation, on the other hand, the direction of consumers dollars may become both conscious and effective.

It can not be doubted that business for the sake of profit and only incidentally for use has nourished many a distortion of economic activity from the direction of genuine need. It may even be argued that this substitution of a secondary incentive for the primary one is at the root of our recurrent economic blight. Therefore, the implications of the development of business enterprise on the basis of the use-incentive and not on that of profit, are extremely wide. If, as is indicated by cooperative growth in Britain and Scandinavia, consumers can go into manufacturing, banking, and insurance, as well as into the retailing of goods, the effects of consumer enterprise may conceivably be far-reaching.

During the past one hundred years all parts of our economic system have become highly specialized. A century ago three-quarters of the American people lived on farms where they produced most of the things they consumed. Today, on the contrary, the great majority live in towns and cities and are occupied with only a minute part of the production or distribution of perhaps a single commodity. For their work they are paid in money, and they buy practically all the goods they secure. In the South even farmers supply less than one-fifth of their own wants.⁵

The development of machines has played an important part in this transition. A steadily increasing proportion of goods have come to be manufactured or processed by machinery. Moreover, this use of machinery has saddled producers with overhead costs which continue undiminished whether large or small amounts of products are sold. To cover these costs pro-

⁵ The National Emergency Council, *Report on Economic Conditions of the South* (Washington: 1938), p. 47.

ducers have naturally been anxious to keep sales at a high level. Besides, new and better machines have been introduced which would produce larger quantities of goods; yet these machines would lead not to profits but to losses unless the additional products could be sold.

Confronted by the need to capture and hold an ever wider market, manufacturers have resorted to a variety of devices; private brandings, to take a commodity out of direct price competition; advertising, to endow it with unique and often esoteric imputed qualities; fancy packaging, and a host of other merchandising dodges. Selling has become a "game" dominated on the one hand by the technology-dictated necessity to capture volume sales and on the other by such now familiar slogans as "making 'em buy" and "turning people into gold." Under a system of private enterprise in production, the tendency has been to accept the creation and capture of the market as the crucial activity. Industry has fought industry (cf. the "Reach for a Lucky instead of a sweet" campaign) in what President Hoover called "the ever-widening arena of strife for the consumer's dollar."

The demands of consumers—even their habits—have come to be influenced by advertising and other pressures by producers to secure the sale of their merchandise. People have been stimulated to buy things to be stylish or "up-to-date," to have the same things as the good-looking men and women on the magazine pages, to keep up with their neighbors. Much of our culture has been commercialized.

Machines and other inventions have also brought forth all sorts of new materials, new products, and new ways of making old products. We live in a world of plastics and synthetics stemming from the laboratory. Because of their great variety and the complexity of their fabrication, it is impossible for the ordinary person to judge the quality of most of the goods he buys. Many persons go on the assumption that "you get what you pay for," and prefer those articles which are higher in price. Unfortunately, there is often little or no relationship

between quality and price; ⁶ following this policy causes consumers unnecessarily large expenditures. Producers, however, who frequently set the prices of such commodities in their own offices, are not interested primarily in informing consumers, but in "selling" them at as high a price as possible.

Competitive pressure by producers to market their outputs together with the competition of distributors, whatever its other effects, has bred wastes in the distributive process. That advertising which is competitive increases the selling costs of manufacturers. Wholesalers and retailers must stock competing brands of many articles merely to satisfy the demands created by competitive advertising. Retailing costs are raised by the excessive number of retail establishments, duplication of which has been encouraged by producers and wholesale distributors, each of whom has hoped thereby to increase the volume of his own sales. At the same time, the number of small outlets increases the expenses incurred for distribution by the wholesalers and manufacturers.

The wastes and abuses of distribution have probably been kept from the notice of the consumer by the steady decline in the costs of production. For the average dollar's worth of goods sold at retail in 1929, only 41 cents represented expenditure on production. Transportation and distribution, on the other hand, cost 59 cents. Thus, it may be said that it now costs considerably more, on the average, to distribute goods than it does to make them. Physical transportation represents only a minor part of the cost of distribution. Of the consumer's dollar in 1929 less than 14 cents was paid for transportation. Approximately 30 cents was paid for distribution by wholesalers and retailers, and another 14 cents for the distributive costs of manufacturers.⁷

⁶ For examples see Willard L. Thorp and others, *Economic Problems in a Changing World* (New York: 1939), pp. 61-62; also *Consumers' Union Reports* (New York: 1936-), *passim*.

⁷ *Does Distribution Cost Too Much?* (New York: The Twentieth Century Fund, 1939), pp. 116-19.

If the only purpose of distribution were to have goods available for those who wished to purchase them, most of the problems of excessive cost and waste would not exist. According to the Twentieth Century Fund study:

. . . Distribution, as we know it today—whether it “should” do so or not—does undertake to create demand, to mold it and to attach it to brands and dealers. Because distribution is not distribution in the narrow sense, because it is so largely devoted to influencing demand and because the art of influencing demand has developed so rapidly during the last half century distribution has had to shoulder more expense than it otherwise would. Probably there has been as much discovery, as much change, as much innovation in the field of distribution as in production. . . . But most of the ingenuity has been expended to a different end. Inasmuch as it has proved possible to influence and control consumer choice it has often been profitable to spend money in creating demand by advertising and promotion rather than through the reduction of prices.

The consumer himself can properly be charged with a part of the responsibility for the higher distribution costs which have resulted from competition for his favor. The buyer expects—or has been led to expect—from the distributor a multitude of privileges and services which cannot be dispensed with until the buyer's attitude itself has been changed.

To say that consumers expect and demand increased services from distributors, however, is not the same thing as saying that the consumer is responsible for the higher costs they involve. To a very large extent the consumer expects more because he has been led by modern advertising and promotional efforts to expect more. He is the victim as well as the beneficiary of modern merchandising.

Moreover, not all of the higher costs of distribution result from increased services. A large part of what is paid for modern distribution goes for selling expense, for educating the consumer, for inducing him to buy one product instead of another, or sometimes for encouraging him to buy something which on sober second thought he decides he did not want to buy in the first place.

All of these—as well as the very real services offered by distributors—are reflected in the costs of distribution.⁸

A reduction in costs, resulting in an addition to the real purchasing power of consumers, might have a tonic effect upon the entire business system. The question may be raised: Can distribution costs be reduced effectively as long as business is dominated, not by the spontaneous demands of the consuming public, but by the needs of enterprisers to sell goods? The abuses of distribution seem to arise not so much out of monopolistic control as out of uncontrolled and wasteful competition. Distributors are aware of these wastes, but they are unable individually to correct them.

The solution promised by consumers' cooperation is to base the organization of business not on the motive of profit to the producer, but on that of service to the consumer. Suppose that goods were produced to the order of consumers. Then, presumably, there would be no use for high-pressure methods to sell consumers unwanted or wasteful articles: the creation of demand would be left to other agencies than the business system. It is conceivable that goods would then be made to definite specifications or standards of quality on the basis of which consumers might judge their prices and make their choice. If business were controlled by the consumers, such advertising as was competitive would be unnecessary. There would be no need for distributors to carry alternative brands of the same article unless they were genuine differences in quality or design. Expenses of operation of wholesalers and retailers could be reduced, inasmuch as business could economically be concentrated in a smaller number of establishments. "Selling" activities, as distinct from filling existing demands, would be eliminated.

⁸ *Op. cit.*, pp. 293, 339-40.

COOPERATION AND PSYCHOLOGICAL ATTITUDES

Economic institutions provide an important framework for human activities; they set up psychological attitudes which often permeate all human relationships and mold social and political institutions in their own fashion. How does cooperative organization differ from organization founded on a profit incentive in this respect?

Consumers' cooperation, it should be noted, calls for voluntary action by individuals, and not action on the basis of self-interest alone, but a joint undertaking with other individuals for mutual advantage. It is a method of self-help, yet self-help in cooperation with others. It thus provides a constructive social outlet for individual initiative. In some cases the cooperative serves as a kind of community center where people join in recreation and where they learn to work out social problems together. It performs a function in this respect which the competitive individualism of American life tends to slight. And, in its emphasis on the voluntary, cooperative aspects of human activity this form of association is likely to strengthen other democratic institutions.

At the same time consumers' cooperatives ask no tolerance on the grounds of inferior efficiency. They compete openly with other forms of enterprise and leave consumers free to support others if they so choose. It is only when greater economy is to be achieved by cooperative effort that such an enterprise is established and only if that economy is achieved that cooperatives grow.

THE GROWTH OF COOPERATIVES ABROAD

That many cooperatives have been able to compete on better than even terms with private forms of enterprise is demonstrated by the widespread growth of the movement. The International Cooperative Alliance reported member associations in thirty-nine countries in 1939, to the number of 108,000 local cooperatives. These local associations had seventy million individual members.

In Great Britain alone more than 8 million persons held membership in consumers' cooperatives, and the cooperative stores transacted a business exceeding 1½ billion dollars, some ten per cent of all retail distribution. One-third of the population of the Scandinavian countries belonged to cooperatives. In Finland the cooperatives handled not less than one-fourth of the total retail trade of the country. Cooperatives in other countries of Europe also embraced substantial segments of the populations and of the retail trade.

European cooperatives have not only entered nearly every line of retail trade. They have also set up factories to make many of their own goods. They have established their own banks, insurance companies, housing developments, even funeral associations. English and Scottish cooperators have their own steamships, and their own tea plantations on the other side of the globe.

CONSUMERS' COOPERATIVES IN THE UNITED STATES

The development of cooperatives in the United States, as in other regions of relatively recent development, has so far been much more limited than in the countries of the Old World. Nevertheless, recurrent waves of interest in cooperation have continually appeared in this country. Many cooperatives were set up in New England as early as the 1840's. Early labor organizations such as the Sovereigns of Industry and the Knights of Labor sponsored the formation of cooperatives in the years following the Civil War, and many others were established by farmers under the leadership of the Grange. Most of these undertakings were of short life, however; few were familiar with the Rochdale principles. Stronger and better organized cooperatives were launched in the early years of the twentieth century by groups of immigrants from many parts of Europe, profiting no doubt from their cooperative experience in their former countries. The World War period and the years immediately following, with rapid increase in prices, gave a perceptible impetus to the movement; immigrant

groups, labor unions, and farmers organized hundreds of new associations. The period of rising prices, however, was succeeded by an economic crisis and price collapse in 1921 and 1922, and then by several years during which retail prices were still declining. A large proportion of the newly-formed cooperatives met business failure. Although many others weathered the storm and grew both in membership and in influence, public interest in the movement waned.

Developments in the 1930's again sharpened the economic problems of the population, and many people again turned to consumers' cooperation as a means of attacking these problems. Existing cooperatives grew in size and new ones were started, especially among farmers. Gasoline cooperatives, organized in great numbers by Midwestern farmers, began to appear in cities among working-class groups, and many small grocery cooperatives were initiated by white-collar, professional people. The movement in America not only attained greater size than before, but displayed greater unity and integration with the establishment of regional wholesale organizations and educational agencies.

On the basis of a survey made in 1936 the United States Bureau of Labor Statistics estimated that there were then 3600 cooperative retail associations in the country, with a total membership of 677,750 and total sales of \$182,685,000. About one-half of these local cooperatives were in turn members of twenty regional wholesale associations through which they made part of their purchases. Sales of the cooperative wholesales were more than \$40,000,000. Nearly one-half of the retail cooperatives and five of the twenty wholesales had been established since 1929.⁹

⁹In addition to these retail distributive associations, the Bureau listed 5,000 cooperative telephone associations and 529 cooperative service associations of various types, which together had 485,000 members. Credit unions and many insurance associations might also be included with consumers' cooperatives, insofar as they apply the cooperative principles.

Florence E. Parker, *Consumers' Cooperation in the United States, 1936*, Bureau of Labor Statistics, Bulletin No. 659 (Washington: 1939), pp. 6-7.

Some 1400 additional associations purchasing supplies for farmers on a cooperative basis were found by the Farm Credit Administration in another survey for 1936. These farm supply associations had more than 500,000 members and did \$200,000,000 worth of business.¹⁰

Nevertheless, when comparison is made of the sales of these cooperatives, amounting to less than half a billion dollars, with the total of some \$38 billion for all retail establishments in the United States in the same period, it is seen that the cooperatives still represented but a very small segment of the national economy.

THE NATURE OF THIS STUDY

Two major questions will occur to readers of this chapter: Are the advantages suggested for consumers' cooperation actually demonstrated in the experience of American cooperatives? And, supposing that the development of consumers' cooperatives would be advantageous, the crucial problem poses itself, will cooperative business grow in the United States? These questions seem to be of paramount importance in judging the significance of consumers' cooperation in this country.

It is possible to speculate as to the significance of cooperatives to the United States—and much useful speculation on the subject has appeared in print in recent years. A judgment based on factual studies of the movement, on the other hand, has scarcely been possible, for few careful studies of American cooperatives have ever been published. Such a judgment must wait until analysis has been made of the various sectors of consumers' cooperation in the United States.

There are presented in Parts I and II of this volume two separate case studies of consumers' cooperatives which have developed successfully in the United States. Such generalizations as it seemed possible to make from the experience of these cooperatives are contained in the third and concluding part of

¹⁰ "Agricultural Purchasing Cooperatives in 1936" in the *Monthly Labor Review* (June, 1939), Vol. 48, pp. 1326-7.

the volume. This work does not pretend to offer any definitive answer as to the future of cooperatives in this country. Nevertheless, it may provide useful information for an important part of the American cooperative movement.

It may be well to point out that this study has not concerned itself with a general analysis of the economic problems faced by the consumer. Nor has it undertaken to discuss the structure of the present system of distribution or the changes occurring throughout this system. It has instead dealt with one particular form of organization adopted by consumers to solve some of their economic problems—namely, consumers' cooperation.

The writer did not believe that cooperative enterprises could be examined from an economic point of view alone. Incentives which are not economic in nature play an important part in the formation and operation of cooperatives. An attempt was made, therefore, to study the experience of the cooperatives in relation to their entire social and economic environment. Starting with a consideration of the socio-economic situation out of which the cooperatives arose, the writer endeavored to determine the causes for their growth, the principal factors in their success and the problems which set limits to that success. In addition, he undertook to appraise their economic accomplishments and to observe to what extent consumers' cooperation succeeded in meeting the economic problems of the members.

The cooperatives selected for study can hardly be called typical of American cooperatives in general. The movement in America, indeed, is marked by a variety of business enterprises undertaken by consumers and by great diversity of membership.

The majority of the cooperative business already flourishing in this country is transacted by agricultural groups, especially those sponsored by the major farmer membership organizations. These concentrate most of their attention on the purchase of supplies needed for farm production. They do not lend themselves readily to expansion among urban consumers. The cooperative oil associations which have spread so rapidly among farmers in the Mississippi Valley states may come to embrace

city consumers as well through the latter's purchases of automotive needs, but they have only begun to reach city populations within the past five or six years.¹¹

Among the industrial or urban cooperatives, such as form the major part of the European movement, the most prominent enterprises may be said to fall into two different groups—those organized by immigrants of various nationalities over a period of forty years and those formed by white-collar Americans since 1930. A large number of urban associations sprang into existence in the years 1934-37, nearly all of them strictly American in membership; many of them have shown a steady growth. Nevertheless, it is worth noting that relatively few cooperatives organized by native Americans or by mixed-nationality groups existed in American cities at the beginning of the 1930's. There were, on the other hand, cooperatives started by Slovenians in Chicago, by Bohemian miners in Ohio, Italians in the East, and Scandinavians in the North Central States, and others founded by Finnish groups in the East, in the Middle West, and on the Pacific Coast.

¹¹ These farmer cooperatives should, it seems to the writer, be considered a section of the consumers' cooperative movement. As respects democracy of control, return of the overcharge to the consumer, and production for use instead of profit, a farmer group may be just as significant as a city cooperative, even though the farm organization buys solely goods for use in farm production.

On the other hand, the extent to which they will make common cause with the urban consumer and prove an active force for the expansion of consumer organization in the city varies with the kind of goods they handle and the leadership by which they are guided. Thus, the farmer may buy gasoline for his pleasure automobile or for his truck or tractor. In either case, provided he establishes a gasoline service station in the town, from which to secure his supply, the town carpenter or schoolteacher will be able to buy gasoline for his car from the same station and so participate in the farmer's cooperative.

As a matter of fact, a very large part of the purchasing by farmers on a cooperative basis is done with the aid and sponsorship of the Farm Bureau, the Farmers' Union, or some other farm membership organization. These are in some degree both political and class organizations. They were frequently initiated, moreover, to help market the farmers' products, and are strongly influenced by the producer point of view.

Of the urban societies in existence as late as 1932, the Finnish-American societies were the most important group. They constituted during the 1920's nearly one-half of all the cooperatives affiliated with the Cooperative League of the U. S. A. The two largest cooperative store associations in the United States are those at Cloquet, Minnesota, and Waukegan, Illinois, started by Finns. The largest store cooperative in the East is the United Cooperative Society founded by Finns at Maynard, Massachusetts. The Finnish cooperatives affiliated with the Central Cooperative Wholesale at Superior, Wisconsin, have built the strongest federation of cooperative stores in the country.

The writer has undertaken in this study to examine, first, the cooperative at Maynard, Massachusetts, and second, the Central Cooperative Wholesale group of associations in Michigan, Wisconsin, and Minnesota. These cases include non-agricultural groups and at least semi-urban conditions. Compared with other American cooperatives, they have been unusually successful. They have extended cooperative activity into several different fields of distribution. The associations in the North Central States, moreover, have developed a strong and efficient central organization for wholesale buying and for general coordination. The Finnish cooperatives in this country as a whole are credited by other cooperative groups with having made the most thorough-going and the most democratic application of cooperative principles.

It is hoped that a study of these cases will prove useful to students of American cooperation. These cases should not be mistaken, however, for a representative sample of American conditions as a whole or even of all the American cooperatives now in existence. This study omits any important group of native-born cooperators. It includes no cooperative societies in cities of major size. And it represents but a small fraction of the country from a geographical viewpoint. Many of these omissions, to be sure, are inherent in the limited extent of the

American movement to date.¹² Nevertheless, examination of the recent growth of middle class urban groups, and of the city gasoline cooperatives, as well as of the farm cooperative associations, would provide a more rounded picture of the American cooperative movement.

The method of investigation followed by the writer was to visit each case and observe it at first-hand, endeavoring to determine on the spot which phases of the subject were most significant. Thus, he went to Maynard, Massachusetts, and lived first in an Irish home in order to come in contact with the local people outside of the cooperative. He talked with the private merchants, and interviewed among others the manager of the local woolen mill, town officials, and the newspaper editor. He then arranged to live with a Finnish family, the head of which was a milk driver for the cooperative society, which gave him an opportunity to meet the Finnish cooperators. He questioned the officials of the cooperative, its employees, some of its early members, and other members who were critical of the society. Besides incidental contact with many other consumers; the writer called on some twenty housewives in different parts of the town in order to learn their reactions to the cooperative. He was also able to study the financial statements of the society and the minutes of many of its meetings.

Methods of inquiry in the Lake Superior region again included contacts with officials, members, and employees of the cooperatives, with persons engaged in private business, and also with disinterested residents of the community.

This observation in the field was made in the spring and summer of 1936. The amount of data on the cooperatives available through other primary studies was, unfortunately, small. Much information was secured, however, from year-

¹² Nearly one-third of the nation's retail cooperative business, according to the Bureau of Labor Statistics survey for 1936, was done in Massachusetts, Michigan, Minnesota, and Wisconsin.

books of the Cooperative League and from other cooperative publications.

The writer has endeavored throughout to be as objective as possible. Nevertheless, whether consciously or not, his conduct of the study and his conclusions were bound to be influenced to some extent by his own preconceptions. Therefore, he wishes to state that he was favorably inclined at the outset towards the idea of consumer cooperation, and that the friendships he formed in the course of the study predisposed him further in the same direction. Readers should be on their guard against the influence of this bias.

A NOTE ON THE ORDER OF READING

THIS volume is arranged in three parts which can be read in whatever order the reader prefers. Parts I and II are, in effect, separate and independent studies. Either one may be read by itself. The final part contains the conclusions which the author has drawn from these two studies, together with some speculations on the future opportunities for consumers' cooperatives in the United States; this part may be read first, or it may be read after the body of evidence upon which it largely rests.

Part I deals fairly intensively with one cooperative society in an industrial New England town, observing at close range the background of the cooperative, the nature of its membership, the factors in its success, and the problems it has faced and those which it faces today. Part II, on the other hand, considers a federation of some seventy cooperative store societies scattered over the sparsely-populated area south and west of Lake Superior; it gives attention to wholesale as well as retail store operation. The first part, it is hoped, will throw light on the possibilities for cooperatives in industrial sections of this country, while the second not only observes the experience of store cooperatives in a more rural section of the United States, but explores the important problem as to what influence a wholesale federation may have upon cooperative development.

PART I

**COOPERATIVES IN AN EASTERN TOWN—MAYNARD,
MASSACHUSETTS**

CHAPTER II

COOPERATIVE ACCOMPLISHMENTS IN MAYNARD

MAYNARD, Massachusetts is a town of seven thousand people situated about twenty-five miles west of Boston. It is a "mill town". Unlike many other New England communities, its history dates only from 1845 when the original mill was constructed along the Assabet River. Its population has consisted mainly of immigrants who came from across the Atlantic and went to work in the mill.

Four cooperatives have been organized in this town at one time or another during the past seventy years, two of them playing a leading part in local retail trade. One of these last, the United Cooperative Society, has now come to transact one-sixth of all the retail business in Maynard.

The first cooperative, started during the 1870's, soon after the community itself came into existence, carried on a large and successful business up to the time of the World War. During the post-war period, however, it saw an increasing proportion of its trade captured by chain stores, and eventually discontinued business. The United Cooperative Society, which was organized by Finnish immigrants in 1907, has been able to compete successfully not only with the independent merchants of the town but with the chain stores as well.¹

This cooperative, still directed mainly by Finns and their children, has achieved a larger and more varied volume of business than any other local cooperative society in the eastern part of the United States. Its annual sales averaged \$485,000 in the years 1936-38. Through the cooperative's facilities Maynard families can supply all of their food requirements, the coal or other fuel needed to heat their homes, gasoline and

¹ Another Finnish cooperative was organized in 1915 and has continued to transact a modest business. The fourth association, started by Poles after the World War, operated for about ten years.

oil for their cars, and several other commodities such as range oil, ice, hardware and electrical appliances. The association also provides a line of farm supplies for its farmer members. Taken altogether, a working-class family can probably make two-thirds of its retail purchases directly through the cooperative society.

In all of its lines of business the United Cooperative Society has effected for its patrons net earnings or savings of varying amounts, averaging in the three years 1936-38 over four per cent of the sales. Out of its earnings the association has usually returned to its patrons a refund of three or four per cent on their purchases. Part of the earnings also were set aside to increase the resources of the society. On the basis of a share capital of only \$20,000, the net worth of the cooperative has by this means been built up to approximately \$80,000.

The society's business establishment now includes not only two large food stores, a hardware department, a gasoline filling station and other facilities needed for distribution, but a baking plant for the production of its own baked goods and a pasteurization and bottling plant for milk and cream. The cooperative collects the milk from the farmers, and after processing it delivers it to the consumers. Delivery service is also provided for bakery products, groceries, and most of the other goods which the association handles.

Through its two stores and its milk delivery system it is estimated that the cooperative distributes about one quarter of the community's food, and it apparently does an even larger proportion of the local business in some of the other lines which it has entered.² In groceries, milk, and two or three

² Comparisons are actually based on 1935 figures, since Census statistics are not available for more recent years. Comparative figures for 1935 are given below:

	All Stores (U. S. Census of Business: Retail Distribution)	United Cooperative Society
All Kinds of Business	\$2,408,000	\$392,719
Food Group	1,127,000	250,000 Approx.

Sales quoted for the cooperative in the food group include the milk depart-

other departments the society is not only a larger factor than the average private store in Maynard, but is, moreover, the largest distributor in the town.

Of the 1,800 families within the town's limits some 700 held shares in this society in 1936. Well over one-half of the population purchases from it in one or another of its branches of business. The association also enjoys the patronage of perhaps 150 farmers scattered through the surrounding country, most of whom are also shareholders.

Why has consumers' cooperation achieved such an unusual degree of success in Maynard? The nature of the town and the course of its development undoubtedly provide a major part of the explanation.

ment and the two food stores—less estimated hardware sales in the main store.

It is difficult to make any comparison for lines of trade other than food because of the broad grouping of the kinds of business in the Census statistics. Sales in lines which the cooperative has not entered, however, including general merchandise, apparel, drug stores, eating and drinking places, automotive, and liquor, evidently reached at least \$800,000. Thus, sales in the field which the cooperative has entered, besides food, might be estimated at \$500,000 or less—\$143,000 of which was handled by the cooperative.

The increase in the sales of the United Cooperative Society between 1935 and 1937 was 30 per cent. Since this is believed to be a larger increase than that for local sales as a whole, the cooperative presumably handled a larger proportion of the total business in 1937 than in 1935.

CHAPTER III

A DESCRIPTION OF THE COMMUNITY

MAYNARD is not only a one-industry town, but a one-company town as well. Practically the whole life of the community revolves about the huge Assabet Mills of the American Woolen Company. The long, red-brick buildings of the mill, old and stolid, rise five stories high about the end of the mill-pond. More recent structures in the same style are clustered in a larger circle around the outside. The mill dominates the main street with its many small shops, as the castle of a feudal manor towered above the little houses crowded beneath its walls. Part of the town has grown up out of sight of the mill beyond the sharp rise on its west; yet not even the farthest residents can escape the sound of its shrieking whistle,

In this community of 1800 families, 1700 to 1800 persons were employed by the woolen mill in 1936—before the depression of 1930-1933 as many as 2400 had been on the payroll. In many families, of course, two or more persons worked in the mill, but it may nevertheless be estimated that two-thirds or more of the households in town were directly dependent on the American Woolen Company. Another three or four hundred persons were engaged in retail trade and service of one sort or another, but the real source of livelihood of these, too, was the factory payroll, since the bulk of their custom was from employees of the mill.

ITS HISTORY

The origin of both the mill and the town dates back to 1845, when the water rights on the Assabet River were bought by William H. Knight and Amory Maynard in order to start a carpet factory.¹ After Knight's retirement in 1852 Maynard switched from the manufacture of carpets to flannels and

¹ Asahel Balcom, "Maynard" in Drake, *History of Middlesex County*, 1880.

blankets. He benefited by Army contracts during the Civil War, and the business rapidly increased in size. According to a writer who described the town of Maynard in 1880,² the mill was then one of the largest in New England, producing goods to the value of \$1,800,000 per year and employing 870 workers.

Of the employees a large proportion had been drawn from Great Britain and Ireland, where many had had experience in the textile industries. Wages amounted to only \$300-400 a year around 1880, judging from a comparison of the number of workers with the annual payroll which was estimated to be \$275,000. That the workers had to depend for a living not merely on the earnings of the head of the family, but on the "family wage", is further indicated by the fact that 540 of the employees were males and 330 females.³

The woolen industry came upon hard times during the 1890's, and this evidently provided the opportunity in 1899 for Frederick H. Wood and his associates to secure the Assabet Mills as a keystone of their American Woolen Company with its combination of twenty-six separate plants.⁴

At about the same time business began to expand again, this time aided by the Spanish-American War. Under the management of the American Woolen Company, the Maynard mill and consequently the local population continued to grow during the subsequent decade. The number of local residents increased from 3,142 in 1900 to 5,811 five years later and 6,390 in 1910.⁵

This time the new employees came not from the British Isles, but from the countries of eastern and southern Europe, especially Finland, Poland, and Italy. It seemed that the woolen

² The population was said to have been 1,965 in 1875. The community had been incorporated as a town four years earlier.

³ *Ibid.*

⁴ A. H. Cole, *The American Wool Manufacture* (Cambridge, 1926).

⁵ It may be worth noting that the United Cooperative Society was founded in 1907, soon after the major wave of immigration. The Riverside cooperative had been incorporated in 1878, following the peak of the first wave of immigration.

company encouraged the migration of the people from these countries, whose living standards were relatively low and who might, therefore, be satisfied with relatively low wages in America. As a local observer puts it: "The New England textile manufacturers talked loudly at election time about the need for a tariff to protect American industry and American workers; but the day after election there would be placards posted in Europe urging people to come to the textile mills here for jobs." If the employees came from different countries so that they were unable to understand one another's language, so much the better so far as the employers were concerned, it seemed. So the population of Maynard came to be one-half "foreigners", as these later arrivals were called, and there were fifteen different tongues spoken in this town of six to seven thousand people.

The earlier population received the increasing number of "foreigners" with distrust and dislike. The new groups of immigrants seemed especially despised by the Irish, not so long ago immigrants themselves. The natural distrust in a people whom one cannot understand was sharpened into keener antagonisms by the competition for jobs at the mill. The immigrants were generally willing to do more work and content themselves with lower pay than the "Americans."⁶ The Irish are even said to have spit upon Finnish immigrants on the street.

Such divisions were not conducive to cooperation by the employees to secure better working conditions. The workers blamed their trouble on one another and there was little chance of their uniting to make demands on their joint employer. Not only labor organization and social good will, but the body politic suffered as well.⁷ One could not expect intelligent

⁶ The term "Americans" will be used throughout, within the quotation marks, to denote the English-speaking citizens as distinct from immigrant groups of other tongues.

⁷ The Maynard town hall is an ugly, ramshackle, wooden building, the one public park a very small one, and the public library confined to the

handling of public affairs when the prejudice of one nationality against another could be called upon to defeat candidates for office who attempted to push progressive measures or needed reforms.

Whether because of the influx of workers from Europe or not, the wage-scale in Maynard was a low one. Typical wages in the years before the World War ran from \$6 to \$15 for a week of fifty-four hours or more. Labor turn-over was reported to be high, especially among the new immigrants.⁸

Wages and working conditions improved somewhat after the war, perhaps partly because of the threat of successful organization by the workers. There was a strike just after the war and other strikes were attempted during the 1920's, but Maynard workers cannot seem to remember any that was markedly successful.

With the state of depression which set in for the woolen industry about 1926 and the resulting unemployment, wages again declined, while hours of work increased. Wages in Maynard dropped as low as \$10 a week for full-time jobs during the depression of the 1930's. The working week mounted to seventy hours, with night shifts fourteen hours long.⁹

ECONOMIC CONDITIONS IN RECENT YEARS

A great improvement in conditions took place with the inauguration of the National Recovery Administration. A minimum wage of \$14.20 and a limit of forty hours per week were provided in the code for the woolen industry. The Assabet Mills continued to observe these standards after the Recovery Act had been declared unconstitutional. Nevertheless, rates of pay remained considerably lower than they had been in the 1920's.

second floor of a modest-sized commercial building. The school system has not been free from political influence.

⁸ *Opus cit.*

⁹ Statement by Rev. M. A. Vance, Union Congregational Church, quoted in *Maynard Enterprise*, Oct. 12, 1932.

Thus, the average earnings of all the mill's employees in June, 1936, were about \$20 a week.¹⁰

Workers in the Assabet Mills were seldom employed steadily throughout the year; most of them were laid off during slack periods which lasted from a few weeks in fairly busy years to a number of months in times of depressed business. Thus, the earnings of a worker who made \$20 a week on full-time might be only \$750-800 for the whole year even during relatively good times. The result was the "family wage". Since one person's efforts were not enough, other members of the family had to work. This meant that a large number of women, including wives with growing families, worked in the mill along with the men.¹¹

Work in the mill was not an occupation of particular regularity, nor was it free from hazard. The greatest complaint of the workers in 1936, however, was the speed at which they were forced to work. A system of scientific management and rationalization had been introduced by the company about 1929, and when the writer visited Maynard in 1936 the effects of this program were uppermost in the minds of everyone in town, whether employed by the mill themselves or not. The results were not only harder work, but technological unemployment. The mill had needed about 2,300 employees in order to produce at capacity in the years before the depression. The effect of scientific management and improved machinery was to reduce this number by about one-third. While authentic information was not available, the mill was evidently producing

10 The writer's estimate is based on the statement of the superintendent of the mill that the payroll had been running \$35,000-40,000 recently, and that there were 1700 employed. Activity at the mill was known to have decreased since the previous month, but was believed to be representative of the level prevailing during the year 1936 as a whole.

11 According to the Massachusetts Unemployment Census taken in January, 1934, 940 women were either gainfully employed or seeking jobs out of 2,200 women estimated by the writer to be of working age. (This estimate is based on statistics of population by sex and by age groups from the U. S. Census of 1930, with an adjustment for the decline of 4 per cent in total population between 1930 and 1934).

more goods in 1936 with 1,800 workers than it had produced at capacity in earlier years.¹²

At the time that the technological improvements were being introduced cyclical declines occurring in the woolen business added greatly to the number of workers laid off. Operations at the Assabet Mills averaged only 40 per cent of capacity during 1931 according to the local newspaper. Many workers were kept on part time employment, so that the number employed was not reduced as sharply as production, yet many hundreds were out of work altogether. It is estimated that about 1,000 workers were unemployed in Maynard at the depth of the depression. Savings for a rainy day, moreover, could hardly amount to much when a man's earnings were \$800 a year. At one time nearly a third of the families in the town had to fall back on government employment or relief.

The oversupply of labor and the terms of employment at the mill were reflected in the jobs that were available in the local retail trade. Young people accepted work in the chain stores for a few dollars a week.

There seemed to be little that the ordinary worker or even the community as a group could do to improve its economic position. Rates of remuneration were evidently set by the mill partly according to what the labor supply would bear, partly according to the business position of the company and the need to reduce labor costs. During the depression years there were far more workers than there were jobs. In addition, competition in the woolen industry became cut-throat in character, prices were driven down, and the pressure to reduce costs in order to hold its business and cover its overhead expenses led the company into an increasing disregard of the demands of its employees. If one worker protested, there were plenty more

¹² In the Feb. 25, 1935, issue of the local newspaper it was reported in one column that the mill was now operating at capacity with "more than 1500 employed," in another that there were 700 unemployed registered with the Emergency Relief Administration. In the fall of 1935, however, employment temporarily approached pre-depression levels, and it equalled 1800 for considerable periods during the two following years.

to replace him. An espionage system, commonly believed to be maintained by the mill, might single out and blacklist those workers who endeavored to restore their bargaining power by union organization.¹³

The influence of the American Woolen Company on Maynard extended beyond the terms of employment of the local population. It is related, for example, that the question was once raised whether the town's assessment of the mill's property should not be increased to the value reported by the company in a state tax return. The assessor who made the proposal soon abandoned it. He found that he was opposed not merely by persons partial to the corporation but by practically every merchant in town. They feared that, should the proposal be adopted, the company would divert its orders to other mills.

As a rule the company did not actively exercise its power over local affairs. But, remarked a local observer, this did not mean that its power was not complete. The mill controlled everything in town, he said, but the Australian ballot.

Such, then, was the economic background against which cooperation in Maynard must be viewed. There was common employment by and common dependence on one industrial enterprise. Wages, for the most part, had been low. Unemployment was frequent. And not only the life of the individual worker but community action as well were dominated by the power of a huge, impersonal corporation.

The community itself seemed relatively democratic. The majority worked in the mill; and there was little or no dis-

¹³ Even united action by all the workers in Maynard would not restore the balance of power. The American Woolen Company had nearly thirty other mills devoted to the manufacture of woolen goods or worsteds. While the Maynard plant was much the largest woolen goods mill, still its capacity was but a fraction of the total available to the corporation for the production of woolen fabrics. If the demand for goods was only such as to absorb a part of the output of all the company's mills—and such had been the case for nearly all of the past ten years—, then the management in New York could concentrate all the production at certain plants, leaving others idle for a period. Or it might close a plant altogether.

inction between the manual workers and the clerical force—both white collar workers and manual employees were often to be found in the same family. The merchants enjoyed a larger income and a more secure status, but there was no real upper class to speak of in Maynard. Control of the American Woolen Company was centered in New York City, 200 miles away, and but little of the capital stock was held in this small town. Even the manager of the Assabet Mills, up to the fall of 1936, lived in a more prosperous and more fashionable community several miles from Maynard, as did members of the technical and administrative staff. There were social distinctions within the town, based on both nationality and material possessions, but there was less inequality than one finds in many other American communities.

COMPOSITION OF THE LOCAL POPULATION

Of the total population in 1930, but 1,217 were native Americans of native American parentage and many of these may have been grandchildren of the earliest immigrants to Maynard. Of the other residents 2,512 were foreign-born, and 3,427 were native children of foreign-born parents.¹⁴ The relative importance of the various immigrant groups is shown in Table 1. The town's population may, perhaps, be thought of

TABLE 1
NATIONALITIES AMONG THE FOREIGN-BORN AND THE CHILDREN OF
FOREIGN-BORN, MAYNARD, MASSACHUSETTS, 1930

Country of Origin		Country of Origin	
Finland	1,632	Denmark, Norway, Sweden .	178
Poland	979	Lithuania	140
Canada	857	Russia	133
Great Britain	767	Germany	67
Italy	620	All Others	65
Irish Free State	501	All Countries	5,939

Source: Bureau of the Census (Special Tabulation).

¹⁴ Census of Population, 1930.

as composed of five different parts—the English-speaking people, the Finns, the Poles, the Italians, and the other, smaller nationality groups. The Finns, Poles and Italians, because they speak different languages and because they form rather large segments in the local population, have tended to merge with the other elements in the community much less than the smaller foreign-born groups. The Finns are the largest group from any one country, amounting to nearly one quarter of the population. The English-speaking elements, however, including principally Yankees, Canadians, English, and Irish, embrace almost half of the people in town.

The "Americans", as all the English-speaking people in Maynard prefer to be distinguished from the later arrivals, are not a particularly well-knit group. They are divided among several churches—Irish Catholic, Union Congregational, Episcopal, and Methodist—and various fraternal and veterans' organizations. They include, however, most of the merchants and other members of the commercial and professional class.

The Poles and Italians are thrifty people and loyal church members, but they have been more prolific than the rest, and their standards of living are not as high as those of the "Americans" and the Finns. The Finns seem to have the lowest birth rate—only among them are the native-born children less numerous in Maynard than the foreign-born generation.

THE FINNS IN MAYNARD

The Finnish people in Maynard deserve special attention, since it is they who have been most successful in the practice of consumers' cooperation.

The first Finns arrived in Maynard in the 1890's, and nearly all of them came before the war. They had then, of course, no capital, no resources except their willingness to work. Now, however, they have become one of the most substantial groups in the community—even in a material sense. Most of them own their own homes, many send their children

to college or professional school. In terms of the basic necessities such as housing and diet their standard of living is equal to if not higher than that of the English-speaking people.

An observer notes at once the physical vigor of the Finns. They have a compact, sturdy physique apparently without the tendency to fatness common among other well-fed peoples. Their capacity for work is unusual, perhaps the result of their ancestors' long struggle with the elements in their cold, northern homeland. The stolidity of their demeanor is possibly related to this background. The Finns also show a greater thoroughness in their habits of work than other people, particularly evident in the cleanliness and neatness of their homes. According to the manager of the Assabet Mills the Finns made better employees than were to be found in other textile towns. "They are a stolid, determined type," he said, "likely to carry through anything that they undertake."

They brought with them a higher standard of culture than did immigrants from other countries. Practically all could read and write. Finns who came to this country soon established their own newspapers in the Finnish language. Their children made rapid progress in the American schools. In the class which graduated from the Maynard High School in 1935, for example, five of the fifteen Finnish students were ranked in the first tenth of the class.

The social and cultural activities of the Finns seem to demonstrate a high degree of social spirit. Through their different societies they carry on amateur dramatics, musical programs, dances, public speeches, and various types of athletics. Their frequent steam baths are also, in a sense, a social institution.

These affairs, however, the Finns carry on by themselves, apart from the rest of the population. Although they have been in Maynard for practically a generation, they have not become an integral part of the local community, but have remained aloof from the habits and the philosophy of the "Americans". They have deliberately avoided a part in local politics, though they have been active in promoting organization of the mill

workers. Many of the Finns, of course, speak practically no English. The Finnish language is not related to English, as are the Latin and Germanic and even the Scandinavian tongues, and the Finns find English very difficult to learn. It may be this more than any other factor that has kept them separate from the community and has made the "Americans" call them clannish. The younger generation of Finns has learned English in the schools and speaks it as a matter of course, and the younger Finns mix to an increasing extent with the "Americans" and the youth of other nationalities. Still they associate mostly among themselves, held perhaps by the attractive social activities developed by their parents in their relative isolation.

It should not be assumed, however, that the Finns in Maynard are a unified group. The earliest arrivals organized Finnish churches and a temperance society to which the church members belonged. Later, on the other hand, led by Socialists from the cities of southern Finland, other Finns organized a Socialist group of which the Finnish church member strongly disapproved, and set up their own institutions for social meetings and recreation. The Socialist local in Maynard came to include a large part, possibly a majority, of the Finnish population. It was this group which gave the greatest support to efforts to organize a union in the Assabet Mills.

Following the War, however, a split occurred between the more conservative Socialists and the left wing. The latter, a minority within the local, advocated a more militant policy in imitation of the successful Bolshevik revolution in Russia; they aligned themselves with the newly-formed Communist party. There were thus three organized groups among the Maynard Finns—church members, Socialists, and Communists. Each maintained its own hall, each had its own social activities, and the members of each subscribed to a different Finnish-language newspaper.

In concluding this survey of Maynard, certain factors may be remarked which may have had greater or less influence in the development of cooperative enterprises. In the first place,

the great majority of the breadwinners in Maynard worked in the same industrial plant and lived together within a fairly restricted area. Thus, they had daily contact with one another as well as common problems.

The choice of an occupation for most of the people in Maynard was relatively limited. It was very difficult for an immigrant, speaking a foreign language, who had little capital and a meagre education, to secure a larger income by advancing to a higher economic status or by traveling to other towns in search of jobs. The choice of jobs outside the woolen mill was very limited.

As wage-earners in a specialized industry, most Maynard inhabitants had to buy practically all the goods they required; they were dependent on their wage-earnings. Yet their regularity of employment and the amount of their earnings depended largely on forces outside of their control. A strict pursuit of thrifty-living seemed to many mill-workers the only hope of bettering their lot.

The mixture of several different nationalities in this small town undoubtedly hindered community cooperation. On the other hand, this situation probably built up greater unity within each nationality group, thus promoting joint effort within more restricted spheres. The Finns, moreover, seemed to have a special talent for social organization.

Finally, it must be observed that in the years following 1926 employment was more irregular and earnings were less than they had been in preceding years.

CHAPTER IV

THE DEVELOPMENT OF COOPERATIVES

RECONCILIATION of the cost of living with the factory wage would seem to have been the most pressing problem that faced the population of Maynard. There were two sides to the problem, of course, and the second was what the worker got for his money at the local stores. Higher prices were as bad as lower wages, and short measure or inferior quality were as serious as a deduction from an already small pay-envelope. Economic pressure from this direction evidently played a large part in the genesis of Maynard's cooperatives.

The first consumers' cooperative in Maynard was the Riverside Cooperative Association, which was for many years the largest retail establishment in the town, and continued in business until 1929. It was incorporated in 1878 and was apparently organized some years earlier.¹

Before the founding of this association, according to local legend, there was only one store in Maynard. Its prices were high, and the workers who bought on credit found their indebtedness subtracted by the mill from their next week's pay, just as if it were a company store. Rather than buy from this merchant, many would walk three miles to the nearest village in the evening and carry their groceries three miles home.

It was at about that time that the fraternal organization of workers known as the Sovereigns of Industry was gaining a large following in New England, and the workers from the textile centers of Ireland and Great Britain probably took a leading part in the promotion of this movement in Maynard. A concrete plank in their program was the organization of workers' cooperative societies, encouraged by the recent success of the Rochdale societies in England. Some of the English textile workers in Maynard may even have had some part in

¹ Date of organization stated by C. J. Lynch, editor of *Maynard Enterprise*, to be 1871.

the growing cooperative movement in England before they came to this country. At any rate, they seized this method of combating the retail prices which seemed so high and stretching their wages a little farther in terms of bread and butter. They adopted the Rochdale principles, and by the sale of shares among the mill workers at \$5.00 apiece raised enough capital to start their own store.

Most of the other cooperatives which sprang up all over New England at that time soon failed, but this store seems to have been successful from the start. In 1883 the association erected a large three-story building on the slope of the hill to the northwest of the mill. Here they carried not only meats and groceries, but also hardware, shoes and clothing and patent medicines. They also secured a railroad siding where they handled coal and grain.²

The by-laws of the Riverside Cooperative Association show that they had a board of five directors, who were to meet twice every month to direct the affairs of the society. The treasurer was required to make a statement by the fifteenth of the month of the preceding month's income and expense; this report was to be posted for the members to inspect. The inventory of the cooperative's stock of merchandise was taken twice a year, and two auditors who were not permitted to hold any other office, were to examine the books at these periods. Rebates could be declared after the semi-annual inventory. Rebates were to be paid in cash only to members; non-members were to be given equivalent credit, however, towards the purchase of a share, so that regular patrons soon became shareholders almost automatically. Meetings of the members were held in February and August. If members had any complaints or suggestions in the meantime, they were to make them to the board, and

² An indication of the nature of the business is contained in some of the items recorded in their inventory for December, 1890:

63 barrels of flour, 100 tons of ice, whips to the value of \$25.25; also "Earthenware", "Woodware", "Stoneware", "Tinware", and "Hardware".

the board must enter in the record its decision on every complaint.*

No record of the association's volume of business from year to year is available. The highest inventory recorded was for December 29-30, 1891, when the stock of goods was valued at \$13,687. Most of the clothing and dry goods line was apparently dropped the following year. Nevertheless, the store continued for many years to be the most popular in Maynard. It carried good quality merchandise, provided an extensive delivery service, and while its prices were as high as those of any of the private merchants, it paid regular patronage rebates of close to ten per cent.

Describing the society as it was in 1909 Professor James Ford wrote:

The Riverside Cooperative Association . . . comprised about 600 members, — Americans, English, Scotch, Irish, Swedes, Danes, Finns, and French,—workers in the woolen mills of the town, earning a typical wage of \$10 to \$15 a week. . . . An 8 per cent dividend was allowed on trade during the first half-year, and a 5 per cent dividend in the second year. In all, the sum of \$4,860 in dividends had been distributed during that year (July, 1907—June, 1908) . . . attendance of 75 members' at meetings can be counted upon. It is probable that no cooperative store in urban New England has a wider local influence among the English-speaking population of the community than has this association. By careful management, shrewd by-laws, and high ideals, it has continuously attested the value of the cooperative method.⁴

The sales of the association in 1908 were \$83,000, and the number of its employees eleven.

Yet the Riverside society had not become the cosmopolitan organization indicated by Professor Ford in this quotation. It was controlled by its earlier members—Irish and Anglo-Saxon—, who had little sympathy for the "foreigners". These

³ James Ford, *Co-operation in New England* (New York, 1913), pp. 193-98.

⁴ *Ibid.*, p. 25.

earlier members were now the most favorably situated inhabitants of the community—more skilled, better paid, and perhaps in many cases profiting from the increases in property values. They may be said to have graduated from laboring into the middle class, with their sons going into the professions or setting up retail establishments of their own. The cooperative form had been carried down, but the cooperative spirit had apparently died.

RISE OF THE FINNISH COOPERATIVES

With the expansion in the business of the Assabet Mills and the increase in the number of its employees, the early years of the Twentieth Century were probably profitable ones for the private storekeepers. Competition was not too keen. The Finnish immigrants found prices high and quality none too good. They were at an especial disadvantage in the "American" shops, since they could not speak English. Yet they apparently felt themselves exploited in the stores set up by Finnish merchants, too. They speak today with especial feeling about the "credit evil". Customers were encouraged by a merchant to purchase on credit; when they had accumulated an account and so felt obliged to trade with him, they were likely to be sold inferior goods or charged more than the regular prices. And with the only account of their purchases being kept by the storekeeper, the workers continually suspected that they were being overcharged at the end of the month.

Many of the immigrants naturally turned to the Riverside cooperative store. The cooperative, however, employed only English-speaking clerks, and did not carry any of the European foods that the foreign nationalities were accustomed to. It is said that a number of the Finns—principally Socialists—sent a delegation to the officials of the Riverside society to propose that they would become members if the manager would employ a Finn to wait on them. This proposition was reputedly put off as an excuse to secure employment for one of the Finns; it was suggested that they had better start a cooperative of

their own, if they didn't like the service they received at the store of the Riverside association.

It was an expensive undertaking for these immigrant workers to launch a store of their own. According to information collected by Professor Ford in 1912,⁵ the wages of most of the members of the new store were \$8.00 to \$10.00 a week.

Nevertheless, little meetings of half a dozen Finnish workers began to take place during 1906, and by the winter of 1907 they had sold shares to 106 persons and raised \$1,600 in capital. With this they rented a modest store and began business. They did not employ a regular manager at first, but helped to run the store themselves. This was called the Kaleva Cooperative Association—the name was later changed to United Cooperative Society.

The driving force in the genesis of this cooperative, as in that of the Riverside, was a class-conscious labor movement. This time it was the Finnish Socialists. They saw themselves as permanent members of the working class, engaged in a struggle for power with the employers. The cooperative appealed to them not only as a defense against exploitation by the storekeepers, "the petty bourgeoisie", but as an aid to the unity and strength of the workers in the prosecution of the "class struggle."

Five cooperative stores had already been established by Finnish Socialist groups in other Massachusetts towns prior to 1907. The workers in Maynard were undoubtedly encouraged by these groups. How much influence should be attributed to the cooperative movement in Finland it is difficult to determine. Original members of the Kaleva or United Cooperative Society do not mention any direct contact with the cooperatives in Finland, and it must be pointed out that the Finnish movement was only a few years old at this time.⁶ The immigrants probably

⁵ *Ibid.*, Table 2.

⁶ According to Professor Ford, on the other hand,

At least half the members of the Finnish cooperative stores are stated to be socialists who have practiced cooperation in Finland. The first impulse of Finns upon arrival in this country is to introduce the system which has

heard a great deal about the growing societies in Finland, however, through their newspapers here and letters from home.

Despite a series of early difficulties, the Kaleva cooperative became within a few years the leading Finnish cooperative in New England.

The Kaleva Cooperative Association of Maynard, Massachusetts [wrote Professor Ford in his book, published in 1913] deserves especial mention because it is largely responsible for a movement to federate the Finnish societies in New England. It was founded in 1907 by Finnish mill hands of that town and now has over 300 members, only one of whom is not a Finn. . . . This society had a hard early history because of the unemployment of its members, a large proportion of whom were forced to leave Maynard in 1908 to seek work. From caution, the management at that time marked \$521 off its books as "lost accounts", but much of this sum has since been paid. The store is exceptionally clean, large and attractive, the management experienced and enterprising, and the members interested and loyal.

. . . The Kaleva Association is in touch with over fifteen other cooperative stores in this country, a record which is unique. In the year 1910 these stores established a union of New England Finnish cooperative stores with headquarters at Maynard to serve as wholesale depot for five stores of this vicinity. Flour is bought directly from the mill; potatoes from Maine farmers; other goods are bought in bulk from wholesale firms at best cash prices.⁷

The store to which Professor Ford refers was in the substantial, brick building on the main street, which the society now occupies. The cooperative had been able to secure title to this building by 1911. It used only the smaller section of the ground floor for its store then, receiving a profitable rental

prevailed with success in almost every town of their native land. . . . Finnish journals in this country, especially "Raivaaja" (Pioneer), published in Fitchburg, and "Tyomies" (Workingman), published in Hancock, Michigan, favor cooperation, which for the Finns has, besides its ordinary advantages, two others; namely, that they can do business in their own language without risk of being deceived by foreigners, and that they can import specialties from their own country, especially a sort of dried fish, and their customary holiday goods. Finnish immigrants are very clannish. *Ibid.*, p. 44.

⁷ *Ibid.*, pp. 43-45.

for the larger section; the second floor it used for meetings and dances and rented to other groups. The volume of business done by the society in these early years ranged between \$30,000 and \$40,000. The savings, judging by the patronage dividends paid, were not very large. Professor Ford reported the dividend paid in 1911 to be three per cent. From the start, however, the society made it a policy to secure the best quality possible in its merchandise, and it evidently won the support of an increasing number of Finnish workers by the confidence it inspired.

Patronage dividends were paid to non-members on the same terms as to members in 1912. Credit was allowed to all customers. In other respects, however, the new cooperative seems to have adhered to all the Rochdale principles. Members were permitted only one vote apiece, individual share-holdings were limited to twenty shares of \$5.00 each, and the maximum return allowed on shares was five per cent.⁸

About the year 1915 the Kaleva cooperative bought a small building in the east end of the town, where many of the Finns lived, which they remodeled for a branch store and a bakery. The occasion for the addition, it is stated,⁹ was an increase of one cent a loaf in the price of bread in Maynard, an increase which the cooperators felt was not justified. "By the time the cooperative bakery was ready to produce bread," according to the testimony of the manager of the society, "the price had gone back to the original level." The bakery also enabled the members to have the kinds of bread and cakes to which they had been accustomed in Finland.

A separate cooperative venture was undertaken in Maynard in 1914 or 1915, again by Finns. Milk and other dairy products were an important part of the diet of the Finnish people, and it is said that conditions under which milk was delivered by the farmers and private dealers in Maynard were not too sanitary. A group of Finns, therefore, decided to buy the milk at wholesale, bottle it, and deliver it to themselves. Just what

⁸ *Ibid.*, Table 2.

⁹ Letter from Waldemar Niemela to the writer, August 3, 1939.

part the Socialists had in the launching of this project is not known, but at any rate the group included some of the conservative Finns as well as the more liberal ones, and the project was set up independently of the Kaleva association. Before the end of 1915, however, the majority decided to merge the dairy with the store cooperative. The conservative members of the group, because of their opposition to the Socialists, refused to go along. In order to secure the benefits of cooperation without giving aid or comfort to the Socialists they proceeded to organize the First National Cooperative Association, which with the United Cooperative, still exists today. They set up their own general store, dairy, and bakery.

The First National association was supported by the members of the Finnish churches and of the Finnish Temperance Society. Its following was not as large, however, as that of the Kaleva association. It never seems to have had more than one hundred members (no more than twenty-eight according to one informant), and failed to draw any appreciable amount of trade from the larger Finnish cooperative. The conservative association followed the principles of Rochdale cooperation in most respects, but the par value of its shares was set at \$50. This made it more difficult for poorer workers to secure the benefits of membership.

Waldemar Niemela, a young Finn who had had some experience in cooperative stores in the Middle West, had now been engaged as manager of the Kaleva society. He continued as manager for most of the time until June, 1932. During that period the business of the society increased from a volume of \$37,600 in 1915 to a peak of \$364,000 in 1928.

A large part of this increase took place between 1915 and 1918. Within the space of about two years the cooperative not only opened a branch store and bakery and took over the independently-organized cooperative dairy, but also started a restaurant on the second floor of its main building. Total sales reached \$148,000 in 1917 and nearly \$200,000 the following year. Since retail prices were rising rapidly at this period, part

of the increase should be discounted, but the net expansion was still substantial.

The earnings on this business were not particularly large—amounting to $1\frac{1}{2}$ percent of sales in 1917 and 4 percent in 1918—and the patronage rebates paid were modest. On the other hand, a considerable saving may have been passed on to consumers through lower prices than private establishments would have charged. Thus, the cooperative restaurant which provided weekly board for the single workers in Maynard, charged only \$6.00 a week when prices were at their highest. It is said to have attracted as many as three hundred boarders, including many English-speaking workers and non-Finns of other nationalities as well. The "Americans" were astonished at first, the Finns relate, at the generosity of the provision. The food was placed on the table in large serving-dishes; customers were expected to eat all that they wanted and to help themselves to as many glasses of milk as they liked.¹⁰

That a direct saving in prices was also being passed on to consumers through the dairy is indicated in an article by Cedric Long in the August, 1922, issue of *Cooperation*.¹¹ Long reported that the dairy, paying the farmers 7c a quart for their milk, was delivering 1,000 quarts of milk a day at 9c a quart. All other dealers in town, he said, had been forced by this low rate to reduce their prices to 10c.

Some of the "Americans" in Maynard were being attracted to the Kaleva cooperative by its dairy service as well as by the restaurant, and the membership was evidently increasing during the war years. It was reported at five hundred in 1922.¹²

THE "UNITED COOPERATIVE" EXPERIMENT

The change in the name of the society from the Kaleva Cooperative Association to the United Cooperative Society accompanied an ill-fated experiment in 1919 and 1920, in which

¹⁰ One of the writer's sources of information on this matter was a Lithuanian barber who had eaten at the cooperative restaurant for several years.

¹¹ Monthly periodical published by the Cooperative League of the U. S. A.

¹² *Ibid.*

the association joined with several other Finnish cooperatives in New England. The success of the various societies in the war years and the initiation of new cooperative enterprises, which occurred then in many communities, probably led to considerable optimism as to the future of the movement and a willingness to engage in ambitious ventures. At any rate, a United Cooperative Society was created in 1919, embracing the local Finnish associations in Maynard, Fitchburg, Gardner, Norwood, Quincy, and Worcester, Massachusetts; and Milford, New Hampshire. This group of societies operated, in all, sixteen stores, four restaurants, four milk departments and three bakeries. A wholesale office was set up in Boston with Niemela, previously manager at Maynard, in charge, through which the local stores could presumably pool their orders and thus obtain the benefits of large-scale purchasing. Property and earnings were also to be pooled, but the stores were to have the advantages of local control, and the united society would be controlled by the local membership. The project might perhaps be described as the cooperative counterpart of a chain store corporation.

The occasion for the experiment did not turn out to be favorable. It was a period of rapidly fluctuating prices. Most prices had risen greatly during the years of the war; they continued to increase, on the whole, for some time following the Armistice, but in the closing months of 1920 there was a drastic decline. Many private firms went bankrupt.

It was at this time, moreover, that the split occurred among the Socialists. The left wing of the party, responding to the proclamations of the Russian Bolsheviks, broke away from the more conservative Socialists to join the new Communist party. This split affected the cooperatives as well as the Socialist political organizations. In most cases the left wing withdrew their support from the cooperative societies in which the conservative Socialists remained in control, and sometimes attempted to set up rival cooperatives of their own, as had the members of the church temperance society in Maynard in 1915.

This division in the local membership naturally reacted on the greater United Cooperative Society as well as the local stores, not only through reduced patronage but in a dissension in the control of the United.

The society's total business showed a modest trading profit in 1919. In the second year of the experiment, on the other hand, losses were sustained in the retail operations of certain local stores, which drained off the savings of the more successful ones, resulting in a net loss for the society as a whole. The greatest financial losses are said to have occurred at Worcester, where the Communists had won control of the local group. If the project were to be continued, these losses would have had to be made up by the members of other local groups which were controlled by conservative Socialists. They decided, instead, to give up the office in Boston and resume their local autonomy. Each unit was then reorganized under the names, "United Cooperative Society of Fitchburg," "United Cooperative Society of Maynard," etc.

The business of the Maynard cooperative was less adversely affected by the Communist split than that of some of the other Finnish Socialist cooperatives in Massachusetts. The left wing was evidently a small minority among the Finnish Socialists in Maynard, too small to attempt a cooperative of its own. Sales of the society were apparently reduced more by the contraction in the payroll at the mill than by Communist defections to other stores. In any case, sales amounted to \$189,000 in 1921, and the association was able to pay a patronage rebate of 3 per cent on the year's trade. Rebates in subsequent years ran about 4-5 per cent.

A measure aimed at Communist "deserters" was passed by the membership at the annual meeting in 1922, forbidding a vote to any shareholder who purchased less than \$100-worth of merchandise from the cooperatives in a year. The board of directors was given power to expel members who were not loyal to the society. The new by-laws adopted by the association with incorporation under the name of United Coop-

erative Society provided that the board must redeem the shares of members who were expelled. The board was not required, however, to redeem the shares of members who voluntarily withdrew. The Communist shareholders continued their membership. They attended the annual meetings, and made strenuous efforts to secure appropriations "to promote the class struggle". The bitterness of their tactics, however, tended to alienate the sympathies that other members might have had for them, and their demands met cool receptions. Their influence seemed to wane, and the issue has not been raised again at recent meetings of the society.

According to the survey of cooperation in Maynard made by Cedric Long in 1922, there were at that time four different consumers' cooperative societies in the town.¹³ In addition to the Riverside Cooperative Association and the two Finnish organizations, there was then another known as the International Cooperative Association. This was reputedly Polish, but it also included Russians and Lithuanians. With some 100 members, it operated a grocery store and a bakery, and transacted a business of around \$50,000 a year. This cooperative was probably organized at the end of the war, when the cost of living was mounting so rapidly; it lasted about ten years.

The total volume of business of the four cooperatives was said to be almost \$400,000 and there were fifty cooperative employees. The United Cooperative Society was not only the largest, but was doing more business than the other three societies put together.

THE SUBSEQUENT FORTUNES OF THE RIVERSIDE AND FIRST NATIONAL COOPERATIVES

The First National Cooperative Association was handling a business of close to \$100,000 a year in 1922. The business of the Riverside cooperative had declined to \$50,000. If allowance is made for change in prices, this volume of business would appear to be less than half that which the same society transacted in the pre-war years.

¹³ *Op. cit.*

The popularity of the Riverside Cooperative Association's store had begun to decline even before the outbreak of the war. The shoe department was given up in 1912, and from 1917 on there was a steady drop in sales year after year. Sales were down to \$40,000 in 1926, and \$25,000 in 1929. In the latter year the store was finally closed, and the officers undertook to liquidate the business. They were able to return to the shareholders approximately \$8 for each \$5-share, when the assets were all sold seven years later.

A complete answer to the question why this cooperative failed would require a special investigation. According to the testimony of a few of the townspeople, however, the most immediate explanation was its failure to meet the competition of the chain stores which invaded Maynard as well as hundreds of other communities. In the early 1900's, when its trade was large and it had no trouble in realizing a net saving on the wide retail margins that prevailed, the management had, it is said, allowed unnecessary expenses to become too large, maintaining an extravagant delivery system and allowing liberal credit. When the chain stores commenced to sell on a cash and carry basis at much lower prices, the Riverside's management was unable to discard its old-fashioned methods.

It seems also that the early members of the association had done little to pass on to their children or to other new members the spirit or the philosophy which underlay the institution. The second generation in Maynard grew up in the American schools where they were taught nothing about cooperation, and knew little about the cooperative movement in far-off Britain. The later members did not have the loyalty to the cooperative store, which their fathers or grandfathers had had. They were also more well-to-do. Rather than change the cooperative to fit their needs when the times changed, they drifted off to the chain stores.¹⁴

¹⁴ Much the same process has probably affected other cooperatives which were started in the United States by foreign-born groups. For a discussion of this problem see Part III of this study.

The formation of the Finnish cooperatives was not a factor of any importance in the decline of the Riverside association. What English-speaking people were attracted to the Kaleva or United Cooperative Society in the first fifteen or twenty years of its existence, usually patronized only its dairy department or its restaurant, not the grocery stores. The First National Cooperative Association never seems to have secured many English-speaking members.

The size of the First National association's business never grew much larger than its \$100,000 volume of the year 1922. Its volume declined sharply in the recent depression, falling below \$48,000 in 1933. With the revival of employment and the rise in food prices the sales rose again to \$67,500 in 1935, but the number of patrons was decreasing. No patronage rebates had been paid for several years, although interest was paid on share capital. Not even the interest on share capital was earned in 1935, however, if reasonable allowance be made for depreciation. The surplus and reserves, as shown in the last statement made public, consisted of top-heavy accounts receivable, the bulk of which were probably uncollectable. The other current assets equalled less than one half the current liabilities. It appeared to be only a matter of time, if the current trend continued, before the association would be forced into receivership.

The number of shareholders in June, 1936, according to the manager, was only ninety, and about half of these, he said, actually supported the store. At least half the business was with non-members. The share capital was \$6,000, but there were in addition \$10,000 in personal loans outstanding. Since so few of the members took an active interest in the store, control has reputedly fallen into the hands of a few families. In any case, the financial importance of the large personal loans probably gives to the lenders a dominating position in the affairs of the association. It is exceedingly doubtful whether, in the light of these facts, the business can be considered truly cooperative.

CONTINUED GROWTH OF THE UNITED COOPERATIVE SOCIETY

While the Riverside and First National Cooperative Associations were weakening, the United Cooperative Society of Maynard continued to grow. The chain stores, which were proving the death blow of the Riverside store, were not able to undermine the United. The latter evidently conducted a very efficient business enterprise. This is borne out by an operating statement of the Society for the six months ending December 31, 1924.¹⁵

15 The writer was able to secure very few of the society's financial statements for past years, although the board seems to have distributed a printed annual report to members for every year since 1924. The principal items in the statement of Dec. 31, 1924, which was reprinted in *Co-operation* in April, 1925, are given below:

UNITED CO-OPERATIVE SOCIETY OPERATING STATEMENT
July 1-Dec. 31, 1924

	Store	Restau- rant	Dairy	Coal	Bakery	Real Estate
Sales (in dollars)	\$100,598	\$17,723	\$33,825	\$26,071	\$18,703	\$2,576
Gross earnings (as % of sales)	19.9	28	27½	15½	37½	
Expenses (as % of sales)	13.7	27	24	11	32	
Net earnings (as % of sales)	6.2	1	3½	4½	5½	
Total Net Earnings			\$9,942			
Other Income			567			
Total Income			10,509			

The expense ratio for all departments combined was approximately 20%. A report of the society for 1928, in which statistics were given only for the business as a whole, showed that expenses for that year were 19½% of sales. Expenses during these years included generous allowances for depreciation in the opinion of the auditor for the Cooperative League.

BALANCE SHEET, Dec. 31, 1924

<i>Assets</i>		<i>Liabilities and Capital</i>	
Cash	\$11,580	Current Liabilities	\$24,389
Accounts Receivable	4,582	Capital Stock	22,443
Inventories	11,739	Loan Capital	18,700
Investments	4,055	Surplus	9,190
Real Estate	52,438	Insurance & Education ...	3,063
Furniture & Fixtures	12,052	Net Gain, 1924	18,661
Total Assets	\$96,446	Total Liabilities	\$96,446

The expenses of the store department, the sales of which were mainly meats and groceries, but which by then also included furniture, kitchenware, fertilizer, feed and grain, were only 13.7 per cent of sales. This may be compared with the results of a study by the Harvard Business School, which showed 18.0 per cent of sales to be the most common expense among private independent grocery stores in 1924.¹⁶ Expenses in the coal department of the cooperative, 11 per cent of sales, were also unusually low.

The net earnings shown by the report for the last half of 1924 were 5½ per cent of sales. While earnings were somewhat smaller than this in other years, they were large enough to permit the payment of a patronage rebate of either 4 or 5 per cent each year from 1922 until 1930.

The coal business had been inaugurated in November, 1923, as an aftermath of the strike in the coal mining regions the previous year. Coal had been difficult to secure in Maynard during the period of the strike, and the Finns felt that the "American" coal dealers were filling the orders of their friends or compatriots before they supplied the Finnish families. The addition of a coal department was suggested by the board of directors and approved by the members at the annual meeting in January, 1923. To handle the business the board made a total investment of \$17,000,¹⁷ purchasing the coal yard and railroad siding of the Riverside Cooperative Association.¹⁸

Additions or improvements to the facilities of the society were made almost continually. A new bakery was installed in the rear of the main store in 1921 or 1922, and to this was added, in 1925, a new building to house the dairy and provide warehouse space. A pasteurization plant and new bottling ma-

¹⁶ *Operating Expenses in Retail Grocery Stores in 1924*, Harvard Business School, Bureau of Business Research, Bulletin No. 52 (Boston, 1925), p. 23.

¹⁷ *Co-operation*, April, 1927.

¹⁸ Upon the entrance of the cooperative into the business, according to Niemela, who was manager at the time, the price of coal in Maynard dropped one dollar a ton, and subsequently remained below the retail price in neighboring towns (Letter of Aug. 3, 1939).

chinery had, meantime, been bought for the dairy. This was the first pasteurization plant introduced into Maynard, and in spite of a reputed campaign by the private milk dealers to discredit pasteurized milk, it apparently enabled the United Cooperative Society to win many more "American" customers.¹⁹

The original branch store, which was old and inadequate for the growing needs of the membership, was sold in February, 1926. Later in the year the society was able to acquire a larger store located on a corner of a main intersection where the busses stopped on the east side of town. In this store they sold not only groceries, but ice cream and sodas and "other tourist merchandise".²⁰

The business of the cooperative restaurant, on the other hand, declined steadily during the 1920's. Employment at the Assabet Mills was shrinking, and the men who did not have families or homes in Maynard were drifting off to seek jobs elsewhere. The restaurant commenced to show a slight loss in the first half of 1925, and the board of directors raised the question whether it ought not to be closed. The members seemed to have favored keeping it in operation, however, and it was continued until January, 1930.

While the restaurant was closed then, other lines of trade were soon added. A regular department for feed and grain and other farm supplies was initiated in the winter of 1931-32. This met with enough success to justify the construction of a new granary a year or two later. The cooperative also entered the sale of fuel oil, kerosene, and ice at about this time, and a well-equipped gasoline filling station was built alongside the branch store in the latter part of 1934. The year 1934 also saw the modernization of the main store. Although the store no longer carried any stock of furniture, arrangements were made with wholesalers of both furniture and electrical appliances, which permitted patrons to buy directly from the

¹⁹ *Co-operation*, April, 1927.

²⁰ *Ibid.*

warehouse at the wholesale price plus a 10 per cent commission to the society and the shipping charges. One or two models each of a few electrical products such as radios and refrigerators were exhibited in the hardware section of the store.

The branch store acquired in 1926, which was an old-fashioned wood-frame structure, was replaced with a new and modern store building in the winter of 1935-36.

All of these additions and improvements to the cooperative business establishment between 1921 and 1936 required considerable capital. No special effort seems to have been made until after the war years to raise new capital aside from that invested by the increasing number of shareholders and that accumulating out of earnings either to the credit of shareholders or as surplus. At the beginning of 1921, with the volume of business at some \$200,000 a year, the share capital apparently amounted to less than \$9,000 and the surplus about \$3,000.²¹

Measures to secure more funds were taken at the annual meeting in January, 1922. The members decided to bar cash rebates to non-members, and to require further that a member must purchase one share a year or ten shares altogether in order to secure his rebates in cash. They also authorized the sale of preferred stock in shares of \$50 each, which was to bear interest of 5%, the same rate as that paid on the \$5 common shares. Interest on the common shares had been omitted during 1920 and 1921, since the greater United Cooperative Society had incurred a net loss in the former year, but they now decided to pay the interest for those years.

By 1925 the share capital had been increased to nearly \$46,000. The amount outstanding in the form of common shares had grown to \$24,721, and \$21,000 in preferred stock had been sold. The subscriptions were made, of course, by the local members of the society. In the meantime the surplus of the society had also been mounting. Allowances for depreciation of buildings and equipment were being charged off to expenses at a liberal rate, and substantial amounts had been

²¹ United Cooperative Society, *58th Report and Balance Sheet, Comparative Yearly Statistics*. Figures prior to 1922 were said to be "unofficial".

set aside out of earnings each year, so that the surplus in 1925 was about \$17,000. It was these additions to the funds of the society which made possible the purchase of the coal yard and the construction of the new buildings behind the main store.

The financial statement showed that the net worth of the business at the beginning of 1925, including a fund set aside for insurance and education but excluding the current earnings to be paid out as rebates, was approximately \$61,000. By the middle of 1930 the net worth had increased to \$78,000. This was not the result of a further addition to share capital; as a matter of fact, five or six thousand dollars worth of the preferred stock had been redeemed since 1925. The surplus, on the other hand, was now about \$36,000. The cooperative had set aside some \$19,000 out of earnings in a period of five and one-half years.

During this same period, however, the accounts receivable had grown from \$3,600 to \$20,300. Depression had commenced in the woolen mills in 1926, many workers were put on part-time or laid off altogether, and the United Cooperative Society had tried to tide them over by a liberal extension of credit. By this time it was becoming evident that many of the accounts would never be paid. Thus, most of the funds which the society set aside out of its earnings each year from 1925 to 1930, were actually drained off in the form of doubtful loans to members and non-member customers.

Accordingly, the members decided at their semi-annual meeting in August, 1930, to put the business practically on a cash basis. While credit was still allowed on milk delivered to the home and on delivery orders from the stores, these accounts were to be paid up weekly instead of monthly as before. As a substitute for the extension of credit the board of directors set up a \$5,000 loan fund, from which members could borrow at a low rate of interest.

Two-thirds of the \$20,300 in accounts receivable in 1930 had to be written off as bad debts during the subsequent depression years, while prices were falling and retail sales were shrinking. Yet the cooperative met the situation without ap-

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parent difficulty. Current assets in 1930, even excluding the accounts receivable entirely, were substantially larger than current liabilities. And the association's rate of earnings held up relatively well during the depression. Sales, in terms of dollars, declined from \$348,000 in 1929 to \$245,000 in 1932, yet the rate of earnings continued to average about four per cent of sales.²² The earnings permitted the society to make patronage refunds varying from 2 to 4 per cent and still set aside more than enough to write off the bad debts of earlier years. At the end of 1933 the current assets, with the accounts receivable written down to \$10,000, were equal to four times the current liabilities. The cooperative's surplus had increased from \$36,000 in 1930 to \$45,000. In the meantime, it had redeemed \$10,000 more of the preferred stock and several thousand dollars of the common shares.

By this time Waldemar Niemela had left the employ of the society, becoming manager of the Cooperative Trading Company in Brooklyn. He subsequently worked with the F.V.A. in Knoxville and Norris, Tennessee, and with the Resettlement Administration in Crossville, Tennessee, and in the autumn of 1936 became manager of the Eastern Cooperative Wholesale's new branch in Boston. Niemela's successor as manager of the United Cooperative Society of Maynard was Arvo N. Rivers, who had been manager of a Finnish cooperative at Rock, Michigan. Rivers replaced Niemela in June, 1932.

Beginning early in 1933, activity and employment at the woolen mill increased again, prices rose, and the dollar volume of sales in Maynard mounted. The sales of the United Cooperative Society expanded more rapidly than those of other stores, and the business as a whole reached a volume much larger than that of earlier years. Sales were \$476,000 in 1936, and reached a peak of \$509,000 in 1937. Net earnings permitted the payment of a patronage rebate of 4 per cent for 1935 and 1936, 3½ per cent for 1937, and 3 per cent for 1938. In addition, the

²² In 1931, when sales were down to \$252,000, net earnings on operations were close to 6%, the highest rate ever realized by the cooperative.

amounts set aside brought the surplus of the society at the end of 1938 to approximately \$60,000.²³ With the share capital reduced by 1938 to \$20,345, the total net worth of the business was about \$80,000.

TABLE 2
Condensed Balance Sheets: June 28, 1930 and Dec. 31, 1938
UNITED COOPERATIVE SOCIETY OF MAYNARD

	<i>Assets</i>	
	June 28, 1930	Dec. 31, 1938
Current Assets		
Cash	\$ 5,333.00	\$ 5,979.85
Accounts Receivable	20,260.00	7,048.25
Inventories	16,168.00	18,046.99
Notes and Deposits	4,935.00	
Total Currents Assets	\$ 46,696.00	\$31,074.19
Fixed Assets	"	\$133,964.81
Less Reserve for Depreciation	"	69,757.05
Net	\$ 55,333.00	\$64,207.76
Investments	"	1,832.11
Deferred Charges	"	1,172.30
Total Assets	\$102,030.00	\$98,286.36
	<i>Liabilities and Capital</i>	
Current Liabilities		
Accounts and Notes Payable	\$20,315.00	\$ -
Rebates Payable	-----	1,222.06
Accrued Interest on Shares	-----	1,343.50
Payroll Taxes Payable	-----	918.19
Total Current Liabilities	\$ 20,315.00	\$ 3,483.75
Share Capital		
Preferred	\$18,700.00	\$ 3,400.00
Common	23,283.00	16,945.00
Total Share Capital	\$ 39,983.00	\$20,345.00
Reserves and Current Earnings	41,752.00	74,457.61
Total Liabilities and Capital	\$102,030.00	\$98,286.36

* Not available for 1930.

²³ In calculating surplus and net worth, subtraction has been made of that part of current earnings which may be paid out in the form of patronage refunds and as Federal income tax.

CHAPTER V

SOCIAL ASPECTS OF THE UNITED CO-OPERATIVE SOCIETY'S GROWTH

THE growth of the United Cooperative Society did not consist solely in the addition of new lines of business. It was gradually securing the support of an increasing number of local families, at least through their patronage if not always their membership. By the end of the war the society was already serving three or four hundred Finnish families, the majority of the Finns in Maynard. Non-Finnish patrons and shareholders were attracted by the cooperative dairy and by the restaurant, and later the introduction of a milk pasteurization plant by the cooperative added to their numbers. There is a record in the minutes of the members' meetings of efforts by the educational committee of the society to interest the "Americans" during the early 1920's—arranging public meetings and other social functions.

The store of the Riverside Cooperative Association was still operating until the end of 1929, of course, and the Finnish society is said to have avoided making any general appeals for patronage among the "American" population that might affect the Riverside cooperative, until after the latter had closed. The major additions to the non-Finnish membership of the United Cooperative Society were made after 1930.

The United Cooperative probably won supporters among the non-Finnish elements by its aid to the working-class as a group. It was openly sympathetic to union organization at the mill, setting up "soup kitchens" to help the strikers when walk-outs occurred, and supplying many of the union leaders from among its membership. It also drew upon its resources to allay the suffering among the workers' families in hard times. Thus, in 1926 when the mill had been on part-time for several months, it is reported that the United Cooperative Society delivered milk free to school children who were under-

nourished, every school day for ten weeks.¹ This service was repeated for a considerably longer period during the depression of the 1930's. On the latter occasion the society donated somewhat over one thousand dollars altogether to a general fund for local relief. In proportion to the total resources of the association or even one year's earnings, these contributions were not of major dimensions; still they provided brave gestures which must have aroused appreciation in some quarters.

However, it does not seem likely that either its assistance to the workers or the efforts of the educational committee were major factors in the addition of new patrons or members to the society's rolls. Most of the new customers apparently patronized the United cooperative store, or one of its other departments, because it appealed to them as a more attractive or more economical place to buy than any of the private establishments.

The support of a number of farmers in the neighboring country was secured by a special program launched in 1931 or 1932, when the cooperative opened a grain department including feed, hay, and fertilizer, and employed a man particularly to sell to those farmers. The society was already buying milk, eggs, or produce from them. It paid slightly more than the current price in the Boston market, and, since there was no broker's commission to be subtracted from the proceeds, the farmers found it to their interest to sell to the cooperative. They soon came to buy from the cooperative as well, not only farm supplies, but gasoline and oil and anything which the society would deliver to them. Some also came in to purchase at the store. The grain salesman estimated in 1936 that there were then 150 farm families among the cooperative's patrons. Most of these were also shareholders, but few attended meetings or took any interest in the social activities of the society. While some of the farmers were Finns, most of them were not.

There is no record of the number of customers that the cooperative business has had from time to time, and the size

¹ *Co-operation*, April, 1927.

of the membership provides only an approximate index of the number of patrons. There were "nearly 500" shareholders in 1922 and 648 on January 1, 1929. Then there seems to have been a temporary decrease in membership, as quite a few moved away from Maynard and had their shares redeemed. In 1934, however, there were about 700 shareholders, and then came an increase to 979 on the first of January, 1936.²

It was in 1935 that the society was required by an N.R.A. code to pay patronage rebates to non-members in the form of credit on a share instead of cash until they owned a full share each, and for 1935 the society reported an increase in membership of 212. Of the 212, 170 became members by having their rebates credited towards the purchase of a share in this way. Only 42 took money from their own pockets to buy a share, and many of these may have been motivated by the fact that they had accumulated some credit to their accounts through their purchases, although not enough to pay for a full share. Many of these 212 new shareholders had undoubtedly been patronizing the society for some time. The following year there was a further increase of nearly 100 new members, bringing the total well over 1,000 in 1936.

THE INCREASE IN NON-FINNISH MEMBERS

The shareholders were still predominantly Finnish as late as 1934. There were then not over two hundred non-Finnish families among the membership, although there were probably a great many others who purchased at the cooperative. Of the people who acquired shares in the society in the two following years most were "American" and only a few were Finnish, and at the end of 1936 the shareholders were rather evenly divided between the Finns and the rest of the local population.

The United Cooperative Society could no longer be accurately described as a Finnish business. The large majority of the Finnish population, it is true, did belong to the society, but there were also four hundred or so other families who held

² Membership statistics were gleaned from minutes of the society's meetings and from the files of *Co-operation*.

shares.³ There were almost as many who did not own shares, but made some of their purchases from the cooperative. Excluding the farm customers who lived outside the town limits, it may be said that well over one-third of the people in Maynard owned shares in the United cooperative, and well over half traded with it in one line or another.

The change which had taken place in the character of the society in these few years was a significant one. The Kaleva Cooperative Association had been started by Finns alone, and, in a sense, it had probably been started as a measure of self-defense against the "Americans". The Finns had always been regarded by the "Americans"—a large proportion of whom were only one generation removed from the British Isles—as "foreigners", implying that they were of an inferior or at least antagonistic culture. This prejudiced attitude was promoted by the way that the Finns kept to themselves and supported one another against the rest of the population. Thus, it was said that Finns would not patronize a store unless there were a Finn employed there. However much this might be caused by language difficulties, it was a fact that the Finns seemed "clannish". This fact, perhaps, enhanced the discrimination which they suffered at the hands of the "Americans"—especially the Irish. In the face of this discrimination, in turn, the Finns were thrown back upon themselves as a group and stimulated to organize their own social organizations.

The founders of the Kaleva may have conceived their struggle to be one against the "bourgeoisie" rather than against the "Americans" as such. Thus, it was the individuals of the middle class whom some of them wanted to exclude from membership in the early years rather than persons of other nationalities. Nevertheless, in 1912, after the society had been in existence for five years and had three hundred members, all but one of these were Finnish.⁴

³ The number of families who belong to the society cannot be calculated exactly from the number of members, because there is often more than one shareholder in the same family—especially among the Finns.

⁴ See pages 52-53.

"AMERICAN" PARTICIPATION

After the war, when the association had become the United Cooperative Society, the educational committee began its efforts to interest "Americans" in the cooperative's activities. Even at this time, however, the main attempt seemed to be to secure the "Americans'" patronage; while they might buy shares if they wished, they were not urged to do so. Members who may have been opposed to bringing "Americans" into the control of the association, were not aroused by the idea of extending the cooperative's business and thus building up its strength and perhaps the size of its savings to members.⁵ The meetings of the members continued to be held in Finnish, and shareholders of other nationalities seldom took part.

Meanwhile, the children of the Finns were growing up as much Americans as Finns. They were taught English at school, and although they talked the language of their parents while at home, in many cases they never learned to read or write Finnish. Among other children they spoke English, and they often preferred to use it even among themselves. By 1930 a number of them were grown and began to participate in the affairs of the cooperative independently of their parents. In 1932, on the recommendation of the board of directors, the members elected two representatives of this younger generation to be directors of the society. One was later chosen president of the board.

The younger generation of Finns did not share their parents' distrust of the other nationalities. Since they did not feel primarily Finnish, but American, they wished the society to be an American organization. And they naturally favored holding the meetings in the English language.

⁵ The Society did not adhere strictly to the cooperative principle that net earnings on business with non-members should always be added to reserves and not drawn upon for patronage dividends to members. (Non-members were always entitled to the same rebates as members, in credit towards a share if not in cash, but they did not always collect them.)

At the "semi-annual" meeting in August, 1934, Rivers, the new manager, proposed that subsequent meetings be held mainly in English, in order to interest the Americans in the affairs of the society. Translations could be made into Finnish, he said, for the older Finns who could not understand English. This proposal was adopted, and in February, 1935, for the first time, the cooperative's policies were discussed in the English language.

By this time the number of non-Finnish shareholders was increasing rapidly, and at this meeting in 1935 Rivers suggested that one or two "Americans" ought to be elected to the board of directors to represent that section of the membership. The members followed this suggestion and chose two "Americans" who had taken a particular interest in the cooperative, Donald Lent, a high school teacher, and Everett Haynes, a dairy farmer who had bought \$4200-worth of merchandise from the cooperative in two years.

As another gesture in recognition of the extensive non-Finnish patronage of the society's business, "Americans" were also selected for employees. Yet in 1936 there were still comparatively few non-Finns among the fifty workers employed by the society.

OPPOSITION BY THE OLDER FINNS

This movement towards American participation in the affairs of the cooperative met opposition from a number of the older Finns. Employment of an outside educational director to interest "Americans" as well as the younger Finns in the cooperative movement, for example, was opposed at the annual meeting in 1934 on the grounds that the society had been founded for the Finnish people. In protesting the plan to have the cooperative meetings in English one speaker said: "The Finnish people who founded this store aren't dead yet. While we are still here, let us educate the younger Finnish people to the cooperative plan and after us they can educate

their children. Do not have the meetings in English, because this is a Finnish firm." ⁶

The opposition succeeded in defeating the project for an educational director at the time. At the end of 1934, however, a modified scheme was adopted for educational work under the direction of a man from the Eastern Cooperative League. And at the meeting of the members in February, 1936, an educational plan substantially the same as that proposed two years earlier was again proposed; this time the motion was carried. It was supported by Otto Fonsell, the secretary of the society, on pecuniary grounds—"In the future, this expense will bear fruit. The money will come back to us." Later in the meeting, however, when Fonsell said that he hesitated to become secretary again, since the board meetings were largely conducted in English, one of the Finns remarked: "I want to mention one small point, that the Society is still a Finnish concern, so let us try to keep it that way." ⁷

The attitude of the older Finns was evidently shared by many of the Women's Guild, whose meetings were conducted entirely in Finnish. At one of their meetings, at which the wife of the manager presided, one of the leaders pointed out that cooperation did not belong to the Finnish people any more than it belonged to the English people who had started it at Rochdale in 1844. It was an international institution, she said, and the members of the Maynard society must expect it to be extended to the "American" population and even expect to lose control of it some day to them. There was no reply to this argument at the time, but when the meeting was ending a Finnish woman arose and asked the chairman whether there was any danger of the "Americans" ever getting control of the society. The chairman assured her that there was not, that the Finns would always retain control. ⁸

⁶ English transcript of meeting of United Cooperative Society, February 24, 1934.

⁷ Transcript, meeting of United Cooperative Society, February 17, 1936.

⁸ "American" customers have been known to comment on the way some

THE ATTITUDE OF "AMERICAN" MEMBERS

The struggle concerning the preservation of Finnish control was within the ranks of the Finns themselves. The "Americans" who were made directors of the society, were elected not by "American" votes but by Finnish votes. "American" members, of course, could hardly be expected to attend meetings, while the meetings were still held in Finnish. Yet even after the official language had been changed to English, relatively few of the "American" shareholders were present at the meetings.

Of the total membership of nearly one thousand in 1936, not over two hundred came to the annual meeting in February, and even less attended the "semi-annual" meeting in the middle of the summer. All but a handful of the participants in these meetings were Finnish. The attitude of the non-Finnish shareholders towards the cooperative was inevitably quite different from that of the Finns—their attachment more recent and their interest more superficial; they were not likely to form the habit of attending meetings at once. There was actually little chance, for the present, that the direction of the association would be taken over by a majority composed of the "American" shareholders.

Not only did the "Americans" feel that the Finns held a priority in the society, but for the most part they were quite content to let the Finns direct it. One "American" resident, for example, who was liberal in his opinions and rather sympathetic towards the cooperative society, was afraid that it was a bad thing to bring the "American" group into a share of the control. The Finns had the necessary solidarity to agree on policy, he said, while the "Americans" had many different opinions, and each wanted to put his forward; it would be harder to get them to agree. Another friendly "American" wondered why the Finns had even wanted to extend the co-

of the Finns would stand around the store, when others came in, with expressions which seemed to say, "This is my store, but I'll let you buy here."

operative's trade to the rest of the population. He also felt that it would be a mistake if the control were to shift from the Finns to the "Americans"—the Finns had built it up and made it a success, and they ought to continue to run it. It would never do to let politics get into it, he said.

One of the "American" directors of the society pointed out that local people had seen the Riverside cooperative, run by English-speaking inhabitants, going downhill and finally closing altogether a few years ago, while the Finnish society grew from nothing into a more prosperous institution than the earlier association had ever been. The "Americans" were also, perhaps, inclined to assign to the Finns, who constantly presented a united front to the rest of the population, a greater capacity for cooperation than had they themselves, whose political and religious bickerings they more readily observed.

THE ACTUAL EXERCISE OF CONTROL

Thus, control of the policies of the United Cooperative Society was exercised by the 150-odd Finnish members who attended the meetings fairly regularly. This meant to a large extent the older Finns. The earliest members of the society, they naturally took the keenest interest in its affairs and felt most responsible for its direction. Most of the younger generation of the Finns, who are apparently inclined to take the cooperative for granted, failed to come to the meetings. The cooperative therefore faces an important problem to maintain any effective membership-participation in its affairs, when the older Finns pass from the scene.

A careful observer cannot help noting that, in the course of the society's successful business development, there have occurred certain departures from the principles on which a cooperative is supposed to be based. A cooperative business, theoretically at least, is one which is owned by the people it serves and is controlled by them. Each member presumably feels a stake in the undertaking, and many of the evils of private business are said to be absent, because the consumer is

really serving himself. To many of its advocates, moreover, a cooperative is as much a social institution as an economic one: a feeling of common interest fostered by social and educational activities is viewed as an essential attribute.

The majority of the customers of the United Cooperative Society in 1936, however, were either non-members or members in name only. Well over a thousand families did business with the society in one department or another, and of these perhaps 750 or 800 owned shares. But a substantial proportion of these shareholders became such without ever investing a cent in the cooperative, merely by the accumulation of \$5-worth of rebates on their patronage. These people naturally felt no sense of ownership in the business; to most of them it was merely a business which provided attractive service and returned them a percentage on their trade at the end of the year. They may have been aware that the business was conducted without commercial profit, but that was not the reason that they traded there. Only one-fifth of the total membership came to the official meetings of the society. While a somewhat larger number probably attended the social or educational meetings, the majority of the members did not participate in any of the affairs of the association.⁹

THE CHANGING SOCIAL PHILOSOPHY OF THE MEMBERS

It may be that such problems were bound to arise with the extension of the society beyond the Finnish population. Yet one can also distinguish a change in the social philosophy of the Finnish cooperators themselves. The original members of the society were energetic and militant Socialists. They believed in the existence of a significant class struggle, and the cooperative store they conceived as an instrument of the working class in its fight to win power from the owning classes.

⁹ It may be remarked that the failure of many members to exercise their rights was no more a breach of cooperative principles than the failure of many citizens to vote in a democracy. Non-voters always have the privilege of participating in control if they feel sufficiently concerned. The fact that

The change in the character of the cooperative, according to one of the leaders of this early group, began to occur with the acquisition of an efficient manager and with growing business success. In the early years the members took an active part in the running of the business. There was a series of short-lived managers, mostly drawn from their own numbers, until Waldemar Niemela was brought in from the Middle West to manage the business. With the latter's arrival the cooperative commenced to add new lines of business to the original store and secured much wider patronage.

Niemela took a professional attitude towards his job, putting the practical details of business ahead of impractical idealism, and he was an able executive.

Meanwhile the optimistic militancy of the local Socialists was broken by the events of the war. The strength of the Socialist International vanished with the decision of the Socialist groups in various countries to support their respective governments in waging the war. While the American party did not follow suit, a conflict on policy developed and was brought to a crisis by the Bolshevik revolution in Russia and—for American Finns—by the unsuccessful revolt in Finland at the same period. Control of the Socialist party in America and in Maynard fell to the larger group which deplored the revolution and shrank from its violence; the militant element in Maynard, as was noted, split off and formed a small Communist organization. The group in control of the Kaleva Cooperative not only lost some of its most progressive elements but reacted in a conservative direction in the face of attacks by the Communist group.

Failure to win support seemingly made the Communists increasingly bitter and disloyal to the cooperative society. From their viewpoint, of course, the cooperative was properly an "agent of the working-class revolt". If it did not fulfill that function it became meaningless in their eyes—even a "tool of bourgeois hegemony". They ordered food from the coop—they do not do so in practice, however, certainly weakens the effectiveness of the democratic method.

erative store on credit for their social affairs and accumulated a debt of several hundred dollars. Then their hall burned down. Whether this loss imposed on the group a large financial burden or not, they made no attempt to make good their account at the cooperative, and went so far as to suggest that their defrauding of the society was justified by its failure to assist Communist endeavors.

Most of the Communists subsequently ceased to patronize the United Cooperative Society, and even bought from the more conservative First National Association in hopes of weakening the former.

As grounds for their charges of the cooperative's betrayal of the working-class movement the Communists could cite such examples as these: At the "semi-annual" meeting in the summer of 1926 the members voted to send \$200 to the English coal miners to help them in their strike; but only half of this sum was ever sent. The manager explained at the meeting in the following winter that this seemed like a rather remote group to assist, and he had thought \$100 was enough to send. A year or two later the society became affiliated with the Red and White Stores Company, a private firm sponsoring a voluntary chain among independent grocery stores to provide them with some of the advantages of the chain store system. (See pages 107, 132.) This arrangement was undertaken by the board of directors without a specific vote of approval from the membership and, according to the testimony of one of the Communists, after the members had expressed their disapproval of the project at the preceding membership meeting.

The society, or at least the Finnish members who exercised control, continued to be sympathetic to the local labor union, and set up "soup-kitchens" to feed the pickets during strikes. Nevertheless, one of the directors of the United Cooperative Society, who was a petty boss at the mill, filled the job of a striker during the strike of September, 1934, rather than risk losing his own job. To the "radical" this seemed a betrayal of the workers, yet this man was re-elected to the board of the society.

The other directors of the cooperative, it was pointed out, included an insurance agent, and two teachers, whom the Communists hardly considered representatives of the "laboring classes." The members had even elected a minister to the board in 1935. One of the teachers was president of the society. While apparently a progressive in his views and in his teaching, this man was obviously not a Marxian Socialist. He believed, moreover, that teachers deserved better remuneration than factory workers because of the greater ability and training which teaching required.

The president asserted that not over half of the Finnish members of the cooperative were Socialists; he thought the majority might be Republicans if anything. The first half of this claim is apparently borne out by election figures. In the election of 1932 the total radical vote in Maynard, including the Communists as well as the Socialists, was approximately 200. It was even less in 1936, when the Socialist local joined with the conservative wing of the party and decided not to vote for Norman Thomas. In both of these elections, however, most of the Finns evidently voted for Franklin D. Roosevelt rather than for the Republican candidate.

One local observer questioned whether, even among the Finns, there was any real understanding of what cooperation meant. Most of the Finns had a strong belief in cooperation as a name, just as a "birthright" Republican believes in Republicanism, and the Finns had a more thorough-going faith, since the cooperative had played an important part in their social life. Yet much of the evangelical spirit was lacking.

The society had early been a supporter of cooperative federation. Niemela had maintained contact with the Cooperative League from the time of its establishment in 1916, and they had cooperated with societies of different nationalities in Massachusetts in attempts to form a New England Cooperative Wholesale at the close of the war. Later the Maynard cooperative helped to establish the Eastern Cooperative League and the Eastern Cooperative Wholesale. As the most successful member

society in the Eastern League in recent years it has naturally played an important role. Nevertheless, it was now a modest, penny-wise support which the United Cooperative Society gave to the Wholesale. A branch office of the Wholesale was established in Boston in 1936 almost as much in spite of the society as because of it.

Despite their supposed faith in cooperation, the Finns were not greatly interested in promoting the growth of cooperatives in neighboring territory. A delegation from the Maynard society, which was invited to visit an interested group in Cambridge, proved to be rather a "wet blanket". After recounting their experiences in the United Cooperative Society, they observed that it seemed doubtful whether or not "Americans" could practice cooperation successfully.

THE YOUNGER FINNS

Thus, the older generation of Finns, for the most part radical Socialists in their youth, have grown more conservative. Their children, moreover, have not captured the fire of their own earlier years. The rivalry for their allegiance of two conflicting cultures has, perhaps, absorbed the younger generation, and they have come to exhibit the same social philosophy—or lack of social philosophy—that characterizes the "American" population. The Finns as a group did not succeed in passing on to their children any vital interest in the cooperative society.

About 1932 a number of the young members attended a cooperative summer institute at Brookwood Labor College. Their interest in the movement was stimulated, and on their return they organized a "Young Cooperators' Club" in Maynard, including some youths of other than Finnish parentage. They held meetings every two weeks on the second floor of the cooperative's main building, arranged banquets, and staged shows. The club had at one time close to two hundred members. By 1936, however, many of them seemed to have lost interest, and the membership had shrunk to thirty-five. While the club may have contributed to the large increase in

membership and trade in the cooperative society between 1934 and 1936, it did not seem to play an important role in determining the policies of the society.

The younger generation of Finns was not lacking in talent, nor in the breadth of its interests, nor in energy. The ability its members displayed in school has already been mentioned. Taken as a group, they would probably compare favorably with the youth of most middle-class American communities. Their lack of interest in the society might be explained by the fact that the Maynard cooperative was not an ideal but a reality. It was not a new idea appealing to their enthusiasm, but an institution whose hardest battles had already been fought.

THE MATERIAL WEALTH OF THE SOCIETY

A local business man, who was losing his own business, said of the United Cooperative Society: "They've got too much invested in their business to be radical." It is true that the society has built up its properties to a considerable amount; the published net worth at the end of 1936 was nearly \$100,000,¹⁰ or \$100 per member. The book value of the common stock was about \$25 per share, or five times its par value, such is the size of the surplus that has been built up by the society in its thirty years' existence. It must be remembered, however, that a member cannot sell his shares at more than par value, and they are redeemable only when he moves away from Maynard. While a member is permitted to own forty shares of common stock, most members hold only a share or two each. Thus, the implication of this man's statement is not true, at least in the usual sense. Most of the property of the cooperative is "social capital", available to any consumer who wishes to take advantage of it in purchasing goods and services.

Whatever the explanation, nevertheless, the United Cooperative Society of Maynard does seem to have grown more conservative, at the same time that it has achieved an increasing degree of business success.

¹⁰ Including net earnings of \$25,000 for the last twelve months, most of which was subsequently paid out in patronage refunds.

CHAPTER VI

AN ECONOMIC APPRAISAL OF THE UNITED COOPERATIVE SOCIETY

It has already been indicated in the foregoing account of the growth of the United Cooperative Society that it has achieved a relatively efficient business organization. It hardly seems likely that it would have secured an increasing proportion of the local patronage if its operations were more expensive than those of other stores in Maynard. Nevertheless, rather than rely on such circumstantial evidence, the writer attempted an analysis of the economy of the cooperative and endeavored to measure the savings which the society actually made for its members.

This problem appears simple at first, but grows more complex as underlying assumptions are investigated. Since it is the policy of a Rochdale cooperative to sell at the level of prices prevailing in private stores and to return to its members in the form of patronage dividends the difference between these prices and its costs of operation, it might be assumed that any patronage rebates the cooperative was able to make represented savings as compared to purchases from private merchants, and that the amount of the saving was plainly measured by the size of the rebate. The United Cooperative Society provided in its by-laws that "in setting selling prices on goods, prevailing market prices of the vicinity shall be followed as much as it may be possible." Determining just what the prevailing prices are, however, is sometimes a difficult problem.

Prices can usually be determined in lines of trade where single commodities are of major importance. Thus, it was easily confirmed that prices were uniform for milk and for gasoline, though even in these cases there might be differences in quality which the prices did not take into account. Prices for coal, ice, fuel oil, and farm supplies were stated by members to be the same for the cooperative as for private dealers.

Yet inquiry by the writer showed that even the two coal merchants in Maynard did not charge identical prices.¹ Evidently, uniformity of prices for such products in Maynard could not be taken for granted.

Half of the society's business was transacted in its grocery stores. In the grocery business, where the number of different commodities is very great and neither quality nor service may be comparable, it is difficult to measure except in a very general way the level of prices at any store.

According to the general manager, the United Cooperative Society attempted to follow chain store prices for comparable articles. They checked the prices of chain store "specials" at the beginning of each week and again at the beginning of the weekend when the bulk of the week's food business was transacted. They also investigated chain store prices more generally every month. The society then followed these prices rather closely. If the prices of the chain stores dropped to the wholesale cost or below, however, the cooperative did not always follow suit. The prices of the independent merchants, who did not advertise, were not regularly checked. Nor, for that matter, would they be able to compare their prices with chain store prices for articles that were not advertised—fresh vegetables, some meats, and grocery items of relatively minor importance. On articles of this sort the manager stated that they merely applied what seemed a reasonable mark-up.

¹ Prices for coal and fuel oil were secured by mail as of August 4, 1939. Prices charged per ton of nut coal by the United Cooperative Society and the two private dealers, respectively, were \$12.50, \$13.00, and \$12.00 on a charge account basis; \$12.00, \$11.64, and \$12.00, for cash on delivery (cash in ten days in the case of the cooperative). The cooperative price for # 2 grade fuel oil on the same date was $\frac{3}{4}$ c higher than that of the one private dealer in Maynard (grade not specified), a difference equivalent to 4 per cent of the price.

These comparisons suggest that private dealers in coal and oil may cut under the cooperative price by an amount roughly equal to the prospective rebate by the cooperative.

For details of this inquiry see Appendix I.

There were in Maynard some 35 food stores besides the cooperative. Of these, seven were chain stores. The chain stores, however, were larger than the stores of the independent merchants; they probably handled among them, about half of the private food business in town.² Two of the chain stores, in particular, were quite large and attractive—a Great Atlantic and Pacific Tea Company store and a First National Stores Company store. Each of these had as much and possibly more floor space than the cooperative. They were, of course, supported by ample advertising in the Boston newspapers. The independent merchants not only did not advertise, but were for the most part smaller stores and less up-to-date. Certain of them were run by foreign-born people who enjoyed the trade of their particular nationality, and many were neighborhood stores. Factors such as nationality, personal friendship, and neighborhood location were thus important in securing them each with a share of trade, as well as the more strictly economic, competitive factors such as price, quality, and store facilities. The chain stores, on the other hand, based their appeal on economic efficiency. Any test of the cooperative's economy ought, it would seem, to be made in comparison with the chain establishments. The manager of the cooperative stated that he considered their chief competition was the chain stores, and that the new customers they attracted were drawn mainly from the patronage of those stores.

COMPARISON OF PRICES, QUALITY AND SERVICE

A brief comparison of prices in the cooperative with prices in three different chain stores—the large A&P and First National stores and an "Economy Store"—was made by the writer in June, 1936. Confined to twelve of the more important grocery items, this was not a comprehensive survey. It indicated, however, in the first place, that prices at the various chain stores were relatively uniform. Moreover, prices charged

² This statement is based on the manager's estimate for one chain store, an employee's estimate for another, and the writer's own guesses as to the sales of the other chain stores.

by the cooperative for the staples—coffee, sugar, potatoes, bread, butter, milk—were about the same as those charged by the chain stores (bread was higher, but potatoes were cheaper at the cooperative). On the other hand, goods sold largely under nationally-advertised brands, such as Crisco, Royal Baking Powder, Heinz soups, etc., were 5 to 10 per cent more expensive at the cooperative than at the chains.

The results of such a spot study of prices, even with a more adequate number of articles, would not be at all conclusive as to the general run of prices charged by the cooperative over a period of years. A sounder judgment, in the writer's opinion, might be furnished by a resident of Maynard, who shopped at the various stores and had watched the relative prices over a considerable period in order to determine at which store to purchase. Accordingly, during the writer's visit to Maynard in 1936 he secured answers concerning this question of prices from nineteen non-Finnish residents, none of whom was known to be actively interested in the cooperative society nor was himself (or herself) a competitor. Eleven of these thought that the prices of the cooperative store were no higher than those of the chain stores, and one said that they were lower. Six persons stated that the cooperative's prices were more or less higher. One other consumer testified that the cooperative's prices were the same as those at the chain stores if allowance were made for quality.

There seemed to the writer to be general agreement in Maynard that goods sold by the cooperative store were of better quality than those sold by the chain stores.³ Similar views on this question were found by an investigator for the "Consumer's Guide" in Maynard in the latter part of 1936. The first housewife questioned, to quote this report, said:⁴

³ The only dissenting opinion heard by the writer was expressed by the operator of one of the private gasoline stations with which the cooperative had recently come into competition.

⁴ U. S. Agricultural Adjustment Administration, *Consumers Guide*, Vol. III, No. 25 (Feb. 8th, 1937), pp. 7-12.

"I started buying at the co-op, because they kept their vegetables nice and fresh. They were first in town to use that apparatus that keeps spraying clouds of fine vapor over the vegetables. That's what started me buying there. I found everything else was good, too, so I kept on."

Next door they had praise for the dependable freshness of the co-op's butter and eggs, though they had friends in the coal and milk business and patronized them. "The bakery was the first attraction for me", said the housewife down the block. "No baked goods in town can compare with the co-op's."

A mother in a mill family said she started buying at the cooperative because they were the first in Maynard to pasteurize milk. . . .

Meat quality was mentioned more than any other merchandise lure to first purchases. . . .

. . . The branch store's soda fountain was conceded by the town to be the best place to eat. . . .

The local newspaper reporter explained to the writer that the cooperative wasn't in business for its own profit, so that they didn't have to buy things just because they were cheap as the other stores did; he thought they tried to get good quality in everything.

The cooperative milk was declared by the society to be of better quality than that delivered by private dealers in Maynard. According to a report of the Massachusetts Department of Health, the date of which is not known, milk delivered by the United Cooperative Society had the "lowest bacteria count in the state; solids, 13.52% (1½% above standard) and butter fat, 4.25% (.9% above standard)."⁵

A comparison of the economy of buying from a particular retail store must not neglect the amount of service it renders to its patrons. Are they called upon to render certain services themselves, which they would have performed for them at

⁵ Quoted in "Depression Dollars Made Elastic", a leaflet published by the United Cooperative Society about 1935. According to the findings of an investigator for the State Milk Control Board, reported in the *Maynard Enterprise* in the summer of 1935, milk sold by the cooperative contained 4.15% butter fat, 13-14% solids.

other stores? Are they given special facilities such as credit? Must they wait in line at the store?

The cooperative did provide limited credit facilities. According to the manager, about one hundred families were allowed credit at the store for a period not exceeding one week. Payment of these accounts was called for on Friday or Saturday following the payment of wages by the mill. Payment for milk delivered during the week was collected at the same time. Coal and grain were also sold on this type of arrangement. Some enforcement of the credit limitations is indicated by the semi-annual balance sheets from 1935 through 1938, which show accounts receivable to be 10-20 per cent of a month's sales. The independent grocers in Maynard probably allowed credit on a much more liberal basis than this. Nevertheless, as compared with the chain stores the cooperative's policy was an extra convenience for those customers who did have weekly charge accounts.

The cooperative provided a fairly complete delivery service—operating eleven trucks in 1938—without any extra charge. Delivery was also furnished by the independent grocery stores; the chain stores, however, delivered only a few of the larger orders.

In the opinion of several non-Finnish customers who testified on this point, both the delivery service and the service provided them in the store by the cooperative were very good. It was also said that it was very easy to adjust complaints with the cooperative.

Another comparison which might well be made is one of the general attractiveness of the store facilities. Here also the society would seem to compare favorably with private merchants. The main store had a rather old-fashioned front according to the most advanced standards, but one not appreciably inferior to any of the private stores in Maynard; its interior fittings and arrangement were about as attractive as those of the private stores. The new branch store of the society was much superior in both appearance and equipment to any

other store in town, and compared favorably with stores in large cities. It was a brick building, conventional enough in structure, but adorned with a modern green and tan front of vitrolite glass and a large neon sign. The interior was light and spacious, modern in materials and equipment. It contained, in addition to a grocery store complete with meats and fruits and vegetables, counters for bakery goods, candy and drugs, and along one whole side a soda fountain and tables in booths against the wall for soda and luncheonette service. The service station, built a year or two earlier than the new store, was also modern in appearance and well equipped.

AN ADVANTAGE PECULIAR TO THE COOPERATIVE

A further advantage to consumers and one of no little importance, inhered in the basic distinction between a consumers' cooperative society and a private business. The proprietor of a private store is operating for his own profit. Even though he may by inclination be more interested in the service he renders to his customers, his principal standard of success is the income which he is able to secure. His income depends on the difference between his costs and the prices at which he sells, and on the volume of sales he handles.

Thus, he is, on the one hand, interested in expanding his margin of profit either by reducing expenses or by raising prices. He is also interested, however, in making his volume of business as large as possible. In this fact lies the consumers' protection against higher prices. Whether this source of protection is effective or not, the ordinary consumer does tend to shop around from one store to another in an effort to be sure that he or she is not paying extra merely to enrich some particular merchant.

In a cooperative business the manager is generally paid a fixed salary; the profits do not go to individual owners, but belong to the consumers in proportion to their purchases, and they may pay every cent of them back to themselves if they so desire. They need no longer go from one store to another

to compare prices. So long as the consumers feel that the management of the cooperative is honest and reasonably efficient, they can buy in the assurance that any profits which may accrue through excessive prices, will be theirs at the end of the year. This does logically imply, of course, that each consumer should interest himself in the management of the society, at least to the extent of choosing reliable men for the board of directors, and securing checks on the honesty and efficiency of the salaried personnel.⁶ As a matter of fact, few of the non-Finnish patrons of the Maynard society had bothered to participate even to this extent; instead, most of them did shop around to be sure that they were securing the best values possible through the cooperative. Many of the Finnish members, on the other hand, who attended the annual meetings and interested themselves in the success of the society, had implicit faith in their ability to serve themselves through this form of organization better than private business men would serve them. They did not bother to shop around, but purchased everything from their cooperative as a matter of course. They realized in this way a considerable saving in time and in trouble.⁷

⁶The United Cooperative Society, for example, issued a detailed accounting statement every six months, audited by the Cooperative League Accounting Bureau. Inventories were checked by the board of directors, and monthly statistical reports were required of the manager by the board.

⁷Consumers accept it as an obvious fact that private stores try to secure as good prices as possible for what they sell. They are not so generally aware of the subtle pressure often exerted by the salesman to increase the size of the purchase a little, and to sell the articles on which the profit margins are largest. Such practices are exemplified by the mottoes on the walls of a wholesale grocery warehouse visited by the writer: "Make it easy for *Mrs. Consumer* to buy what you want to sell her," and "Display profitable foods." The members of the United Cooperative Society, who had evidently been annoyed by such practices, had made it a rule that employees were never to try to increase the size of a customer's purchase. While it may not be true that the managers and employees of cooperatives have no incentive to push sales or charge higher prices, the relationship between the societies' sales or earnings and their remuneration is at most an indirect one. The same cannot be said of the manager of a chain store, much less of an independent merchant.

EFFECT OF THE COOPERATIVE ON RETAIL PRICES

It has been tacitly assumed up to this point that the prices charged by private merchants in Maynard were determined entirely by forces beyond the influence of the cooperative society; it has not been suggested that the existence of the cooperative might have had some effect on local retail prices. The question may now be raised whether the prices set by the cooperative itself, together with the rebate it was likely to pay, may have been taken into consideration by local retailers in deciding what prices they would ask.

If it is true that the competition of the cooperative tended to lower the prices prevailing in the community as a whole, then the cooperative refund represented only part of the saving achieved for members by the cooperative society. Not only members of the cooperative but all local consumers would then have been benefiting by the reduction in retail prices.

Had the existence of the United Cooperative Society had any effect upon retail prices in Maynard? There is some evidence that cooperative competition had led to reduced prices in at least two or three instances. Such cases may have resulted in substantial savings to Maynard consumers.

An assertion to this effect was made by Waldemar Niemela, former manager of the society, in a letter to the writer from which the following passage is quoted:

In the facts of summing up the economic value of the cooperative to the consumer, I want to point out that in addition to the patronage refunds, and other things that you mention, there are concrete examples of benefits that you have not been able to discover in Maynard. In general, other benefits derived by the consumer because there is a cooperative in the community are much greater than patronage refunds.

An example in which I have had personal experience: When privately owned bakeries in Maynard increased the price of bread by one cent a loaf . . . the cooperative established a bakery. By the time the cooperative bakery was ready to produce bread, the price had gone back to the original level. . . .

Another example: When the United Cooperative membership voted to establish a coal department, and proceeded to buy land and construct buildings and side tracks, the price of coal in the town of Maynard went down one dollar a ton. The price level of coal in the town of Maynard has stayed below the normal retail price ever since. This is very easy to compare because in the neighboring towns a few miles away the wholesale cost of coal, freight and everything included, is the same, yet the retail price in Maynard is always lower.

Milk is another case. Years ago, even after the pasteurizing plant was complete, the United Cooperative Society sold milk in Maynard at a price which was several cents per quart below the price at which it was being sold in cities like Boston. Since the law regulating the milk industry and prices went into effect, the United Cooperative Society was compelled with the rest of the milk dealers in the area to raise the price of milk to that of the larger cities such as Boston. The cooperative, due to the economical ways of doing business, made an enormous profit from milk from that time on. In order to avoid making large amounts of money to be turned back to the customers, the cooperative began to improve the quality of the milk. They increased the butter fat content to the upper limit provided by law. In the state of Massachusetts, the law for butter fat content is 3.35% and the industry has adopted a standard of about 3.6%, but the cooperative was selling milk testing 4.2% butter fat content. This extremely rich milk was sold at the price of regular milk. . . .⁸

The writer was not able to verify the statement concerning the price of bread. In the case of coal, on the other hand, price quotations were secured in August, 1939, from thirteen dealers in six nearby towns⁹ as well as from the two private coal merchants in Maynard. The cash prices charged for nut coal by both dealers in Maynard were lower than those of any one of the thirteen in other communities, by a margin ranging from \$.50 to \$1.50 per ton. The Maynard prices, on either

⁸ Letter of August 3, 1939.

⁹ These towns, ranging in size from 5,000 to 19,000 population, were Billerica, Clinton, Concord, Framingham, Marlboro, and Norwood.

For details of the inquiry, which was made by mail, see Appendix I.

a credit or a cash basis, were on the average approximately \$1.00 less. For buckwheat size coal (which the cooperative did not have in stock at the time) the difference was less marked.

A report to the effect that local milk prices had been lowered around 1922 by the competition of the cooperative was noted in Chapter IV. The quality of the cooperative milk in recent years has also been noted. The writer failed to secure any record of the characteristics of the milk sold locally by private dealers.

May there have been other cases where the cooperative business had had some effect on its competitors' prices? Apparently this was not true in the case of fuel oil. Comparison in 1939 showed the prices of dealers in neighboring towns to be the same as those of the private fuel oil dealer in Maynard in most cases. The price of the cooperative society for fuel oil was higher than that of its local competitor at that time. For grain, hay, and fertilizer it is possible that prices had been reduced. The gross margin on which the society operated its grain department, as in the case of coal, was lower than typical gross margins of private firms as reported to Dun and Bradstreet, Inc. (See Table 3.)

These instances cover only a few of the many commodities purchased by consumers. Still, a saving of a dollar on each ton of coal and reductions of one cent on a loaf of bread and of a cent or more for each quart of milk, where they occurred, would amount to a substantial sum over a twelve-month period. They would also be shared by all consumers. Consequently, while there is too little evidence to prove that such benefits were more important than the patronage refunds of the cooperative, these savings must be added in this appraisal to the others achieved by the United Cooperative Society.

CONCLUSIONS CONCERNING COOPERATIVE SAVINGS

It should be evident from the foregoing discussion that the savings to consumers which may have resulted from the existence of the United Cooperative Society cannot be measured

in any exact manner. Nevertheless, the following conclusions can be stated:

The cooperative has achieved monetary savings for its patrons in recent years. These savings were probably at least as large as the refunds paid on purchases. The prices charged by the society in its main food store, on the basis of local testimony, were but little higher than those in the principal chain stores; against this may be set both delivery service and superior quality at the cooperative. Prices charged by the society for other commodities were about the same as those charged by private dealers. Moreover, there were cases in which the prices charged by the private merchants as well as those of the cooperative were lower as a result of cooperative competition, consequently providing savings for all consumers in Maynard.

In addition, consumers secured certain benefits besides the monetary saving. Thus, the cooperative society provided, in the case of the branch store, more attractive facilities than did its principal competitors. Customers on the cooperative's milk routes apparently received a higher quality product than that supplied by private dealers at the same price. Furthermore, if the consumer satisfied himself of the honesty and efficiency of the management through personal participation in its selection and control, he could dispense with the considerable expenditure of time involved in comparing values in the various competing establishments.

A check on the conclusions concerning the savings realized by the cooperative business may be secured from an examination of the accounting statements of the United Cooperative Society and a comparison of its operations with those of private business.

OPERATING RATIOS AND NET EARNINGS

Attention may first be directed to the income and expenses of the cooperative for all departments including the bakery and milk pasteurization plant, for the year 1936 (the time of the writer's visit to Maynard). The cost of its merchandise

TABLE 3

COMPARISON OF THE OPERATIONS OF THE MAYNARD COOPERATIVE AND
PRIVATE RETAIL MERCHANTS, 1936

A. Analysis of the Operations of United Cooperative Society of Maynard
(Derived from Operating Statements, Year 1936)

Department	Sales	Gross Margin	Oper. Expenses	Net
	\$	%	%	%
Total	475,931	24.1	18.5	5.6
Main Store	186,063	16.42	13.86	2.56
Branch Store	71,449	20.4	18.7	1.7
Milk	68,335	37.75	26.25	11.5
Coal	41,829	21.0	10.3	4.5
Grain	54,867	10.1		
Fuel Oil & Ice	27,133	30.6	19.5	11.1
Gas Station	26,255	28.6	16.8	11.8
Bakery Production	37,757*	36.2	30.4	5.8
Net Earnings from the operation of all departments				\$26,485
Plus: Other Income (Cash discounts, rent, collection of bad debts, etc.) ..				2,950
Less: Other Expenses (Education, rented space, bad debts, etc.)				1,245
				<u>\$25,240</u>

B. Analysis of the Operations of Private Retail Merchants

(Statistics selected from Dun & Bradstreet *Retail Survey*, 1937)
(Median Figures)

Type of Business	No. Reporting	Sales	Gross Margin	Oper. Expenses	Net
		\$	%	%	%
Grocery & Meat stores .	1,051	34,300	18.5	16.4	2.1
Milk distributors	68	47,900	42.8	40.4	2.4
Coal dealers	124	32,500	25.9	24.1	1.8
Filling stations	997	16,700	23.3	21.0	2.3
Feed, grain & hay	238	66,500	15.9	13.2	2.7

* Interdepartmental sales, not included in Total sales.

represented 76 per cent of its total sales, leaving the business a margin of 24 per cent on which to operate all its departments. Its actual expenses, including interest on capital, were $18\frac{1}{2}$ per cent, so that the cooperative had earned a surplus for the year of $5\frac{1}{2}$ per cent. From this surplus, then, the society was able to return to all patrons 4 per cent on their purchases, appropriate \$2,000 for educational work, and still have 1 per cent remaining to add to cash reserves or to build up its business facilities.¹⁰

It will be observed from the operating statements in Table 3 that the proportion of savings¹¹ to the volume of business varied considerably from one department to another. Savings on the business handled in the stores were smaller than those in other activities. In the main store, where over one-third of all the cooperative's business was transacted, net earnings or savings were $2\frac{1}{2}$ per cent of sales. Savings in the branch store were even less. In the dairy, the service station, and the fuel oil and ice department, on the other hand, net earnings were much greater. Savings in each of these departments were more than 11 per cent of sales. Patronage rebates, however, were paid at the same rate on all purchases, whether from the stores or from the dairy or the gasoline station. Thus, the larger savings of the dairy, service station, and fuel oil and ice departments were drawn upon in order to make possible the payment of a rebate of 4 per cent on the stores' share of the business, and the amount which was added to permanent surplus was realized in these other departments. Nevertheless, savings were made in every department of the cooperative's business.

10 Net earnings and the ratio of expenses to sales were both more favorable in 1936 when the detailed analysis was made than in other recent years. Expenses were 19.2% of sales in 1935 and increased in 1937 and 1938 to 19.5% and 21.9% respectively. Net earnings were 5.1% in 1935 and decreased to 4.0% in 1937 and 3.7% in 1938.

11 The terms "savings" and "net earnings" are used interchangeably by the writer to denote the difference between sales and the total cost of doing business (including cost of merchandise and operating expenses).

COOPERATIVE SAVINGS COMPARED WITH PRIVATE PROFITS

If it appears that the United Cooperative Society was able to perform the process of retail distribution at a lower cost to the consumer than private stores in Maynard, how is this ability to be explained? The first possibility that presents itself, of course, is that the savings merely represent the profits which are ordinarily going into the pockets of the private merchants. The net earnings of private retailers, however, generally run much lower than these savings. Statistics collected by Dun & Bradstreet, Inc., in its *Retail Survey* for 1936 do not reveal a typical profit of more than 2.7 per cent on sales in any of the lines of trade in which the cooperative was engaged.¹² The average net profit of six large grocery chains in this year was 1.5 per cent. It must be pointed out, moreover, that the \$25,000 saved by the cooperative society in 1936, while they represented 5½ per cent of the sales, constituted some 33 per cent of the net worth of the business,¹³ an unusually high rate of profit.

The writer did not secure information as to the earnings of local business men or of the local chain stores. Nevertheless, if business men were realizing such a high rate of return on their invested capital in Maynard, one would expect to find new stores opening and existing establishments expanding to take advantage of the unusual profit opportunities. As a matter of fact, the number of retail stores in the community was 112 in 1935 as compared with 127 six years earlier, according to the U. S. Census figures. Not only had several grocery stores been forced to close during the worst years of the depression, but there had been no increase in the number of food stores even between 1933 and 1935. Nor had the chain grocery com-

¹² Dun & Bradstreet, Inc., New York, 1937.

¹³ The cooperative's earnings were over 100% of its share capital, and they would seem even greater if compared with the actual investments made by shareholders, since many shares had been issued out of previous earnings in payment of patronage rebates. The 5% interest paid by the society on its shares amounted to only 1/20 of the net earnings, and was treated as a business expense.

panies undertaken any particular expansion of their facilities. Only in liquor stores and drinking places, with the repeal of Prohibition, had there been a marked increase in the number of retail establishments.

A comparison of the gross margins¹⁴ realized by the United Cooperative Society in the various divisions of its business with figures collected by Dun & Bradstreet on the gross margins of private stores in the country as a whole does not indicate that margins of profit were particularly large in Maynard. The gross margin of the main store¹⁵ of the cooperative, for example, was 16.4 per cent of its sales in 1936, while the typical margin of the 1051 grocery and meat stores in Dun & Bradstreet's survey for that year was 18.5 per cent. The gross margins in most of the society's other departments were also comparatively low. While that of the gasoline station was 5 per cent higher than the gross margins of most of the filling stations reporting in this survey, in this case it is believed that the cooperative had achieved a wider margin than the other local dealers by special buying economies. (See p. 106)

The facts seem to be that while the retention for the consumer of what would have been profits in private stores accounted for part of the cooperative's savings, and in its food stores probably a major part, yet the savings of the society were larger than private profits in nearly every line of trade, and a great deal larger in the departments other than the food stores. The United Cooperative Society was evidently more efficient than the average private retailer.

COOPERATIVE AND PRIVATE STORE OPERATING EXPENSES

This conclusion is confirmed by an analysis of the operating expenses of the society. It is not feasible, of course, to compare the ratio of expenses of the society's business as a whole

¹⁴ The gross margin is the difference between sales and the cost to the business of the goods sold.

¹⁵ The main store includes paints and hardware, sales of which compose a minor part of the total—possibly one-tenth. Gross margins and expenses on these goods are generally higher than those on groceries and meats.

with the expenses of private retail trade considered as a whole, since the cooperative includes a bakery and a pasteurization plant, and the proportion of expenses varies considerably from one kind of business to another. Nevertheless, figures for certain of its departments may be compared with expense figures for private firms in similar kinds of trade.

(Since no records were secured from the local competitors of the cooperative, it is necessary to make comparisons with statistics representative of private firms in the country at large. Yet such averages include stores in much larger cities than Maynard and stores in other parts of the United States. It may be noted, moreover, that according to the Census of Distribution for 1929 food stores in cities of more than 30,000 population had an average expense ratio $2\frac{1}{2}$ percentage points higher than food stores in smaller towns.¹⁶ Is there not a tendency for expenses ratios to vary according to the size of town, and perhaps, also, to differ for various regions? This possibility has been considered in making comparisons. The *Retail Survey* by Dun & Bradstreet, in the case of grocery and meat stores and of filling stations, separated the firms in different sections of the country and classified firms by size of town. At least 60 per cent of the grocery and meat stores reporting and a majority of the filling stations were in towns of less than 20,000 population. Comparisons of the various classifications for these lines of trade do not indicate any significant differences in expense ratios for the stores reporting to Dun & Bradstreet either between New England and other regions or between large and small towns.

Analysis of the statistics for the food stores reveals that typical stores in the smaller towns had an advantage of about 1 percentage point in expenses over stores in larger cities; tending to offset this, however, was the fact that expenses ran 1.7 per cent higher in New England than in the country as a whole. Expenses for filling stations were also 1 percentage point lower in the towns of less than 20,000 than in larger

¹⁶ Cf. *Does Distribution Cost Too Much?*, pp. 141-44.

places, and they were .6 of 1 per cent lower in New England than in the United States at large. These differences, as will be noted below, would not affect materially the comparisons with averages for the entire country).

The operating expenses of the main store of the Maynard cooperative, the principal sales of which were of food, were 13.8 per cent of its sales in 1936. A typical expense ratio for private independent grocery and meat combination stores in the same year, as shown by Dun & Bradstreet's survey of 1051 concerns, was 16.4 per cent. A more selective study of independent stores made by *The Progressive Grocer* for 1934,¹⁷ in which the stores were chosen for their ability to make a profit, showed expenses for 35 comparable stores ranging from 13.4 per cent of sales to 22.8 per cent. The average for the 35 was slightly less than 17 per cent.¹⁸ Chain food stores in 1934, according to a study by the Harvard Business School,¹⁹ had an average expense, for retail store operations only, of 15.0 per cent of sales. This did not include interest, advertising, store supervision, or taxes other than those on real estate, which might have amounted to more than 2 per cent additional expense. The ratio of expenses to sales for the chain stores and the 35 independents may have been somewhat lower in 1936, when their sales were larger, than they were in 1934.

From these figures it appears that the operating expenses of the cooperative store were 2-3 per cent lower than those of most independent grocery and meat stores, and even below those of the cash-and-carry chain stores. Only in the case of the chain stores does a difference in size of town seem likely

¹⁷ The expenses of the Maynard cooperative store in 1934 were 14.5%. In other years for which the information was available, they were: 1935—13.1%, 1933—18%, 1930—15.5%, 1924—13.7%. (Expenses include interest on shares—about .2% of sales.)

¹⁸ "Operating Expenses of 110 Selected Food Stores" (*The Progressive Grocer, New York*: 1935).

¹⁹ Carl N. Schmalz, *Expenses and Profits of Food Chains in 1934* (Harvard Graduate School of Business Administration, Bureau of Business Research, Boston: 1936), Harvard Business Bulletin No. 99, p. 20.

to offset this apparent advantage.²⁰ A comparison of the cooperative's expenses item by item with the detailed figures supplied by the two surveys of independent stores does not show the former to be much lower on any one or two items in particular. The cooperative evidently achieved greater economy by handling a larger volume of business in proportion to its expenses in general, making the costs per unit of sales smaller. The item on which there was the greatest difference was that of salaries and wages, which is much the largest source of expense to all grocery stores. The salaries and wages paid by the cooperative store amounted to between 8 and 8½ per cent of its sales volume, while the wage expense of private merchants—including an allowance for owner's salary—generally ran about 10 per cent. Another expenditure in which the Maynard cooperative evidently secured greater economy than did private grocers was delivery. This might be explained partly by the fact that the society operated nearly a dozen trucks in all and was therefore able to save on the cost of maintenance, and partly by the relatively large proportion of the community which it served, reducing the distance to be driven per customer. Although a large percentage of its business was delivered, truck expense was less than ½ of 1 per cent. In one respect cooperative costs were greater than those of private stores; it spent 1.3 per cent of sales for supplies compared with an average of 0.6 per cent spent for supplies by the independent stores studied by the *Progressive Grocer*.

A comparison with the detailed expense figures for chain stores as reported in the Harvard study, indicates the most marked difference between the expenses of the cooperative and those of chain stores to be a matter of tenancy costs. The total

²⁰In towns of less than 20,000 population typical expense ratios varied from 14.8% to 16.8% for different-size independent stores, as published in the *Retail Survey*. An average ratio for all reporting independent stores in these smaller towns is approximately 15.7%, which is still 2 percentage points higher than the ratio of the Maynard cooperative food store. Furthermore, a regional comparison indicates that the average expense of private stores in New England was larger than the average for the whole country, with which comparison has been made.

expenditures of the cooperative store for building repair, all taxes, and the depreciation of both building and equipment were equivalent to 1.3 per cent of its sales. Tenancy costs of the chain stores, defined to include repairs, taxes on real estate, and depreciation (or rent if the store buildings are not owned) amounted to 2.8 per cent. Depreciation of equipment added another 0.6 per cent of expense for the chain stores. On the other hand, the chain stores, like the independents, spent less for supplies than the cooperative.

Part of the contrast in the tenancy ratios, in the writer's opinion, is explained by the fact that most chain stores—and therefore most of the stores on which the Harvard study was based—are in large cities where rents and property values are higher than in towns the size of Maynard.²¹ Consequently, the actual difference is unduly magnified by this difference in size of city. It is, nevertheless, true that chain stores make it a deliberate policy to secure key locations which will enable them to sell a large volume in each unit. In Maynard the principal chain stores were situated at the most central part of the business section (See Chapter VIII). The two stores of the United Cooperative Society were also fairly well situated. A difference in tenancy costs between the chain stores in Maynard and the United Cooperative Society may have existed, but it was certainly less than that indicated by the statistical comparison with the Harvard report.

The branch store of the cooperative has been ignored in comparing expense ratios, because it includes not only a food market, but a soda fountain and luncheonette service and a limited line of candy and drugs. These additional kinds of business are customarily characterized by higher margins and higher expense ratios than those of straight food stores. Its sales, moreover, were less than half as large as those of the main store. Expenses in the branch store ran to 18.7 per cent

²¹ Wage rates, too, are usually lower in small towns, which would also give the Maynard store an advantage in regard to operating expenses. On the other hand, it may be noted that Maynard was within commuting distance of Boston.

of sales for 1936. Wage expense; heat, light, and power; and tenancy costs were all substantially higher than those of the larger store—tenancy costs including depreciation of both building and equipment, running to 2.3 per cent for the six-month period following completion of the new building.

COMPARISON OF EXPENSES FOR OTHER DEPARTMENTS—DAIRY

The operating expenses for the United Cooperative Society's dairy department may be compared with the figures collected by Dun & Bradstreet from 68 private milk distributors, most of them small in size. The typical expenses of these 68 concerns for 1936 were 40 per cent of their sales. The expenses of the cooperative dairy, however, including the pasteurizing process, bottling and delivery, were only 26.2 per cent.²² Most of the difference is probably to be attributed to the large volume of business handled by the society in proportion to the size of the community. In the summer of 1936 the cooperative was delivering milk daily to about 750 of the 1800 families in Maynard—to nearly every other house. This was accomplished by six men with the use of three trucks—there were seven men employed in the milk department altogether, one of whom was "off" each day. The balance of the milk delivery business in town was divided among six other dealers.

The society's dairy department was able to effect a saving of 11½ per cent of its sales in 1936, although its gross margin was smaller than that of most of the private dealers reporting to Dun & Bradstreet. Both the gross margin and the savings of the department were larger in 1936 than they had been the previous year, when savings were only 6½ per cent. The increased margin resulted from an advance in the price of milk of 1c a quart required of the society by the State Milk Control Board in the middle of 1935. The society had endeavored to hold its price one cent lower than that which the other

²² This ratio was low even for the Maynard cooperative. Expenses had been 30% in 1935, were 29% in 1937 and increased to 33% in 1938. In each year they remained well below the typical expenses of the 68 private dealers.

dealers were charging. Investigation is said to have shown that its milk was actually of higher quality. Allowing for this difference in quality, the savings on milk by the cooperative were even larger than those indicated by the figures above.

FUEL AND GRAIN

In the cooperative fuel oil and ice department, the large net earnings—11.1 per cent in 1936—may be taken to indicate that its expense ratio of 19.5 per cent also was unusually low. No statistics for this particular type of business were published by the *Retail Survey*. Statistics were published for a group of 124 coal dealers, many of whom also handled fuel oil and ice. The typical gross margin of these merchants was 25.9 per cent, the typical expense ratio, 24.1 per cent.

The gross margin realized by the United Cooperative Society on coal was 21.0 per cent, substantially lower than that of most of these 124 coal dealers. This tends to confirm the conclusion reached earlier in the chapter that coal was sold at a lower price in Maynard than in other communities. How much it cost the cooperative to distribute coal is not known, since in the society's operating statement the expense figures for coal and grain are consolidated. Yet it was evidently relatively little, for the cost of distributing both commodities amounted to only 10.3 per cent of their joint sales.

Typical expenses of 141 concerns in the grain business, according to the *Retail Survey*, were 13.2 per cent in 1936. Unless the costs of the Maynard cooperative were lower, it must have incurred a loss on its grain and farm supply business, for its gross margin on the commodities was only 10 per cent. In spite of the low gross margin there were net earnings for the coal and grain department as a whole amounting to 4.5 per cent of their sales.

GASOLINE

The largest savings achieved by the society were in its new gasoline station. Net earnings in this department reached 14 per cent of sales in the last six months of 1936.

A comparison of expenses for gasoline distribution shows a typical ratio of 21.0 per cent for the 997 filling stations reporting to Dun & Bradstreet, 16.8 per cent for the Maynard cooperative. But is it possible that expenses of filling stations ordinarily run much lower in a small town such as Maynard? Apparently not: the average for retailers reporting from places of less than 20,000 population was still as high as 20.7 per cent. Would a difference between New England and other parts of the country account for part of the reduction in expense? Only a reduction of .6 of 1 per cent, according to the *Retail Survey*. Allowing for both of these factors, an advantage of 3 percentage points in expense remains for the cooperative station. Nevertheless, this saving in expense is too small to explain most of the earnings of this department.

BUYING ECONOMIES

A major factor in the large savings of the gasoline station was a special economy in buying, providing a larger margin between the cost of gasoline and the prevailing retail price than that enjoyed by most private filling stations. The ordinary gas station buys from a tankwagon in lots large enough to replenish the station pump-tanks. The United Cooperative Society, however, had installed a bulk tank for gasoline along with those for fuel oil and range oil next to its coal yard, so that it was able to purchase gasoline in tankcar lots, paying 2c a gallon less than did the private filling stations in Maynard. The cost of delivering gasoline from the bulk tank to the service station pumps and the depreciation on the added equipment, which must have been quite small, were not charged by the bookkeeper against the service station but apparently carried in the accounts of the fuel oil department.

Taking the society's business as a whole, it does not appear that much of the savings can be attributed to more economical buying than that of private retailers. On a number of commodities, it is true, its volume was large enough to permit buying directly from packers and manufacturers and securing car-

load shipments; but this was also true of the chains, whose bargaining power was very much greater. Most of its groceries the cooperative bought from the Red and White Stores Company. This is a private wholesaler sponsoring a "voluntary chain"; it gives to the independent grocers who are members, the same benefits it extends to the cooperative. As for fruits and vegetables, the manager of a cooperative store in another town, whose volume of business was less than \$100,000 a year, asserted that the Maynard store bought some things in the Boston market less cheaply than he did.²³

Its milk the cooperative purchased from local farmers, and it paid them a higher price than they would have received from private dealers. During 1936, when the wholesale price set by the State Milk Control Board was \$2.72 per 100 lbs. for milk containing not less than 3.7 per cent butterfat, the United Cooperative Society was paying \$3.40. The society was reported to be securing richer milk than that obtained by the private distributors. It was a general policy of the cooperative to buy eggs and produce from the neighboring farmers whenever possible, and to pay them a slightly better price than they would have received in the Boston market. The better prices often yielded better quality products.

The society placed considerable emphasis on quality in its purchasing policies; on meats and vegetables and milk there was evidence that it had succeeded in setting higher standards than those of most of its competitors. On other commodities, however, purchasing policies were less noteworthy. Little effort had been made to avoid the higher wholesale costs of nationally advertised goods or to improve quality by purchasing on specification. To secure good quality in canned goods, according to the manager, the cooperative relied

²³ Since the time of the writer's visit to Maynard, the Eastern Cooperative Wholesale has established a branch office in Boston, which specialized in the purchase of fruits and vegetables for Maynard and other cooperatives in Massachusetts on a commission basis. The Maynard society is also purchasing more of its groceries from the Eastern Cooperative Wholesale now than it did in 1936.

on advertised brands and on sellers' guarantees. Nationally advertised brands were featured in 1936 on various other commodities such as coal, paints, and tires. Relatively little progress had been made before 1936 on the development of a wholesale buying program together with other eastern cooperatives.

EXPLANATIONS OF COOPERATIVE EFFICIENCY

The foregoing analysis indicates that a major factor in the savings of the United Cooperative Society was its economy of operation. While a portion of the savings represents the margin of profit of private business, the operating expenses of the cooperative in nearly every department were lower than those of typical private merchants in the same lines of trade in the country as a whole. In some lines, such as milk, coal, and grain, the difference appeared quite marked. Advantages in buying do not seem to have been of great importance except in the case of gasoline where the size of the savings could be attributed to the policy of buying in tankcar lots.

To point out that the expenses of the Maynard cooperative's business were low does not, of course, provide more than a superficial explanation of the society's economic success. Why were the expenses low? Could they be attributed to anything inherent in the cooperative method of doing business in contrast to that of private enterprise?

One local business man remarked on the efficiency of the United Cooperative Society and attributed it to able management. Both the last two managers had been good ones, he said. But he wouldn't feel safe about a share of stock in the society—its success depended too much on the kind of manager they had, and the next one might not be so good. Another local merchant, who through his position as town clerk for many years had probably come to know the foreign-born people of the town better than had the first one, agreed that the society had good managers. But he didn't think they were likely to fail just because they lost their manager. The members were enterprising, he said, and they went out and got good managers when they needed them. (See Chapter VII).

There can be no question that the management of the cooperative was capable of handling its assignment; at the same time there did not seem to be anything particularly unusual or infallible about the society's management. There was a perceptible difference between the efficiency of the main store and of the new branch store during 1936, for example. The book-keeping of the society would compare favorably with that of most private firms; adequate allowance was made for the depreciation of fixed assets, and the books were audited every six months by the Accounting Bureau of the Cooperative League. Yet for a business of such size and so many ramifications, a more detailed breakdown of some of the statistics seemed desirable. Figures for the main store covered types of business of some diversity—paints, hardware, and electrical appliances, as well as a complete food market; sales in the branch store also included commodities of several different types. The manager of another cooperative remarked that the Maynard management could not really know where it made its savings.

Whether or not the management of the United Cooperative Society was particularly efficient, certain factors may be pointed out in the nature of the society's business which made special economies possible. First of all was the relatively large volume of sales enjoyed by the stores and the other divisions of the business—much larger than that handled by the average private firm in most of these lines. Average sales for all food stores in Maynard were \$30,000 in 1935; the two cooperative stores between them have been doing in the neighborhood of \$200,000 a year—\$100,000 per store—for many years. This is larger than the business done by all but a small percentage of private stores. The same thing has been true more recently with the coal and grain department and the gasoline station. The gas station had sales of \$19,000 in 1935 compared with an average of \$8,000 for the six stations reported by the Census for Maynard. While large establishments are not always the more efficient among private concerns in these fields,

still size alone does make possible certain economies:²⁴ by spreading relatively constant costs such as rent, heat and light over a larger volume of sales, unit costs can be reduced. The same thing can evidently be done even with such a variable item as labor to some extent. Instead of spending part of his working hours merely waiting for customers to appear, a sales clerk may keep busy a larger proportion of the time if trade is brisk, and handle a larger volume of sales in the same amount of time.

It may be noted that the United Cooperative Society did require fewer employees in relation to its sales than the average retail store in Maynard or the average store in the United States as a whole, as shown by Census figures. Sales per employee for the cooperative (excluding employees in the bakery, who were not engaged in distribution, but including those in the dairy) were approximately \$11,500 in 1936, compared to sales per retail worker in the Census year 1935 of \$8,500 in Maynard as a whole, and an average of \$6,000 for all retail trade in the United States.²⁵ Statistics by kind of business in Maynard could be secured for only two lines of trade in which the cooperative was engaged—food and filling stations. Sales per employee in the society's main store in 1936 (including among

²⁴ Statistical studies of large groups of retailers have indicated some tendency for costs to decrease with the size of the firm. Cf. Census of Retail Distribution, 1929, *Food Retailing* (Trade Series), pp. 79-80; *Census of Retail Distribution*, 1929, vol. I, pp. 969, 972, 975; Dun & Bradstreet, Inc., 1937 *Retail Survey*, Survey no. 10, Table IIa.

These studies have also shown a somewhat less marked tendency for costs in small towns to be lower than those in large cities. Typical expenses of grocery and meat stores in small towns, on the basis of the Dun & Bradstreet figures, might be $\frac{1}{2}$ - $1\frac{1}{2}\%$ less than those of stores in cities of more than 100,000 population. The difference between the small town stores and typical figures for stores in towns of all sizes which have been quoted in the text, would, of course, be less than this.

²⁵ For retail trade as a whole the number of active proprietors and partners has been added to the number of employees in order to secure sales per retail worker.

Census of Business, *Retail Distribution: 1935*, vol. I, pp. 2-13; vol. II, p. 12. Statistics for Maynard from special tabulation.

these employees the general manager and one of the three office workers) were \$11,600, which may be compared with a figure of \$9,700 in 1935 for all stores in the food group in Maynard. Sales per employee in chain food stores in the country as a whole were \$10,700 in 1935. In the case of filling stations, cooperative sales per employee were \$8,700 in 1936; for the six filling stations in Maynard as a group, sales per worker were \$5,000, practically the same as the average for filling stations in the United States as a whole.

Large sales per employee thus provides an explanation of the relatively low wage expense of the cooperative's main food store. Some additional saving may have been realized by the fact that the manager and other workers in responsible positions received somewhat smaller salaries than corresponding persons are customarily paid in private business. Except for the manager who was paid \$50 a week, only one employee of the cooperative received more than \$30—the foreman of the bakery who was paid \$31.50 a week. On the other hand, this saving was offset by the shorter work-week observed by the workers in the cooperative society. Wages paid to beginning workers, moreover, were higher than wages paid to beginners in chain store employment.²⁶

In addition to the fact that the sales of the society's establishments were large, the proportion of all local trade enjoyed by some of the departments was unusually great. Over half of the families in the community purchased at the society's stores to a greater or less extent. This might help to explain the low delivery expenses of the cooperative as compared to those of a private merchant who had to cover a larger territory in proportion to the number of customers served. This would be particularly true in the case of the milk department. While the total of its sales was not large compared with the sales of dairy companies in large cities, it had regular patrons in practically every other house in Maynard.

²⁶ See Chapter VII.

The combination of a number of different departments under one management would also seem to offer opportunities for economy. Administrative expense could thus be spread over several different lines of business; expert management and accounting would be available to each individual business at a smaller cost. Similarly with sales expense — orders for groceries, coal, or fertilizer were all taken at the main store, and handbills announcing special sales or new products at the cooperative's stores were distributed by the dairy department with the morning milk. Collections on milk bills and accounts at the food store were made at the same time.

It may be argued that there was a significant connection between the size of the society's business and its cooperative nature. There were, for example, among the patrons of the society at least three or four hundred members who purchased there regularly, because they felt that it was their business and believed in its ability to serve them economically on "a priori" principles, so to speak. They did not make it a habit to shop for their wants. Larger orders enabled employees to handle more business in a specified time. In addition, the cooperative store could even depend on these members to make certain adjustments for the convenience of the store. A substantial proportion of the society's grocery business, for instance, was placed in the form of large orders on Fridays, which the store was not obliged to deliver until Saturday. Even patrons of the society, who had less faith in the cooperative as a social institution, tended to place all their purchases there as a matter of course, in order to swell the size of their patronage dividends at the end of the year.

The cooperative would also be able to develop a new department less expensively than a private firm. For the same reasons that most of its patrons were such steady customers of its established lines of business, they would tend to give the society their patronage in new lines as well. As a matter of fact, new departments were established by the management only because a number of members had suggested them and in-

dicated their desire to patronize them. In some cases the society has asked members to subscribe additional capital, if they wanted it to undertake a new line of trade. This would tend to assure immediate support for a new department.

Waldemar Niemela, the former manager of the United Co-operative Society, gave the following general explanation of the lower costs of the cooperative business:

It is a general practice in cooperatives to appeal to the common sense of the consumers, and ask them not to insist that the cooperative go into a wasteful way of doing business, even though their competitors may be so doing. By proper planning and eliminating useless services, such as unlimited delivery, credit selling, wasteful advertising, etc., cooperatives naturally can operate their businesses at lower costs.²⁷

CONCLUSIONS

There is evidence that the cooperative nature of its business has played an important part in the economic success of the United Co-operative Society of Maynard. Its low expense of operation can be partly explained by the large volume of business transacted in the various departments, particularly large in relation to the size of the town. Its volume of business, in turn, was made possible through the number of its members and their confidence in the society. Another source of economy was the combination of several kinds of retail trade in one business, which was again facilitated by its membership form of organization. There may, as indicated by Waldemar Niemela, be various other sources of economy on which it is not so easy to put one's finger, which result from a spirit of cooperation between the business and the members. One other factor which has been at least partly responsible for the efficiency of the Maynard cooperative is its management, which has been consistently good over a long period. Whether or not this also can be attributed to cooperation will be discussed in the next chapter.

²⁷ Letter of August 3, 1939.

CHAPTER VII

DIRECTION AND PERSONNEL

EFFICIENCY of management in the United Cooperative Society may have had a firmer basis than is apparent to the casual observer, in the supervision of the business by the board of directors and the membership. Whereas a chain store manager must make reports on operations to supervisors in the central offices of his company, the manager of the cooperative was required to make detailed reports once a month to the representatives elected by the member consumers to be responsible for the conduct of the society. The board, in turn, must report twice a year to a meeting of the members.

THE ROLE OF THE BOARD OF DIRECTORS

The board exercised a fairly active supervision over the affairs of the association. It was provided in the by-laws that regular meetings of the board be held before the fifteenth of each month, at which the manager must submit a report on the previous month's transactions, covering both the changes in current assets and liabilities and the expenses in detail. Actually, the board has met much more than the twelve times a year required by this by-law, in one case having met as often as four times in a single month. It took a major part in working out the plans for the new branch store built in 1936. In addition to its direction of the manager's policies, the board appointed a management committee, whose duty it was to inspect personally the conduct of the society's business and thus provide a check on the manager and on the employees.

The by-laws provided: "If any member of the Board of Directors, without being able to produce legal or substantial reason, is absent from three consecutive meetings such member shall be declared suspended and the next alternate in order shall be called to fill the vacancy." The original by-laws made

no provision for giving the directors any remuneration for the fulfillment of their duties. At the annual meeting in 1936, the members decided to pay them each \$12 a year.

It was further provided that there should be "nine Directors elected at annual meetings, four members at one meeting and five at another and their terms shall be two years . . . The election of the Board of Directors shall be conducted so that twice the number of directors needed shall be nominated for election. . . ." This requirement prevented the presentation of a single slate of nominees for the board, a practice which is frequently observed in other membership organizations and in profit-seeking corporations, and which often leads to control by small groups or cliques. In the cooperative a contest for the directorships was assured. At the same time, since only part of the board was elected each year, there were certain to be at least four or five directors with some previous experience.

Attendance at membership meetings, as noted in Chapter V, was confined to a minority of the shareholders. At the semi-annual meetings held during the summer, attendance was generally little more than the 10 per cent required for a quorum. Still, their transactions were not perfunctory. The board was required by the by-laws to "execute all orders of membership meetings." It is said that recommendations of the board were often warmly debated and carried only by a close vote, and in some cases were defeated. Members frequently criticized the conduct of the business in various respects, and proposals were sometimes made from the floor and adopted by vote of the meeting. While matters of policy were in many cases left to the discretion of the board, a proposal at a meeting in 1931 to allow the board of directors to decide on the amount of the rebates was defeated by the members.

The board has taken active responsibility for the appointment of all new employees, for the determination of the wages of each worker, and for promotions. In case of dismissal, an employee had the right to take an appeal to a membership meet-

ing.¹ Employees have not been elected to the board; it is provided in the by-laws, in fact, that directors could not be employees of the society. It was also forbidden by custom for a member of the same family as an employee to be on the board of directors.

When a new manager was needed in 1932, the board inserted advertisements in newspapers with a circulation among cooperative societies in the East and in the Lake Superior region. Applicants were requested to state their qualifications together with the salary desired. On this basis Rivers, who had been manager of a cooperative on the Upper Peninsula of Michigan, was selected.

Appointments of other employees were made locally without advertisements. Lobbying by members to secure the employment of their relatives or friends was said to have occurred at times. The society had made it a general policy to hire young and inexperienced workers and train them itself rather than take older employees trained in private business. Summer institutes conducted annually by the Eastern Cooperative League and the evening institutes arranged by the cooperative in Maynard in 1934 and again in 1939 have provided a minimum of systematic training.

WAGES AND WORKING CONDITIONS

A question of general interest is that of labor standards maintained by a cooperative in comparison with those in private employment. Did the United Cooperative Society offer superior inducements in order to secure more efficient workers? Or might it be that the low expense ratio of the society was explained by the payment of lower wages than those paid by private business?

¹ The minutes of the annual meeting in 1923 record a complaint by an employee who had been dismissed by the management. At the manager's request the complaint was referred to a committee of members. In May, 1932, a special meeting was held to discuss the dismissal of a butcher who had apparently been with the society for many years. The board explained the basis for the action, and in this case also it was upheld by the members present.

The writer assumed that if the latter were the case, the private merchants in Maynard would probably not hesitate to say so, and he put the question to six of them. Two merchants, in direct competition with the society, claimed that the cooperative did pay poor wages. The others, however, believed that the society paid as good wages as the other private merchants and better than the chain stores.

The writer undertook to make this comparison for himself during 1936. Statistics secured from the bookkeeper of the United Cooperative Society showed a weekly payroll of \$1100 a week in June, 1936, for forty-seven full-time employees and four on part-time, representing an average wage to full-time workers of \$22 or \$23 a week. The lowest remuneration was that of the girls employed in the new branch store, who had had no previous experience, and who received \$12 for a week ranging from 40 to 44 hours. One male employee was paid \$15; the lowest pay for the other men was \$17. Most of the lower paid employees were in the two stores, where, perhaps, the work required less skill or experience than in the other departments. The lowest wage paid in the other departments of the business was \$20.

The results of the various inquiries showed that the cooperative paid substantially better wages to employees at the bottom of the ladder than did the chain stores—or the independent merchants, either, for that matter, although the latter did not pay such small amounts as the chain stores. To men in responsible positions, as noted in the preceding chapter, the cooperative paid much less than did the chain store companies.²

² The wages paid the regular sales clerks at the largest chain store in Maynard, according to a boy who had recently worked there were \$17, \$20, and \$23, not appreciably different from the pay of the cooperative for men of similar experience. The same chain store, however, employed three workers on a part-time basis, whom it paid \$2.50, \$5, and \$7 respectively for the time they worked. The writer did not learn how many hours these employees worked. He was informed by the manager of a smaller chain store, however, that the latter paid \$8 to a youth who worked from 40 to 45 hours a week. The hourly rate paid by the cooperative for part-time work was approxi-

Thus, the average rate of remuneration in the cooperative store might have been less than that of the chain stores, even though the minimum wage was larger.

Employees of the United Cooperative Society were reported to have escaped the drastic reductions in wage rates suffered by most workers during the depression. Except for a period of less than a year during the last half of 1932 and the beginning of 1933, when the employees were said to have undertaken a voluntary cut in pay so that none would have to be laid off, weekly wages were reduced only $11\frac{1}{2}$ per cent. Most of this $11\frac{1}{2}$ per cent reduction was offset in terms of hourly rates of pay by a reduction of hours from 52 to 48 when the National Recovery Administration was inaugurated. The semi-annual statements of the society, nevertheless, indicate that the management achieved a reduction in payrolls by the same methods used by many private concerns—no promotions and the appointment of only inexperienced persons at low rates of remuneration. The average pay of employees for the year 1928 was at the rate of approximately \$700 for six months. For the first six months of 1930 it was between \$550 and \$600; for the last six months of 1933 it was nearer \$525. By 1936 it had risen again to nearly \$600.

The United Cooperative Society, while setting better standards than the chain stores, had achieved no revolution in the wages of retail labor. Its minimum wages were still too low to support decent living standards on any basis except the two-workers-to-a-family standard of the textile industry, and there was still considerable inequality between different workers in rates of pay.

The society had, however, brought about a substantial improvement in hours of work. For instance, the writer was told

mately twice this rate.

At the largest chain store the manager of the grocery department was said to get \$38 plus a commission of 1% on sales, which ran about \$19 a week, and the meat manager received \$43 a week. The general manager of the cooperative's half-million dollar business was paid \$50 a week; no other employee outside the bakery received more than \$30.

by one grocery clerk in the main store of the cooperative, who had only recently been working for one of the private merchants, that while he received only \$23 a week—or the same wages he had been paid at the private grocer's—he now had to work only 48 hours, whereas he had spent from 60 to 72 hours a week in the store of the private grocer. If it was necessary for him to work over 48 hours in his new job, he found extra pay in his envelope to cover the additional time he had worked. This was true of all the employees in the main store of the cooperative. In other departments the week was also supposed to be limited to 48 hours, but no automatic arrangement was made for overtime pay, and the employees apparently hesitated to request it. In the dairy and bakery departments the workers generally found it necessary to put in from 50 to 55 hours a week. Another clerk in the main store of the cooperative, who had formerly worked for the Great Atlantic and Pacific Tea Company, remarked that he had had to work at the chain store until one o'clock every Saturday night fixing the show windows and taking a weekly inventory. At the "co-op" he was through at nine on Saturdays. The cooperative store closed at eight o'clock on Saturday evenings, although the other stores remained open until 9:30. Another privilege enjoyed by the employees of the cooperative was that of stopping work to drink coffee in the middle of the afternoon, a custom prized by the Finns.

The cooperative employees who had worked for the chain stores also remarked on the continual pressure that the workers there were under to produce better and better results, the constant—and sometimes hidden—supervision from above. They claimed that they much preferred working at the cooperative. One of them remarked that the cooperative seemed to handle more business with less work.

The non-Finnish employees with whom the writer talked, each of them engaged by the cooperative only within the past year or two, felt that the cooperative was a desirable place to work and offered as much or more opportunity for advance-

ment than any private concern. They were not particularly interested in cooperative principles but said that they liked the atmosphere in which they worked. A few of the other employees expressed dissatisfaction with conditions of work at the cooperative. Two Finnish workers, in particular, stated that there was no system for promotion or raises in pay, and that an employee had to put up a fight to secure what seemed to be merited advances. Moreover, as one of them put it, "You have to take it." What he meant was that some of the members, notably the older Finns, tended to be critical of the employees of the society and did not hesitate to tell them of their faults.

The security of tenure, as this employee pointed out, was much greater with the cooperative society than it would have been with private employers. Workers were not discharged unless the action could be justified to the membership.³ Besides the business was more stable than that of typical independent retailers.

There was no collective bargaining in the full sense. The employees had appointed representatives to request an increase in wages at the beginning of 1936. While increases of varying amounts were granted by the board of directors, the workers' representatives did not participate in working out these changes. There was no union organization among corresponding workers in private employment in Maynard. The cooperative employees seemed satisfied, generally speaking, to have the board of directors as the principal court of appeal.

³ Intangible attitudes such as the attitudes of the employees toward their work are difficult to assess, especially for an outsider. Frequent contact with three or four of the cooperative workers and occasional contact with many of the others during a four-week visit to Maynard did not impress upon the writer any marked difference between their attitudes toward their jobs and those of the employees of many private stores. Most of them seemed to like their work, but they were not uniformly conscientious about the performance of it. Some of them were dissatisfied. None of these, however, seemed to bear any profound ill will for the organization; the complaints were rather of details of operation which they felt should be corrected by the management, or else of inadequate recognition of their personal merits.

The inducements offered by the society to able workers to seek cooperative employment were, on the whole, rather modest. The cooperative offered better wages to inexperienced youngsters than did the chain stores, but at the same time offered less prospect of high rewards to the most successful. Hours of work were shorter than those of private stores in Maynard, and jobs were more secure. Judging by the reports of cooperative sales clerks, the cooperative store was a somewhat more pleasant place in which to work than the local chain stores.

Large sales per employee and low expenses of operation, nevertheless, indicate that the society had succeeded in building up a comparatively efficient personnel.

CHAPTER VIII

COMPETITION WITH PRIVATE BUSINESS FOR PATRONAGE

CONSIDERABLE attention has been given to the question of economic efficiency. Yet, any conclusion as to the future of cooperatives in this country which was based solely on an analysis of their economic efficiency would be meaningless. On one hand, consumers may not choose their retail dealer merely on the basis of prices, quality, and service. A cooperative store might succeed in attracting patronage even though it was able to provide no savings to consumers, or it might fail in spite of superior efficiency. On the other hand, the operating expenses of a retail business depend so largely on the amount and kind of patronage that a concern secures, that economic efficiency itself may be determined by non-economic factors.

It has been concluded in a preceding chapter that the United Cooperative Society of Maynard was more economical in its operations than most private firms and that it did effect savings for consumers, as compared with their purchases from the private dealers. Nevertheless, private business continued to handle the major part of the retail trade in Maynard. Although the patronage of the cooperative was increasing, it transacted less than a quarter of the total sales in the town in 1938. What, then, were the factors which deterred additional people from buying from the cooperative society, if it was able to deliver the goods more cheaply?

It is generally recognized now that man is not the selfish, individualistic sort of machine that he was assumed to be by the classical economists, governing his conduct entirely by reference to economic advantage and ignoring all other considerations. Man is a social individual, and an important part of his life is his relations with other human beings. His patronage of a store in a small town such as Maynard involves not only the economic bargains that he makes there, but the person

or persons with whom he makes the deals. He is concerned with his relations with that person, and he is also concerned with reactions from this patronage on his relations with other people. Social or group prejudice is an important factor in a consumer's buying habits.

This is a factor which is not neglected by competing merchants. It is to their interest to promote those social attitudes which draw trade from their competitors. Thus, one found the private competitors of the cooperative in Maynard couching their propaganda in the language of social prejudice.

The United Cooperative Society was known to have been started by Finns and was widely regarded as a Finnish institution. Language was not an actual barrier in itself, since all the cooperative employees could speak and understand English more or less, yet many of them had sufficient accent to remind customers that they were of a special nationality. Those persons who were inclined to stick within their own group and look with suspicion on persons of other nationality—and there were many of these in the older generation—would avoid unnecessary contact with such a business.

At the same time somewhat similar forces within the Finnish membership proved a source of strength to the cooperative society. Finns would naturally prefer to patronize a Finnish business. Furthermore, the social group supporting the cooperative among the Finns was so well-developed that members of the group met with distinct social disapprobation when they bought from competitors of the society. This situation was of no aid to the cooperative in securing patronage by other social groups, yet it tended to guarantee a substantial amount of business.

The "clannishness" of the Finns was a source of hostility among the non-Finns. The manager of the Tydol gasoline station on the corner opposite the cooperative's new station, a swarthy Italian, had evidently lost considerable business to the society. Among other indictments of the cooperative, he complained of the way they favored the Finns. Practically all

the employees were Finnish, he told the writer, and if a Finn customer came into the store when you were buying anything, they'd turn right around and wait on him first no matter how long you'd been there.¹ Said the Italian, "The Finns want everybody else's business, but they wouldn't give 'a white man' any."

This disapproval of the cooperative because it was largely Finnish was much weaker now than formerly. With a large part of the English-speaking population already trading at the society's store and taking its milk at their homes, this feeling had been gradually dying away. It was, however, a barrier which did not affect some of the other stores in Maynard, notably the chain stores. The latter were large establishments, employing persons of several different nationalities, and their ownership could not be identified with any foreign group.

Another aspect of the cooperative which limited popular patronage was its reputation for radicalism. It had, of course, been started by persons mostly connected with the Socialist party, and while the political and social complexion of its membership had changed considerably during its existence, so that disinterested observers no longer considered the group Socialist, the charge was still made by non-members that it was a Socialist or radical organization. Finns as well as "Americans" took this point of view. The First National Cooperative Association had been started by the conservative, church-going Finns, because they did not wish to co-operate with Socialists. The secretary of that organization, interviewed by the writer, maintained that they were still opposed to joining the larger society because the latter "favored the Socialists". Irish Catholics and members of other churches, as well as the Finnish Lutherans and Congregationalists, looked with misgivings on the "atheism" or lack of religion of Finnish cooperators in the United Cooperative Society.

Nationality and political color were often lumped together by opponents of the society as motives for avoiding its business.

¹ This statement was contradicted by other non-Finnish persons.

What sort of organization was the United Cooperative? local merchants were asked. "They're Socialists," one said, "—Socialists and Finns." A Polish grocer who had been losing trade to the society, answered that they had "Socialists and Anarchists and all kinds of fellows over there."

Here again, of course, the chain store was at an advantage, for while proprietors of independent stores as well as the cooperative may be classified with opposing creeds, ownership of a chain store is more impersonal. The chain store, however, was opposed on social grounds of another sort. Its owners were not local citizens, and it was taking profits and perhaps even a livelihood out of the hands of local people. It was putting the independent merchant out of business and concentrating trade in the hands of large corporations controlled from "Wall Street".

The chain store was also generally regarded as an unsatisfactory employer. Thus, an Irishman who had been in business for himself told the writer that he did not have much use for the chain stores: "They'll take a young fellow and tell him that they're going to teach him the merchandising business and give him a chance for advancement, but they won't pay him hardly anything, and when the time comes when he's due for a raise, they'll fire him. They put their employees to work arranging windows after nine o'clock on Saturday nights, so they don't get home until maybe eleven."

While the cooperative was seldom accused of treating its workers unfairly, it was indicted along with chain stores by most of the independent merchants on the grounds that it was taking the business of these merchants away from them. An employee at one private filling station said: "No, I never trade at the cooperative. They aren't giving anybody else any business, but they're trying to get it all for themselves. They sell about everything but shoes and clothing now, and they'll be starting up in that one of these days—just you watch! Between them and the chains the ordinary fellow doesn't have a chance." The manager of one of the other gas stations also criticized

the cooperative for taking all the business away from the "townspeople", and another station-attendant accused it of trying to "hog the town's business."

The assumption seemed to be that retail trade was something to be shared amicably among as many local business men as possible. Whether they were efficient or not, they deserved a share as their livelihood. It was a matter of economic self-interest. Since there were some 350 persons engaged in private retail trade and service establishments in Maynard, the number of local families influenced by this interest including friends and relatives, was not inconsiderable.

Not every merchant assumed this attitude, however. Quite a few, who were not directly affected by the competition of the society, even patronized the cooperative themselves.

PERSONAL ATTACHMENTS OF CONSUMERS

There were many other local people who found little fault with the cooperative and perhaps patronized it for some of their needs, but still felt a personal attachment or obligation to particular dealers which kept them from buying at the cooperative generally. Thus, the sister of one of the "American" directors of the society said that she didn't have a bad word to say against the cooperative. But her husband's family had close relatives in the grocery business, so she traded with them. And she had old connections from whom she bought her milk and coal, whom she did not like to leave. She felt that she owed the coal dealer her custom, since he had carried her account when she was a bit hard up and could not pay cash.

Another woman of English descent mentioned that a friend or relative was buying through the cooperative, and had received a rebate of \$25. While she didn't think that the prices at the cooperative store were any higher than at the chain stores, she traded at a chain store in the residential section. It was more convenient for her, she said, and they had given the job of manager to a boy she knew, who had been out of work, and she wanted to help him all she could. She did buy from the cooperative bakery wagon.

CONVENIENCE OF LOCATION

Convenience of location, of course, is an obvious explanation for the patronage of stores which may not be as economical as their competitors. In Maynard, however, the bulk of the retail business was done in a central shopping section covering only three or four blocks in length. It was concentrated on Main Street, but spread out into the first block or two of Nason Street, where the latter branched off from Main and led up into the more prosperous residential section. The two largest chain stores in the town were adjacent to the intersection of Main and Nason Streets. Half a block away on Main Street was the principal store of the United Cooperative Society. The branch store was two blocks farther along Main at its intersection with a principal cross street. For the majority of consumers shopping "downtown" convenience would not have been a major factor in deciding what store they patronized. For neighborhood shopping, on the other hand, many stores would have been more convenient than the cooperative establishments even though the latter gave delivery service.

Such factors as convenience and the personal attachments of consumers help to explain the fact that the total number of persons buying from the cooperative in all its branches was larger than the number patronizing any particular department of its business. The majority of the cooperative's patrons, in fact, apparently purchased from a private dealer rather than the cooperative in at least one line of trade.

LOCAL RECIPROCITY

There was a fairly strong feeling among many persons not only that the community could be best supported by directing as much trade as possible to local business men, but that there was an obligation to give one's custom to persons who patronized one in other ways. A woman who ran a small boarding house remarked, for instance, that she thought one should "trade with them that trade with you". She said that she went

where she could get the best for her money, but she bought quite a bit from the small chain store whose manager ate at her table. Her milk she bought from the dealer whose agent was another of her boarders.

Others, of course, who felt no reason why they should not change and buy from the cooperative, just did not bother. One American business man whose wife did some of her buying at the cooperative store, stated that they were taking their milk from the fifth successor of the farmer-dealer from whom his mother used to buy. The recent bride of an overseer at the mill said that they had been buying the cooperative milk at home before she was married, but a private dealer had been delivering milk to the house into which she and her husband moved, and she hadn't bothered to change. Cases of this sort may have been less frequent among families with more limited means, who had more need to look for possible economies.

These factors all acted to deter people from becoming patrons of the cooperative. Some of them, of course, would affect any private concern which was endeavoring to increase its share of business, in much the same way. The cooperative, on the other hand, had certain features which gave it special advantages in attracting additional patronage.

THE IMPORTANCE OF THE REBATE

The patronage rebate, although it was not stressed in the advertising of the society, undoubtedly proved an important drawing card. It was paid in one lump sum at the end of the year, and for a working-class family who had done much of their buying at the cooperative, this was an event of sufficient importance not only to be remembered throughout the year but to be proclaimed to friends and acquaintances. A comparison of the rebates paid by the society with the number of shareholders and the number of families apparently trading with it indicates that the average rebate paid on the business done in 1936, when the rate of payment was 4 per cent, was \$17 or \$18. It should be noted that this average covers many persons who

bought relatively small amounts from the society and received refunds of only a few dollars. Most workers' families, with incomes of \$1,000 or more, who patronized the cooperative consistently, might be expected to spend there at least \$500-\$600. In that case they would receive at 4 per cent a patronage refund of \$20-\$24. There were cases where working-class families received much more than this, and some farmers who bought their farm supplies through the society secured refunds of \$100 or more.

To some persons a lump-sum payment equal to a week's wages had more attraction than the possible savings of a few cents at a time, which they might make by shopping at the chain stores. To others the immediate savings that they might be able to realize at a chain store outweighed the comparatively remote prospect of a refund at the end of the year. On large purchases where prices were often uniform, the attraction of a later refund of possibly four or five dollars on a single transaction was naturally considerable. Many "Americans" shopped around for their daily groceries, but when they planned to fill up their coal bin with \$100 worth of coal for the winter, placed their orders with the cooperative.

Nevertheless, the ability of the association to return a financial saving to patrons should not be pictured as the *sine qua non* of its success. That there were other aspects of its service which won it the patronage of consumers is indicated by the fact that quite a few non-Finnish persons traded with the society fairly regularly without ever collecting refunds due them.² Thus, out of a sample of thirteen consumers, all non-Finnish, who said that they did buy from the cooperative in one way or another, four turned their rebate slips over to a friend or relative. One young Polish woman said that her family had been trading with the cooperative for ten or fifteen years; they bought practically all their groceries at the branch

² Patrons received cash register slips with their purchases and were required to save these and turn them in at the end of the year in order to claim their patronage refunds. Slips corresponding to 82% of the sales were presented for rebates in 1935 according to the bookkeeper.

store of the society, and also purchased cooperative milk and coal. Yet they gave all their rebate slips to a friend who was a shareholder. A present in this form to one's friend, of course, may have been a consideration in the choice of a retailer; yet it was certainly of less weight than a direct pecuniary return.

The ownership of shares cannot be considered an incentive to patronize the business in the first place. Only persons who traded with the society were expected to be shareholders, and the purchase of one or more shares generally followed a consumer's patronage of the cooperative rather than preceded it. Nevertheless, the ownership of one or more shares by a patron was probably an influence in many cases promoting continued support of the business. Quite a few members, particularly the Finnish ones, had put \$100 or so of their savings into shares;³ and to some persons, no doubt, even the possession of one \$5-share lent an added interest in the success of the society. On the other hand, the value of the shares could not readily be redeemed. In many cases, also, the ownership of a share was acquired merely through the accumulation of credit from patronage refunds, and when they learned that it could not be sold, such a form of ownership meant little to most people in that position. While interest was paid on the shares, for a single share of \$5 the amount paid in a year was negligible.

COOPERATIVE ADVERTISING

The essential distinction between a consumer's cooperative society and a private enterprise lies in the principles on which the former is based rather than in financial advantages. Cooperatives are generally organized by persons who are dissatisfied with the operation of private enterprise and who hope to build a better kind of economic institution. Therefore, the most natural appeal that a cooperative business can make for support is to people's dissatisfaction or to people's idealism.

³ It was said in 1936 to be the policy of the association to discourage new members from buying more than one share.

This is an appeal which private stores cannot make. It may also be a very effective type of appeal. It was said of the manager of a successful cooperative in Minnesota, that when a customer came in to ask about some tires, the manager did not deliver a "sales talk" on the tires, but "sold" the man on the principles of cooperation. After the man was convinced on this subject, he bought the cooperative tires without the need of any special argument. A cooperator by conviction can be expected to do all of his trading with his cooperative business as a matter of principle.

For this reason it is said that a cooperative can dispense with advertising to a large extent. If it keeps its membership actively interested in the operation of the business, the problem of patronage is supposed to take care of itself. Members will prefer to buy at their own store, and will also try to "convert" other consumers. Its selling expenses ought, therefore, to be lower than those of private business.⁴

The United Cooperative Society of Maynard, however, was found to follow the conventional selling methods of private retailers. It advertised regularly in the local weekly newspaper, and since the chain stores did not advertise in this journal, but in the metropolitan dailies, its advertisements constituted the principal retail notices in the local paper. It also followed the practice of offering low-price "leaders" each week, though more in a spirit of self-defense against the loss-leaders of the chains than as a deliberate policy.

The advertising copy of the society in 1936 was not imaginative, nor was it well laid out, according to the best copy-

⁴ In Maynard, of course, both enthusiasm and skepticism were somewhat tempered by an unusually extensive experience with consumers' cooperatives. The United Cooperative Society was practically thirty years old, and for thirty years before it there had been the Riverside cooperative. There had also been the Polish cooperative which had operated a store on the main street for a few years, and the First National Cooperative Association which was still in existence. The United could attract few new supporters by clarion calls to Utopia that would not be discounted in the light of the experience with local cooperative stores in the past.

writing standards. The hackneyed phrases and methods of second-rate private advertising had been taken over practically intact.⁵ Prominence was divided between the products of the society's dairy and bakery and nationally advertised brands, including "Ovaltine" and one or two other products generally condemned by consumer-agencies. Special advertisements were also inserted from time to time for "Reading" coal and "Goodyear" tires in the usual extravagant language.

The cooperative did not have any publication of its own to keep its members informed of the activities of the society or to advertise. Instead, it distributed each week the news-sheet of the Red and White Stores Company. This was a four-page, feature newspaper called "News Flashes" bearing the Red and White banner and the words: "Published Weekly for the People of this Community by Red and White Food Stores." The name "United Cooperative Stores" appeared on the back page which was devoted to price advertisements featuring Red and White brand merchandise. At one side of the name was the assurance that "The Owner is Your Neighbor", at the other the information that "Over 90 Red & White Items are Tested and Approved by Good Housekeeping", together with the seal of the Good Housekeeping Magazine Institute.⁶

⁵ An advertisement used by the society during the writer's stay in Maynard showed the picture of a young woman simulating fatigue and pain within the outline of a milk bottle, accompanied by the heading: "TIRED? YOU'LL FIND MILK. THE BEST ENERGY BUILDER." The effect produced on the writer was one of repulsion rather than a desire to drink more milk.

⁶ Since 1936 when the writer made his observations in Maynard, a monthly newspaper called *The Cooperator* has been established by the Eastern Co-operative League and Wholesale and distributed by the United Cooperative Society to its members and patrons. This provides news and special articles concerning cooperatives, and also a medium for advertising cooperative label merchandise.

In 1936 the wholesale inaugurated warehousing operations and rapidly developed a line of "CO-OP" goods covering over 300 items by 1939. The Maynard cooperative is reported to have promoted these articles in place of the "Red and White" brand. The cooperative label goods facilitate an appeal to the idealism of cooperators on the basis of tangible accomplishments.

Another indication that the society was seeking patronage as a business rather than as a cooperative, is provided by a circular letter sent out by the manager in June, 1936, to persons in Maynard who had not patronized the society. The letter read as follows:

Dear Consumer:

We should like for you to know about the services available to you at the United Cooperative Society. It is our policy to handle only the best of merchandise, but you will find that our prices compare favorably with those of our competitors. Here are a few words about some of our lines of goods.

MILK

Our milk is produced by our farmer members, and is processed at our own pasteurizing plant under sanitary conditions. It is very high in butter fat content, and is sold at the usual market rate, twelve cents over the counter and thirteen cents delivered.

BAKERY GOODS

Our Breads and Pastries are produced in our own plant. Only the highest quality materials are used. There are more than twenty kinds of bakery goods available. These products are sold in both the main and branch stores, and from our bakery truck which will call at your house. These pastries are also served at our soda fountain and luncheonette in the new branch store.

CANNED GOODS

Our canned goods are all nationally advertised brands, such as Red & White and Libby's. They have proven satisfactory to our customers both in quality and in flavor. Our various lines of cereals and other foodstuffs have to meet the same high standards.

MEATS

Our meat departments in the main and branch stores serve only very high quality meats under sanitary conditions. They will be prepared to your liking by our expert butchers, and are sold at reasonable rates. We invite you to compare the quality and price of our meats with those available anywhere else in town.

There is little in this letter to distinguish it from one which might be sent out by an enterprising private merchant. Nor were the total advertising expenses of the United Cooperative Society noticeably smaller than those of private retailers.

As a matter of fact, however, in proportion to sales, advertising was not a large item of expense for the entire business. The society spent $\frac{1}{2}$ of 1 per cent of its sales on advertising. It spent about the same ratio for the two food stores alone. This was, however, equal to the typical expenditure of the grocery and meat stores reporting to Dun & Bradstreet for 1936. Furthermore, the cooperative spent almost as much again on educational work. If the latter be considered a business expense, contributing to the sales of the cooperative's departments, the advertising and other special sales expense of the society would appear to be larger than that of most private merchants.⁷

EDUCATIONAL WORK

The purpose of the educational work of a cooperative has been said to be three-fold. It is partly intended to attract new members to the support of the cooperative business. But it is also concerned to make existing members better informed both as to cooperative principles and history and as to the problems of the business. And, finally, it includes technical or vocational training of the employees in the most efficient handling of their jobs.

Educational work had been largely neglected by the defunct Riverside Cooperative Association. The younger generation, in particular, was not educated in cooperative principles, with the result that it felt little interest in the society, and the membership in general was not kept alert to the problems of the association's store. The Finns in the United Cooperative Society claimed to be better acquainted with the principles of

⁷ In the society's accounting, expenditures on education were not included in the operating statement proper, but listed among "Other Expenses" and "Other Income".

cooperation, and believed that a certain amount of educational work was essential for continued success.

An educational fund was provided by the by-laws of the association, which required that not less than 5 per cent of the net earnings should be set aside each year for such a fund. It was to be administered by an educational committee, appointed by the board of directors, and including representatives of the board, the employees, the Womens' Guild, the "Young Cooperators", and the membership at large. The committee together with its constituent groups arranged lectures, outdoor meetings, teas, and banquets—all centered around cooperation or related subjects.

The Women's Guild had been initiated in 1932 with eighty members drawn principally from the Finnish membership. In addition to teas and other forms of social contact, the Guild laid plans for a two weeks' summer camp to be open to all the children of the town—this, however, did not materialize until after 1936. The Young Cooperators' Club, mentioned in Chapter V, was also organized in 1932. It was the outgrowth of a cooperative summer institute at the Brookwood Labor College, which had been attended by several young people from Maynard.

One-week summer institutes were arranged by the Eastern Cooperative League regularly in subsequent years, and the Maynard cooperative made it a policy to send several young people to the institutes each year with their expenses paid. This frequently proved an effective method of stimulating their interest in the cooperative movement. It was also practicable to send to them non-Finnish youths who might be less interested about attending local meetings which were predominantly Finnish.

The expenditures of the educational committee ordinarily ran to about \$1,000 a year. In the latter half of 1934 and again in 1936, the society decided to appropriate additional funds for the employment of an outside educational director on a temporary basis. In 1934, they secured from the staff of the East-

ern Cooperative League a young man who had just graduated from Amherst College. He spent several weeks in Maynard. Together with two or three local leaders he conducted a six-week cooperative institute, meeting for three hours one evening each week, and taking up the history of cooperation, the relation of current events to cooperation, economics, and accounting. Some sixty persons attended, about half of them employees and directors of the society. There were a handful of outsiders from neighboring communities, but few non-Finnish residents of Maynard.

During the same period this director also conducted a house-to-house canvass of the town, aided by several young cooperators. In talking to each resident it was intended to combine some information about the cooperative's business services with an exposition of cooperative principles and aims. The canvassers also were instructed to learn what departments of the business each consumer was or was not patronizing. They naturally found this the easier approach, often found themselves then listening to complaints, and in many cases the "educational work" amounted to little more than a "sales talk". While it was thus mostly customer-solicitation, some patrons of the society were persuaded to become members and to take some interest in its direction.

The second educational director, employed during part of 1936, was a young man who had been a school-teacher and principal of a small high school. He wrote some effective publicity for the society, supplied information about it to the interested persons who were now writing in from many parts of the country to ask about the workings of the cooperative, and took a census of the local residents to single out the non-members and send them circulars about the society. He also spent considerable time in visiting surrounding communities, encouraging groups interested in forming cooperatives there.⁸

⁸ The work of this director in trying to aid the cooperative movement in nearby communities was not approved by the Finnish members of the society. They felt that they had hired him to promote the success of their

Joint plans to systematize their educational work were made by the United Cooperative Society of Maynard and other New England member societies of the Eastern Cooperative League in 1939. An educational fieldman was engaged by the League to spend part of his time in each of several New England communities at the expense of the societies, directing their activities. This fieldman conducted another evening institute in Maynard in the winter of 1939.

There seemed to be considerable question in the minds of some local cooperators as to the effectiveness of the local educational work. The chairman of the educational committee, a Finnish milk driver for the cooperative, did not feel that their work had been successful in interesting either the young people or the "American" members of the cooperative. Only three or four young people, he said, seemed to be really interested in the work.

All the members of the educational committee were Finnish, and the social barrier between the Finns and the non-Finns in Maynard proved a serious handicap to their work. The membership of the "Young Cooperators" included young men and women of various nationalities, and succeeded in breaking down this barrier to some extent. Meetings of the Women's Guild, however, were held in Finnish, so that it was impossible to bring non-Finnish housewives into the cooperative through that organization.

The educational committee did not secure a large attendance of "American" residents at its public meetings. While they had managed to fill the high school auditorium for the celebration of the opening of the new branch store, most of the non-Finns present came from other communities. Only a few dozen persons turned out for a talk at the auditorium by Bertram Fowler, author of *Consumer Cooperation in America*, in the fall of 1936. On the other hand, the Parker Street hall

own association, and they did not consider that the development of other cooperatives was a part of that job.

was filled to overflowing for a meeting in Finnish a short time later.

SOCIAL ACTIVITIES AMONG THE FINNS

The loyalty of the Finnish members was maintained by numerous social activities in which they participated together, either under the auspices of the cooperative or of the Socialist local. They had public meetings in Finnish, they held dances, they presented plays. Both the older and the younger people took part in the dramatic activities, which were carried on frequently and with considerable ability. Dramatic groups from Maynard gave plays in other Finnish communities in Massachusetts, while groups from these other towns sometimes appeared here. The Finns were also greatly interested in athletics, particularly track and field events. Track meets among the teams from the neighboring Finnish communities were a regular feature of the field days held by the various social organizations.

Most of the Finnish members of the United Cooperative Society also belonged to the Socialist organization, which owned the Parker Street hall, a large, homely, wooden structure near the cooperative's branch store. This group also owned a park about a mile from Maynard, where they had a large wooden pavilion, a pond for swimming, and an athletic field (there were no public parks of any size in Maynard). At this park the members of the organization held their field days with speeches, refreshments, and athletics, and here also they had their dances in the summer season.

These activities threw the Finnish cooperators into frequent companionship, added to their mutual interests, increased their group loyalty and their ability to work together in harmony. They were also educational in some respects, of course. There was not much emphasis on strictly educational projects. Aside from the short institutes held in 1934 and 1939, there were no classes or study groups either in cooperative subjects or in other fields. In particular, there was no central library built up,

on which people could draw to increase their knowledge on questions with which the cooperative was vitally concerned. The subjects taken up by the Women's Guild and the "Young Cooperators" covered a wide range, but apparently none of them came very close to home in any systematic way. Neither group had played any active role either in the formulation of policies for the cooperative or in civic matters.

The Finnish cooperators, because of their long familiarity with the cooperative and their support of it, seemed to assume that they were well informed on cooperation and the problems involved and that all they could possibly be asked to do was not to study themselves, but to tell non-Finns about it. At the same time, they did not feel greatly concerned about the problem of educating the many new non-Finnish members and developing their understanding of and interest in the cooperative. As one of the more experienced Finnish members put it, if the English-speaking members did not know much about it, they would learn gradually as time went on.

CHAPTER IX

THE CASE OF MAYNARD, MASSACHUSETTS: CONCLUSIONS

IN Maynard, Massachusetts, we have the case of a small industrial town where two consumers' cooperative societies have been developed at different times with considerable degrees of success. These cooperatives were built by radical groups within the wage-earning population—rather homogeneous groups, composed in each instance of foreign-born workers speaking one language. They were encouraged by the success of other cooperatives, but evolved out of local leadership without outside support. With the desire to increase the purchasing power of their wages was combined the hope of building a stronger labor movement.

Maynard has been remarkable for the number of its different national and political groups. It was largely as a reflection of these divisions that there arose not merely one cooperative society but several. Thus, two additional cooperatives were developed during Maynard's history. Neither of these, however, ever expanded beyond the bounds of its original membership nor attained any lasting economic success.

The first cooperative, which transacted a large and relatively economical business for thirty years or more, but which eventually weakened and disappeared, had been organized by British immigrants. Little if any educational work was carried on among the members, and the American-born children of the founders, for whom economic problems were less pressing, evidently lost interest in the affairs of the association. Its later management was not sufficiently progressive to meet the competition of chain stores.

The United Cooperative Society, founded by Finnish immigrants in 1907, was very efficiently managed. With a rather firm basis in the group solidarity and social philosophy of its Finnish membership, it was able to extend its business on

grounds of financial savings also, and has come to serve a large proportion of the non-Finnish population of Maynard. Investigation indicated that the patronage rebate of 4 per cent paid by the society in 1936 did represent an actual saving to members as compared with what they would have paid to private retailers in the absence of the cooperatives. Reductions in the prices charged by all retailers in Maynard, in certain cases in response to cooperative competition, benefited other consumers as well as the members of the cooperative society. The cooperative also effected improvements in the quality of merchandise and rendered a high standard of service.

Part of the savings undoubtedly represented profits which, in a private business, would have been paid to owners. (The five per cent interest paid to shareholders by the cooperative was considered a cost of doing business—in 1936 it equalled less than one-twentieth of the net earnings.) A portion of such profits would have gone to local merchants and a portion to chain store corporations. The net earnings of the United Cooperative Society during its entire existence through 1938 (after payment of interest on capital but before patronage refunds) amounted to approximately \$275,000. Whatever emphasis one may place on the fact, it can be said that had the cooperative not existed, a large part of this sum would have gone to persons of more than average wealth instead of being refunded to the workers in Maynard. One effect of the cooperative business was, therefore, to lessen inequality of income.

Part of the earnings, again, resulted from superior efficiency, appearing in lower costs of operation—including lower labor costs. Economy of labor was brought about, not by lower wages or longer hours, but by the employment of fewer persons than would be needed by a typical private establishment of comparable size—average sales per employee were relatively great.¹

¹ Had the cooperative, it may be asked, brought about a reduction in the number of jobs available? The writer did not secure any evidence on this question one way or another. The shift in patronage from private stores to

This, in turn, was facilitated by a substantial volume of sales in each department, a volume assured by the cooperative nature of the business and the size of the membership. There may also have been some connection between the efficiency with which the society was managed and the interest which the Finnish members took in the business, maintaining an active supervision through the board of directors. Managers were, if anything, paid less than they would have received for managing a private business similar in size.

The cooperative, of course, was more than a retail business. It was an association of individuals, who had other purposes in mind besides making savings on their purchases. Its active members were sympathetic with the needs of the wage-earning class, and they found various means of helping this class through the cooperative. The most obvious way was that of improving the conditions of work for the fifty people its business employed. The United Cooperative Society did set for its employees slightly higher minimum standards of pay than those of private firms, it reduced their hours of work, and it gave them a greater degree of security in their jobs than they would have had in private employment.

It also provided some more general aid to the wage-earners in Maynard. Besides the savings it effected for them on their purchases the society occasionally gave economic assistance to needy families, contributed to the support of the unemployed, and fed the picket lines at the time of strikes.

In a town so dominated by an absentee corporation, where the means of earning a livelihood was severely restricted, and where even that means might be denied for thinking too freely,

the more efficient cooperative establishment may have resulted in a reduction of retail employment in Maynard. On the other hand, the dollars saved in the form of rent, payroll, depreciation, etc., and refunded to the patrons of the society, were probably spent by those patrons for more groceries, more shoes, more gasoline, and therefore created a larger number of jobs in the industries producing those goods. The result may thus have been a shift in employment from Maynard to several other localities, similar to the thousands of such shifts which continually take place in a relatively free economic system.

the moral or spiritual contribution of a workers' cooperative society may have been more important than the material. To otherwise dependent workers there was here one opportunity for freedom of expression—a chance to participate on an equal basis in the direction of a business enterprise. The cooperative provided a small but practical example of economic democracy to a group which earned its living in an autocracy.

How much inspiration this example actually held for the people of Maynard is another question. It was a successful attempt by a group of the workers to solve one of their problems for themselves—the problem of making their retail purchases economically and without fear of exploitation by private merchants. Consumers' cooperation, nevertheless, had not attacked what were, perhaps, the major problems of the community. The low wage-level in the mill, insecurity of employment, the displacement of workers by the mill's efficiency program, the helpless dependence of the town on the American Woolen Company—these problems remained practically untouched.

The actual direction of the United Cooperative Society was limited to the Finnish membership. Although the business was patronized by more English-speaking people than Finns, the former had not been brought into active participation in the affairs of the cooperative. As a business the Society had reached the non-Finns, but as a social institution it remained Finnish.

The "clannishness" of the Finns, which probably promoted the development of the cooperative society in the first place, subsequently proved a limiting factor. Social prejudice—against other nationalities and against radical philosophies—restrained non-Finnish people from supporting the cooperative. The educational work of the society was, on the whole, not successful in stimulating the interest or participation of English-speaking people. Their patronage was gradually won on strictly economic grounds.

The cultural activities carried on almost spontaneously by the Finnish membership served to bind them together and

strengthen their loyalty to the cooperative, but they did not bring about cooperation with the non-Finnish members. The barrier between the "Americans" and the Finns seemed to harden as the Finns grew older, and the early members of the society became increasingly occupied with the question of maintaining Finnish control. To most of their children the cooperative was an institution to be taken for granted. To them language was not a barrier, but neither was the cooperative principle an idea of much vitality. The critical question of cooperative success after the foreign-born members are gone is yet to be answered.

To what extent have these same problems affected other Finnish cooperatives in the United States? Have conditions in other parts of the country made these problems more or less critical? Is it possible to generalize as to the economic and social basis for the organization of cooperatives among immigrants from the experience in Maynard?

Have other cooperative societies been able to achieve the same savings for consumers as the United Cooperative Society in Maynard?

The Eastern Cooperative Wholesale, first organized by the Maynard society together with other eastern cooperatives in 1928, has in recent years been growing rapidly in size and influence. What effect has the existence of a strong wholesale federation had upon cooperative development?

To these questions a study of the Central Cooperative Wholesale group of cooperatives in Michigan, Wisconsin, and Minnesota should provide some answer.

PART II

**COOPERATIVES IN THE LAKE SUPERIOR REGION
AND THEIR COOPERATIVE WHOLESALE**

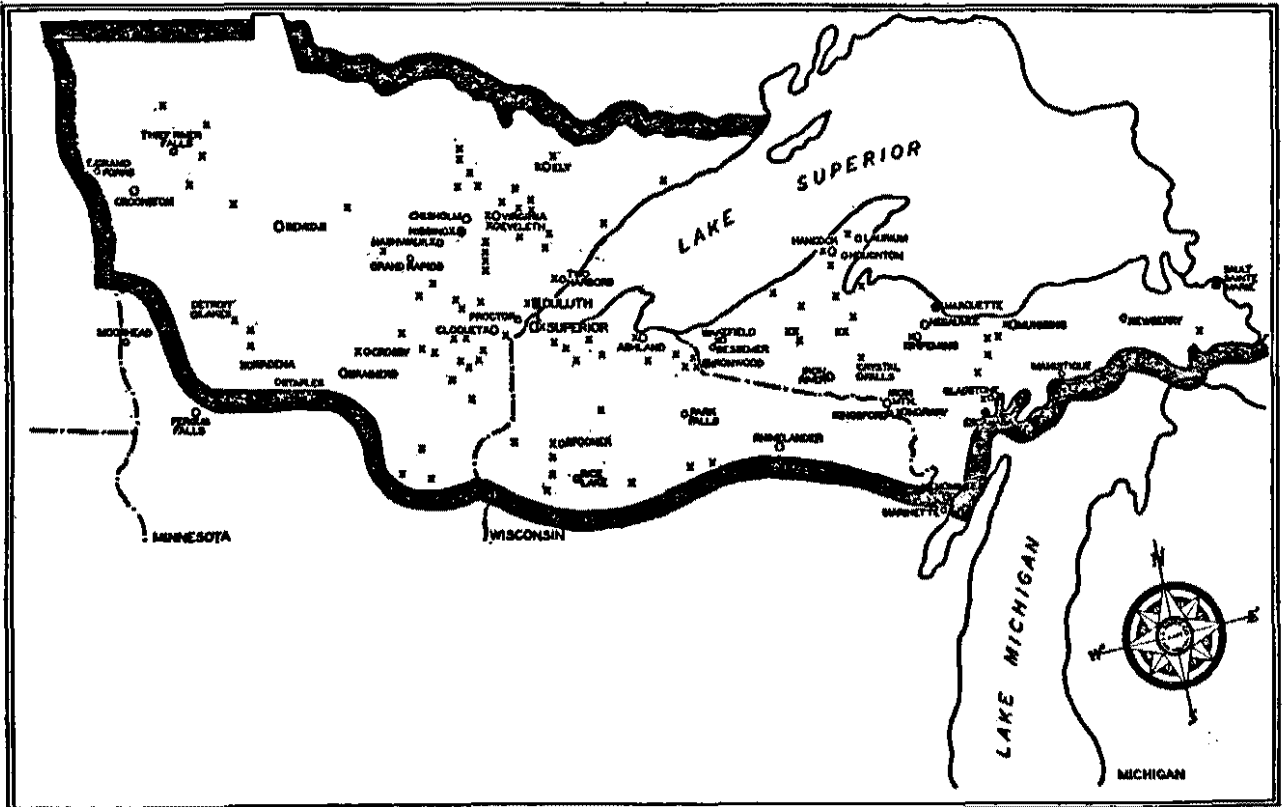
CHAPTER X

A SURVEY OF CONSUMERS' COOPERATIVES IN THE LAKE SUPERIOR REGION

THE section of the United States in which cooperative stores owned by consumers have been most successful is that immediately south and west of Lake Superior. By 1938 there were some 150 cooperative stores in this area, engaged in many different lines of business, and transacting an aggregate volume of trade now estimated at ten million dollars a year. These stores have grown rapidly in recent years, and each new season sees a further increase in their share of local business. They do nearly one-tenth of the business of all cooperative store associations in the United States, although operating in an area with one per cent of the country's population.

The cooperatives in this region take on added significance because of the fact that most of them are members of a cooperative federation with a central organization known as the Central Cooperative Wholesale, through which they secure a large proportion of their supplies. District federations have also been organized by smaller groups of these cooperative stores in recent years to provide additional services for which neither the individual stores nor the wholesale were adapted.

Besides their business activities the cooperatives and their members maintain an extensive cultural program. Two newspapers, the *Cooperative Builder*, and the *Finnish Cooperative Weekly*, reach the homes of 25,000 consumers each week, radio programs are scheduled regularly over local broadcasting stations, plays, public meetings, and other social activities go forward in each cooperative community. Rural parks owned by the stores and federations provide a place for athletics and children's camps. Training schools and short-term institutes are conducted as agencies for cooperative education.



LOCATION OF COOPERATIVE STORES IN MINNESOTA, WISCONSIN, AND MICHIGAN PURCHASING FROM THE CENTRAL COOPERATIVE WHOLESALE AT THE BEGINNING OF 1938

SHOWN IN RELATION TO CITIES AND TOWNS OF MORE THAN 2500 POPULATION IN THE TERRITORY OF THE WHOLESALE
 COOPERATIVE STORES REPRESENTED BY CROSSES (x)

The Central Cooperative Wholesale, situated at Superior, Wisconsin, constitutes the hub of the region over which the stores are scattered. Extending from the Upper Peninsula of Michigan through northern Wisconsin and across most of the northern half of Minnesota, they are spread over an area 500 miles long and averaging 100 miles in width, with a population of 1,200,000. This is a fairly distinct geographic section, comprising most of what is known to geographers as the "Upper Lake Region."

Most of the 150 stores are located in the smaller towns and villages of this area. They handle not only groceries and meats, but also feeds, seeds, and fertilizer, and other farmers' supplies; coal and wood; hardware and farm implements; and work clothing. The majority can be accurately described as general stores. These cooperatives also sell gas and oil; while only a few have separate service stations, nearly all have at least a gasoline pump in front of the store.

Seventy cooperative store societies,¹ operating some 110 of these stores, were directly affiliated with the central organization at Superior, in 1937, owning shares of its capital stock. Thirty to thirty-five of the other stores also purchased through the Central Cooperative Wholesale to some extent, although they were not members.

There were thirteen other cooperative societies, believed to be operating twenty-two stores, which held shares in the wholesale but after 1931 gave their support to a competing organization, the Workers' and Farmers' Cooperative Unity Alliance. (The Alliance was dissolved in 1938 and these stores are now renewing their patronage of the Central Cooperative Wholesale.) The total sales of the cooperative store societies in this region, affiliated with the Central Cooperative Wholesale were approximately \$7,000,000 in 1936 and had increased to over \$8,000,000 in 1937. These societies had a membership of about

¹ Including Webster Cooperative Creamery which operates a store, but excluding cooperatives in Minneapolis, Minn., and Waukegan, Ill., which are outside this region.

25,000 persons. Some 3,000 other persons belonged to the stores in the Unity Alliance Group, whose sales were somewhat less than \$1,000,000 in 1936. There are no reports available for the remaining cooperative stores in this region, but it may be estimated that their sales were less than \$1,000,000.

THE PROPORTION OF BUSINESS HANDLED BY COOPERATIVES

The business handled by these cooperatives was not a particularly important factor in the total retail trade of the region as a whole. Thus, the sum of nine or ten million dollars may be compared with \$295,000,000, the total shown by the Census of Business in 1935 for the fifty-eight counties falling within this general area.² The cooperative share was evidently not more than 3 per cent of the total.

In the sections where the cooperatives were most concentrated, however, they had greater relative importance. Thus, if the comparison be confined to a contiguous group of seventeen counties in northeastern Wisconsin, and western Michigan, and the cities of Duluth and Superior be excluded, the cooperatives included in their membership³ 13 per cent of the population and transacted about 6 per cent of the retail business. In the rural communities of these counties, where the cooperatives were especially strong, the proportions were 17 per cent and 10 per cent respectively.

² The area has been defined by the writer—somewhat arbitrarily—to include the entire Upper Peninsula of Michigan, sixteen contiguous counties in northern Wisconsin (including on the south Polk, Barron, Rusk, Price, Oneida, Forest, and Marinette Counties); and twenty-seven contiguous counties in Minnesota (including all of northern Minnesota except Kittson, Clay, and Wilkin Counties on the west, and extending as far south as Otter Tail, Crow Wing, Mille Lacs, Isanti, and Pine Counties). A complete list is included in Appendix III.

³ In order to compare cooperative membership with the total population, the number of shareholders listed by the cooperative societies was multiplied by three. While it was assumed that the number of persons per family averaged four or more, it was estimated that only three-fourths of the shareholders listed represented actual families. (In some cases there are two or more shareholders in one family, and some of the shareholders listed have died or moved to other localities.)

The cooperative stores of the region have had their most marked development in northeastern Minnesota, in the area to the north and west of Duluth within a radius of 100 miles. In St. Louis County, a county several times as large as the State of Delaware, there were twenty-three cooperative store societies, operating thirty-two grocery or general stores. The sales of these societies in 1937 amounted to nearly \$2,000,000. Most of the stores were in places of less than 2,500 population. The business they handled was not large in comparison with the total for the county, which includes Duluth and several other industrial towns. Nevertheless, of the 50,000 rural inhabitants of St. Louis County more than one-quarter belonged to cooperatives, and these societies transacted about a sixth of all the retail business done in the rural communities.

The five cooperative societies in Carlton County, a small one south of St. Louis County, numbered half the population within their membership and transacted about one-quarter of the retail sales. The largest community in this county is Cloquet (population 7,000) and in Cloquet cooperative sales are close to \$1,000,000 a year. The Cloquet Cooperative Society, which operates two stores in nearby rural communities as well as those in Cloquet itself, is the largest cooperative store society not only in the Lake Superior District but in the United States. Cooperative societies also transacted more than one-tenth of the total retail sales in Alger, Baraga, and Ontonagon Counties in Michigan. They handled more than one-tenth of the rural trade in several others.

SIZE OF THE COOPERATIVES

Situated as they are in a rather sparsely-populated region, most of the cooperative societies are small ones. In relation to the size of the communities in which they are located, however, they might be considered fairly substantial. The volume of their business in 1937 ranged from less than \$20,000 for the smallest society to the \$1,157,000 of the Cloquet associa-

tion.* Average sales were over \$100,000. Since the average volume of business of the private stores in the region was only about \$20,000 in 1935, and in the rural sections only half that amount, it may be seen that the cooperative stores did a much larger business than most private merchants. In many communities the cooperative establishment was the largest in the town.

The size of the membership of each cooperative corresponded roughly to the volume of its business. The membership of the great majority of the associations was between 100 and 500. The Cloquet society, on the other hand, had 2,700 shareholders. Only ten other cooperatives had more than 500 members; the sales of each of these were well over \$100,000.

Most of the cooperatives had but a single store. Twenty, nevertheless, were known to have branches. Three of them, those at Mass, Rock, and Sault Ste. Marie, Michigan, had as many as four branches each. Most of the other seventeen had only one branch store.

Where the size of business has permitted, the cooperatives have purchased or built additional facilities for particular lines of business, such as service stations for gasoline, and warehouses for flour, feed and fertilizer, or farm machinery. The Cloquet society has gone the farthest in the expansion of its business facilities. This cooperative has in addition to its four stores, a coal yard, a feed warehouse, two service stations, a garage, and an automobile sales room.

While most of the cooperatives have gasoline pumps and a few have service stations, very few could afford to install bulk tanks for their gasoline. In order to secure their petroleum supplies more economically, they have organized several regional oil associations to purchase the gasoline in tank car lots, store it in bulk tanks, and deliver it to the local filling

* Of seventy societies for which figures are available, the Cloquet Society was the only one whose sales exceeded \$316,000. Twenty-seven others had sales in excess of \$100,000, though less than \$316,000. Of the remaining forty-two, the business of all but three fell between \$25,000 and \$100,000.

stations. This has also enabled them to supply farmer members directly from the tankwagon when desired.

These regional associations, formed and owned by the local cooperatives, have begun to perform certain other services as well as handle oil and gasoline. The Range Cooperative Federation, which includes most of the local societies on the Iron Range of Minnesota, also operates an automobile sales agency and garage, a trucking business, and a funeral service, and has established a creamery and a sausage factory for the benefit of the individual members of the cooperatives.

The regional associations, as well as the local stores, are shareholders in the Central Cooperative Wholesale in Superior. Their gasoline and oil and other supplies they purchase through the wholesale, which does a brokerage business in petroleum products in addition to its other lines.

THE WHOLESALE

The cooperative wholesale handled a total business of more than \$3,000,000 in 1937. It sold a wide variety of products. The bulk of its sales were in a general merchandise department, which included canned goods, flour and feed, dry groceries, hardware, and electrical appliances, but it also handled bakery products, clothing, and gas and oil. Some products, of course, it handled only on a brokerage basis, but it transacted a considerable warehousing business. It had a large four-story wholesale building in Superior, another smaller building in Superior and a branch warehouse in Virginia, Minnesota. It also operated its own bakery in a separate plant in Superior; it had a modern coffee-roasting plant in its main building, and by 1938 feed mills at Superior and Virginia.

The wholesale sold only to cooperative societies. Since many of the local cooperatives, especially those at a distance from Superior, secured a substantial part of their goods from other sources, its proportion of the total wholesale business in the Lake Superior region was considerably less than the cooperative stores' proportion of the total retail business. It was, never-

theless, one of the three or four largest wholesale establishments in Duluth and Superior.

CHARACTER OF THE MEMBERSHIP

The cooperative store movement in the Lake Superior district is mostly rural in character. Farmers predominate in the membership of the majority of the societies in this region. It cannot be considered merely a farmers' movement, however. Some of the largest cooperatives are composed principally of wage-earners. The mining and lumbering industries are scattered over a considerable part of the region, and the inhabitants of many communities which might be considered rural in size earn their living in the mines or lumber mills. Many also who live on the land, work in mines or lumber camps part of the year to secure a needed cash income which their farms will not yield. The character of the cooperative membership is, therefore, a mixed one, part farmer and part wage-earner. Most of the members are, in any case, persons of small incomes and limited means. The Lake Superior district is not a well-to-do section, nor do the cooperatives include the most prosperous elements of the local communities.

A large proportion of the cooperators are Finnish by birth or by parentage. In most of the societies there are Americans, Scandinavians, or people of other nationalities as well as Finns, but the Finns predominate in the large majority of cases. In only a few of the cooperatives of the Central Cooperative Wholesale group are the Finns in the minority.⁵

The Central Cooperative Wholesale is also predominantly Finnish-American in character; perhaps even more so than the membership of the stores to which it belongs. The directors of the wholesale are all but one of Finnish birth, and a majority of its employees are of Finnish stock. The same is true

⁵ "At least 20% of the affiliated societies... are non-Finnish societies", according to a resolution presented by that group at the annual meeting of the wholesale in April, 1938. Central Cooperative Wholesale, *Yearbook*, 1938, p. 31.

of the Unity Alliance. Finns predominate in all the cooperatives of that group.

Practically all of the unaffiliated stores in the Lake Superior region are non-Finnish. Most of them, while within the same general area as the Central Cooperative Wholesale societies, are relatively distant from Duluth and Superior. The majority purchase a few of their supplies from the cooperative wholesale, but many are within the St. Paul-Minneapolis or Milwaukee wholesaling territories and buy from firms in those cities.

There are also in the Lake Superior district many producers' and marketing cooperatives. The creameries are the most important, but grain elevators, cheese factories, and other facilities have also been organized on a cooperative basis. A great many of the farmers who belong to these associations hold membership also in cooperative stores. A few of the producers' cooperatives have themselves set up stores or feed-buying departments to serve their members.

There are perhaps fifteen or twenty cooperative oil associations within the region, which have been set up independently of store cooperatives and are affiliated with the Midland Cooperative Wholesale in Minneapolis or the Farmers' Union Central Exchange, a cooperative wholesale located in South St. Paul. These may be considered consumers' cooperatives. For the most part, however, they are scattered over the outlying sections of the region, and their contacts are almost entirely with St. Paul and Minneapolis. They have not been treated by the writer as an integral part of the cooperative movement of the Lake Superior region.

CHAPTER XI

THE ENVIRONMENT IN WHICH THEY DEVELOPED

THE geographic region in which these cooperative stores are located includes eastern Minnesota, northern Wisconsin, the upper peninsula of Michigan, and the northern part of Michigan's lower peninsula. Not only was this whole territory at one time covered by the continental glacier, but the effects left by the glacial period were essentially similar throughout the "Upper Lake Region". These effects were, on the whole, destructive. The glacier scraped away the top-soil and the softer layers of the surface, depositing them widespread over the more fortunate counties to the south; in many cases leaving nothing but bare rock. It dug frequent hollows in the earth, which subsequently became lakes, and other shallower ones, which are now swamp-land. The lakes, of course, give the land a distinctive beauty; there are 17,000 in the states of Minnesota, Wisconsin, and Michigan, and most of them are in this area.

THE PHYSICAL RESOURCES OF THE REGION

Although the glacier swept away most of the best soil and scattered boulders over what was left, the region retained important sources of wealth. When the white races began to filter into it, the land was entirely covered with forests. On the upper peninsula of Michigan were lodes of copper, not merely copper ore but pure copper that had only to be dug out of the ground. The iron deposits were also unusually rich and much more extensive. They were spread through ranges of hills to the north and south of the western end of Lake Superior, in many cases in solid masses near the surface of the earth and so soft that the ore could be scooped up with steam shovels.

The forests were also found convenient to exploit. Heavy snows in the winter made it easier to move the logs. Extensive lumbering got under way after the Civil War, and Michigan

soon became the leading state in the Union in lumber production, then Wisconsin took the lead, and next Minnesota. By the turn of the century, however, the leading place in lumber production had passed on to the Pacific Northwest. The lumbermen came mostly from the East. They did not halt to make homes in the land they cut over. They removed all the valuable timber and then moved on to the virgin woods, leaving a barren and unpeopled wilderness. Following close on the heels of the lumber industry came the forest fire. Fire swept over every part of the region time and again, rapidly destroying the humus in the soil and even destroying the soil itself where it had crept thinly over bare rock. Now the forests cannot be restored even by the care and diligence of a generation of men, but only over centuries of undisturbed growth.

There are, of course, still remote sections of the region in which the lumber companies find more virgin pine to cut, while in others second-growth pine and less valuable kinds of wood are being cut for industrial purposes. There are saw-mills here and there, and there are large paper and other wood-product mills which give considerable employment.

The mines have now become the most important source of industrial employment in the region. The copper lodes, which had been worked by the Indians before the white men arrived, were exploited by modern entrepreneurs before the Civil War. Cheap labor was brought in from Europe to do the actual mining. Michigan remained the leading copper-producing state until 1887, when the mineral wealth of Montana was being developed. In later years the Michigan companies have had to sink their shafts further and further into the ground, indicating that the supplies may be giving out before long.

The far more extensive deposits of iron beneath the surface further to the west were not discovered until after the Civil War. They were developed rapidly, though, and iron ore was riding to eastern cities in large quantities by 1880.¹ Control

¹ Gradual exhaustion of high grade iron ore is also in prospect. Ore shipments have exceeded discoveries since 1915. "According to the best estimates

of the mines soon became centralized under large corporations, and control of these in turn was brought up by the powerful steel manufacturing companies in the East and Midwest. The entire industry has thus come to be dominated by a relatively few absentee corporations, notably the United States Steel Corporation, and the mines have been administered by superintendents taking their orders from Chicago or New York.

ITS POPULATION

Labor for the mines has been drawn from the countries of eastern and southern Europe. Finns and Scandinavians, Poles, Italians, Croats, and Slovenians, and workers of many other nationalities have come, and large centers of population have sprung up about the mines. The wages were never very large, too small to attract American labor; the housing was make-shift and ugly.

Insecurity and dependence characterized the economic life of the population. With relatively few opportunities for employment outside the mines, most individuals were at a disadvantage in bargaining with the mining companies. The divisions in language and nationality delayed the growth of unions among the working force and made it easier for the mining companies to break down any united opposition by their employees to the terms of employment. Often in a gang of four men laboring together there were no two who spoke the same language.

Large towns grew up at the ports on Lake Superior where the iron ore was transferred from train to boat and shipped down to the lakes. The port of Duluth-Superior, in particular, handles great quantities of iron ore going out and of coal coming in from the lower lake cities, as well as wheat from the grain states to the west. Duluth and Superior, with populations of 101,000 and 36,000 respectively, are the largest cities in the region.

the remaining ores will last only 20 to 30 years longer." Paul H. Landis, "The Life Cycle of the Iron Mining Town," in *Social Forces*, Vol. 13, No. 2, Dec. '34.

Here, too, the labor is largely foreign-born or of foreign parentage. The two largest groups on the docks are the Swedes and Norwegians, who seemed to prefer this type of work to jobs in the iron mines "on the range". The dock workers only recently have formed successful unions to bargain with their steel-corporation employees. There have been unions among the railroad workers of the two cities, however, for a number of years.

Because of the climate the ports are open only seven months of the year. The dock and railroad workers are consequently faced with a considerable period of unemployment every winter. Many seek employment during that period in logging camps or in the mines, and some go south.

FARMING IN THE LAKE SUPERIOR DISTRICT

Third among the Lake Superior region's resources was its soil.² Many, if not most, of the immigrants to this region came in the hope of finding land and establishing farms. Many had been attracted by the advertisements of the state immigration bureaus or of private land companies. They found it a discouraging land in which to start farms. Some of the soil was good; but not all of it was good that looked good. Practically all of the typical homestead was covered with either trees or stumps, and these had to be cleared first. The lower-lying land often had to be drained, and from the higher ground boulders had to be moved away. The growing season was relatively short—in some sections no more than one hundred days—and summer frosts were not infrequent.

Professor J. Russell Smith has remarked: "Here is one case in America where it was the man who got exploited more than the land. Upon the average it is probably true that most of the farmers who have gone into this territory would have gained more material possessions for the same effort if they

² Fish, wild berries, wild game—notably the fur-bearing animals—provided a living for the Indian tribes who inhabited this area before the white man came. Fishing, hunting, and scenic beauty are becoming increasingly important resources today.

had bought the cheap lands of the North Atlantic Coast Plain, some parts of the Northern Piedmont, or the more wholesome sections of the Cotton Belt. But thousands of them have gone in and have succeeded. . . ."³

It was slow work to clear the land and erect the buildings for a farm, usually requiring a period of years. Most of the immigrants had little or no capital. Many of them worked in the mines or the logging camps for five or ten years before they had the cash needed even to claim their homestead or buy a small farm from a land company. After they had started to clear the land, they were able to keep alive only by returning to mining or logging for part of the year to earn some cash income.

Once they had their homesteads on a subsistence basis, the settlers gradually turned to raising livestock or dairying and to planting potatoes and rutabagas for sale on the market. A terrain that was only partly cleared or too rough for the plow⁴ could at least be used for pasture, and hay to feed the cattle in winter could be raised without fear of the frosts. The cool, moist climate was almost ideal for potatoes. None of the farmers accumulated any great wealth, but most of them were able to struggle along and make a living for their families.

The farms in this region are small ones. The settlers who secured their land under the Homestead Act have 160 acres, but the great majority bought from the private land companies and generally have only 40. Agricultural statistics for Carlton and St. Louis Counties, Minnesota, where cooperatives are most concentrated, reveal that the average size of the farms in these counties in 1935 was 77 acres, compared with an average of 161 acres for the state of Minnesota as a whole and an average of 155 for the United States. The value of the land was also less than in most other farming districts. In consequence, the average value of the farms in these two counties

³ J. Russell Smith, *North America* (New York, 1925).

⁴ Only 28% of the land in farms in St. Louis County was available for crops in 1935. *U. S. Census of Agriculture*, 1936, vol. I.

was only \$2,400. For the State of Minnesota the average farm was worth \$6,800, and the average for the entire country was \$4,800. It is worth remarking, nevertheless, that only one-tenth of the farmers in Carlton and St. Louis Counties were tenants.⁵

On the whole, it is only the hardier immigrants who succeeded in establishing farms and winning their independence of the industrial employers and the private money-lenders. Considering the great area of the region, the number of farmers is relatively small. The chance to establish himself on the land has never been an easy alternative for the man who did not like his job in the mine or the mill.⁶

THE FINNS

Of the immigrants to the Lake Superior region the largest groups were Scandinavians and Finns. Next to the Swedes, the Finns were probably the largest group from any one European country. About 75,000 of them came to this section; together with their children they now number 150,000.⁷

The Finns probably represented a larger proportion of the immigrants who actually settled the land than did any other group. The Swedes tended to congregate in the larger cities or to seek farms further south where there was no forest to be cleared. The Finns and the Norwegians, it is said, were the ones who cleared the forest and settled northern Minnesota.

Most of the Finns came from the agricultural sections of Finland and the land from which they came is remarkably similar to that of the Lake Superior region. The glacial period apparently treated both areas in much the same way, leaving them fairly flat, but with thousands of lakes and productive of a forest of great wealth and variety. Even the flowers of the

5 Ibid.

⁶ Workers were forced to resort to the land to some extent by periods of industrial inactivity and by strikes, especially by the bitter and prolonged strike at the end of the war. Many radicals and strikers were black-listed and refused further employment by the mining companies.

⁷ U. S. Census, 1930: *Statistics of Population*. For a brief description of the Finns, see Chapter III.

two regions are much the same. It is this similarity more than any other single factor, according to Professor Eugene VanCleeef, which has drawn the Finns to this particular part of the United States.⁸

The Finnish immigration commenced in the 1860's, when some Finns came to the copper country of Michigan and others settled around Cokato, west of Minneapolis. Other Finns came later to the rest of the upper peninsula of Michigan, to northern Wisconsin, and to northern Minnesota. Most of them arrived between about 1890 and 1915.

What the Finns wanted was not monetary wealth but land. Yet, since few had any capital, they had to accept whatever employment they could find. In the early years the only work available was in the mines or lumber camps. The typical Finn in northeastern Minnesota worked in the mines for from two to five years, only long enough to accumulate some small savings. Then he set out to make himself a farm. He built a small tar-paper shack and cleared perhaps one acre the first summer. Then he planted potatoes and rutabagas, and as soon as possible bought a cow and some chickens. It was almost an axiom: "Where there's a Finn, there's a cow."

Industrial employers found the Finns good workers. They were efficient and reliable, and showed great endurance. They were, moreover, the thriftiest of all the nationalities in the mines or the lumber camps. At the same time they were found suspicious of strangers and stolid of nature. They seemed to Professor VanCleeef to make "an ideal pioneer".

The Finns, as noted in Chapter III, were also a well-educated people. There was practically no illiteracy among them. In 1918, when there were 150,000 persons of Finnish birth in the United States, there were 29 periodicals of one sort or another published in the Finnish language in the United States with a combined circulation of 111,500.⁹

⁸ Eugene VanCleeef, "The Finn in America", in the *Geographical Review*, vol. VI, No. 3, pp. 185-214; Sept., 1918.

⁹ *Ibid.*

They were not quick to learn English, however. The Finnish tongue varies more from the English than it does from almost any other European language, and the Finns found English very difficult to learn.

FINNISH SOCIAL ORGANIZATIONS

It is for this reason, according to some Finnish observers, that the Finns in this country have developed such extensive social and cultural activities of their own rather than participating in the more diffuse American social life. In Finland the great majority of the citizens belong to the Lutheran Church, which was the State Church. Many Finnish Lutheran churches were established in this country and were joined by most of the early Finns who came here. They naturally constituted a center of social life for the Finns in this country. The members of the churches also set up "temperance societies", with separate halls where they might hold dances and stage amateur plays.

Most of the immigrants came from the agricultural areas of northern and central Finland, and were conservative of philosophy; there were very few Socialists among them. In this country, however, most of them had to work in the mines or lumber camps some time before they were able to get back to farming again. Suffering a common lot with many fellow-workers in the employ of profit-seeking corporations, they apparently lost their individualism and developed a considerable spirit of group solidarity; the Socialist doctrines brought by the intellectuals from the cities of south Finland, with whom they mixed, spread rapidly.

The more radical of the members soon broke away from the churches and the temperance societies to found Socialist organizations. As many as 200 Finnish Socialist clubs are estimated to have sprung up in the Lake Superior region. They formed the Finnish Workers' Federation, affiliated with the American Socialist party, and founded their own Finnish newspaper, the "Tyomies" (Workingman), published at first in Hancock and later in Superior, whence it was forced to re-

move by the enmity of the copper companies. As in Massachusetts, these Socialist clubs erected their own halls; many had full-time dramatic directors. They also developed athletic associations, holding track and gymnastic competitions summer and winter, and some of the clubs undertook to develop amateur operas.

To some extent, perhaps, the Socialist organizations took the place of the church in the cultural life of their adherents. The members met regularly to hear speeches setting forth the ramifications of the socialist philosophy, and its idealistic aspects perhaps appealed to them in the same way as the ideals of conventional religion.

Their influence did not stop there, however. They gave moral support to the workers in their struggles with the employers and helped them to recruit members and financial support for labor unions. It was also mainly out of these organizations that the consumers' cooperatives were born.

SUMMARY

Before the development of these cooperatives is described, it is worth noting some of the features of this background which made cooperative growth more likely in this particular region. This was, in the first place, not a section in which it was easy for men to make a living. Settlers found the soil hard to work, the forest cut over; the climate was unkind to farmers. The location and the natural resources of the region were such that the industries were limited to two or three major occupations.

Most of the population was drawn from Europe, particularly the northern and eastern countries of Europe. It was divided among many tongues. The farmers of the region came from these same immigrant groups, and probably had an affinity with the people in the industrial communities, which was unusual. They became, for the most part, small, fairly independent farmers, but not well-to-do.

ENVIRONMENT IN WHICH THEY DEVELOPED 165

The Finnish immigrants, among whom cooperatives were most successful, did not mix with the rest of the population but developed instead extensive social institutions of their own. A large proportion of the Finns embraced the Socialist philosophy and organized units of the Socialist party. These people led in organizing consumers' cooperatives.

CHAPTER XII

THE DEVELOPMENT OF CONSUMERS' CO-OPERATIVES—WHY, WHEN, WHERE

COOPERATIVE stores had been founded in the Lake Superior district, especially in the counties to the south, before the Finnish cooperatives began to appear. Several stores were started by farmers in the early Grange movement, and many more were organized by agents of the Right Relationship League in the early 1900's. The Scandinavian Cooperative Mercantile Company, still in operation at Two Harbors, Minnesota, had its origin in 1894. The great majority of the cooperatives that were organized in earlier years, however, were launched by members who were ill-informed on cooperative principles and imbued more with a spirit of passing enthusiasm than a feeling of social solidarity. Most of these enterprises dissolved at the first appearance of adversity, and few survived until recent years.

The Finnish store societies developed in the first twenty years of the new century. Although only a few of the stores now in operation were organized before 1910, it seems likely that as many as a score of cooperatives were actually started during the first decade. A much larger number were initiated in the ten years following.¹

Most of these cooperative stores were apparently organized by members of the Socialist workers' clubs. They were not sponsored officially by the Socialist party, to be sure. Rather

¹ The writer has not found any record of the dates at which the first Finnish cooperatives were founded. Few, if any, seem to have been started prior to the turn of the century. Existing societies which were initiated before 1910 are at Menahga, Minn. (1905); Brantwood, Wis. (1906); Clifford, Wis. (1906); Biwabik, Minn. (1907); Embarrass, Minn. (1909); Virginia, Minn. (1909); Cloquet, Minn. (1909—incorporated in 1910). The cooperative at Nashwauk, Minn., was started as a boarding-house in 1908, but the store was not established until 1917. There was probably a much larger number of early stores which have not survived.

they were developed by the local workers and farmers to meet a specific need, just as these groups built halls in which to hold their meetings and carry on their social life and organized labor unions or marketing associations to serve their interests as producers. They may, therefore, be regarded as the integral part of a progressive labor movement rather than as an independent movement in the name of consumers' cooperation. A large number of the societies were founded by farmers in agricultural communities, but most of these farmers came to the land after working in the mines and lumber camps—many of them even returned to industrial occupations from time to time to earn badly-needed cash. Many of the Socialist organizations were in farming communities. There was, moreover, probably more social contact between farm and town than was to be found in more settled agricultural areas.

"EXPLOITATION" BY RETAIL MERCHANTS

One of the major needs the cooperative societies were intended to meet, of course, was that of securing more goods for the meagre income that the members had to spend—stated in the terms of their philosophy: to eliminate "exploitation" by the retail merchant. The prices charged by private stores seemed particularly high in the new rural settlements where the population was growing and competition was at its weakest—both because of the limited number of stores and because of the isolation of the community. At Embarrass, Minnesota, for example, where Finns cleared the land and established their families while they continued to work in the iron mines of the Range, there was only one store, and the Finns had the choice of paying the prices asked or hauling their supplies for ten or fifteen miles. There was also but one store at Clifford, Wisconsin, where the Finnish settlers depended for a living at first on the timber they could sell off their land.

The quality of the goods they were supplied by private merchants also was often unsatisfactory to the Finns. The cooperative boarding-house established by the miners at Nashwauk

—and perhaps many of the other cooperative boarding-houses —was started largely because the workers did not like their fare at private houses.

Credit was commonly extended to the workers by the merchants in this territory; indeed, cash stores were seldom to be found. The credit system, however, merely seemed to the hard-pressed immigrants another means for exploitation. The Finns testify that when they had run up so large an account that they felt obliged to patronize the creditor merchant for fear he would attach their wages or their property, they were sold inferior goods or otherwise abused. At Cloquet a number of farmers are reported to have lost their land when merchants did secure attachments for their accounts, and it seemed to farmers as if the store-keepers were using this method deliberately to secure possession of their farms.

In the crude pioneer communities the store-keeper dealt with the settlers in two capacities. He not only sold them their supplies but purchased their produce. Many of the cooperative stores were organized by the Finns to escape exploitation in marketing as well as in securing their supplies. The farmers at Brantwood, Wisconsin, for example, used to contract with the local merchant to take the timber they cut from their land; they are reported to have found at the end of each season that their timber had been sold at a price lower than they had agreed, and that various subtractions had been made from their gross receipts on one ground or another. Consequently, the cooperative society which they started in 1906 as a buying club was also made to serve as a marketing agency for their timber. Similar experiences at Embarrass are said to have played a part in the development of the cooperative there. At Rock, Michigan, the cooperative society was started in 1912 as a marketing club; later the cooperative store not only sold the members' forest products, but financed the woodcutters by buying timber-land for them and furnishing them supplies while they got out the timber. To cover the cost of its services it charged a flat commission of so much per hundred feet of timber marketed or so much per cord.

OTHER INCENTIVES

The incentive of immediate economic gain was not always the major factor in the initiation of a cooperative society. Several of the stores grew out of struggles between the workers and their industrial employers, and the need of the workers for stores of their own to assist them. In the bitterly-fought strike led by the Finnish Socialists against the copper companies in 1913, the strikers found that the private stores where they had traded refused to extend them credit during the strike and otherwise sided with the employers. The miners' union operated its own store for a few months during the strike. When the strike had been beaten and this store forced to close, the farmers in the surrounding country are said to have joined with the miners to establish a cooperative store in Hancock with a branch in Calumet. The store society with headquarters in Mass, Michigan, is also supposed to have been founded in connection with this strike.

The present manager's explanation of the establishment of the cooperative at Cloquet provides another instance where the direct economic incentive was apparently of secondary importance in the actual initiation of the project. According to the cooperative manager, the owners of the large Finnish store in Cloquet were members of the conservative Finnish temperance society, in whose hall the local Socialists were allowed to meet. Subsequently, however, the temperance society denied the Socialist organization the use of the hall on account of their radicalism. Their ire aroused, the Socialists not only built their own hall but started a cooperative store rather than continue to patronize the members of the temperance society.

The part played in the initiation of such stores by Finns who had belonged to cooperatives in Finland is open to question. There must have been such members among many of the groups—they are mentioned, for example, at Cloquet—but the movement in Finland was still relatively young at the time. In fact, it did not get well under way until the first decade of

the century, the very period in which the first societies were being founded here. According to several well-informed members of the movement here, the leaders in America had not had experience in cooperatives in the home country.

Language difficulties or differences in nationality between the Finns and other people in this country cannot be considered the major explanation for the launching of cooperatives; there were many private stores set up by Finns to sell to their fellow-countrymen. The organization of cooperatives was more in rebellion against Finnish stores and the Finnish conservatives than against the "American" community.² In some places, of course, the opposite may have been true, and there are undoubtedly many cases where in later years the common opposition of all the local "Americans" to cooperatives has strengthened the Finns' support of their cooperative enterprises. It must be noted, however, that in many sections the more conservative Finns not only had no part in the organization of cooperative societies but have consistently shied away from them.

One further factor promoting the formation of cooperatives may be mentioned, although it has seldom been discussed, i.e., the part played by individuals who wished jobs with the movement. Such persons must be important in the formation of nearly all cooperative enterprises, and their motive need not always be a purely selfish one. Positions as managers of the Finnish cooperatives probably seemed desirable alternatives to work in the mine or on an uncleared homestead. Some posts in the movement have been occupied by men who were denied industrial employment because of their radicalism or union organizing, and they seem to have served the cooperatives well. There were also cases in which cooperative stores were started and operated by men who had no interest in the movement, but hoped to secure stores of their own. Such cooperatives frequently met an early end.

²As in the section on Maynard, the term "American" is used to include all those non-Finnish elements in the population, who consider themselves assimilated in the American community.

INADEQUATE CAPITAL AND PERSONNEL

The workers and farmers who started the cooperatives were people of little worldly wealth, and the capital which they were able to collect was relatively small. Many of the stores were started with only a few hundred dollars. Members contributed their labor to help build the store, and often the building materials as well. Since most of the stores were organized with from fifty to a hundred members, they could usually count on a fair volume of trade, even if they could not provide the facilities or the stock of the private stores. With such small reserves, however, a cooperative might easily succumb to financial misfortunes.

Insufficient capital was all the more of a handicap, in view of the fact that the stores were almost forced to extend credit. The income of the settlers varied greatly with the seasons, and most of the members who were working in mines or lumber camps faced recurring periods of seasonal unemployment. The members found it very difficult to accumulate sufficient savings to carry them over the lean months, especially as they had become accustomed to receive credit at private stores. The granting of credit made the cooperative itself all the more likely to need credit from wholesalers, so that it was unable to secure cash discounts on its purchases.

Perhaps the greatest problem that these early cooperatives faced was the absence of any trained personnel to operate the stores. It was easy to consider the store positions as pleasant berths for deserving members, even when leadership did not happen to slip into the hands of one or two families with eligible relatives. The wage-earners or farmers easily under-estimated the complexity of a retail business. If, on the other hand, the management was entrusted to a "business man", the merchant who undertook to run such a "doubtful" sort of business was often one who could not succeed in business for himself; he seldom had much sympathy for the purposes of the organization. The bookkeeping practiced in these stores seems as a rule to have been inadequate to give the members any real control

over the management. The actual management of the stores was generally inefficient and frequently led the societies to the verge of bankruptcy before the members realized that anything was amiss.

From the very start the cooperatives undoubtedly met the united opposition of the business community. Besides being a threat to private business, they were often identified as "Socialist stores" and bore the brunt of the social prejudice of the conservative population. In so far as these forces promoted the unity of the members—and they did in many cases—they constituted advantages as well as disadvantages. The supporters of the cooperatives, however, sometimes fought among themselves. In 1913 and 1914 splits occurred among a large number of the Finnish Socialist locals, ostensibly over the question of "Revisionism", a phase of Marxist theory. Many Finnish Socialist workers also went over to the I. W. W. during the years immediately preceding and during the World War. However, this does not mean that they necessarily left the cooperatives.

A number of the cooperative societies were begun as buying clubs rather than as full-fledged stores. Group purchasing on this basis required less capital and fewer members. While the mechanics of the method were none too practical and sometimes led to dissolution, some groups were able in this way to build up the working capital for a store. What was perhaps more important, the members secured some lessons in working together and in the problems of business management.

A great many of the early Finnish cooperatives undoubtedly ended in failure, but some of them are known to have been fairly prosperous, even in their first years. The cooperative at Hancock, Michigan, which in 1914 with an initial capital of only \$360 established stores at both Hancock and Calumet, achieved immediate success. By the end of the war, it had opened three additional branches.

The Finnish societies did not as a rule return all the net earnings of the business to the members as patronage rebates

but set part of them aside to build up their resources. The Cloquet association, for example, organized in 1910, paid no trade rebates until 1917; instead put all earnings into a surplus account. Although these earnings were not large, it was able in the first seven years to achieve a net worth of \$7,000 with only \$2,650 capital paid in. Many cooperatives made it a practice to pay rebates in the form of shares, thus retaining the earnings in the business but at the same time giving some reward to the more loyal members. The society at Clifford, Wisconsin, which was organized by sixteen Finnish settlers in 1906 with contributions of \$10 each and the erection of a small shack in which to do business, paid all its refunds in shares for many years. Though situated in a rural community of a few hundred inhabitants, it accumulated \$15,000 in capital in a period of about fifteen years. Its membership increased to over one hundred, and when prices were at their peak just after the war, its sales were as high as \$10,000 a month.

There is no record, to the writer's knowledge, of the number of cooperative store societies which were started by the Finns nor of the number which failed. Nevertheless, it may be estimated roughly that there were fifty or more in operation in the Lake Superior district in 1917.

These societies were run independently of one another and with relatively little mutual assistance. Those which had been started by the members of Socialist groups did have some regular contact with one another through their Socialist organizations. The Socialist newspaper, *Tyomies*, encouraged the cooperatives and spread information about the movement through its columns. There was, in addition, an "American-Finnish Cooperative League" which had been organized sometime prior to 1917. This was evidently the first effort of the cooperatives to stand on their own feet as a group. Still, it does not seem to have had a comprehensive membership nor to have been very active.

CHAPTER XIII

THE COOPERATIVE WHOLESale

ESTABLISHMENT OF THE WHOLESale

FOLLOWING the entrance of the United States into the war in April, 1917, the supplies of important foodstuffs became increasingly restricted, both by official regulations and by war purchases. Cooperative societies had difficulty in replenishing their stocks, and it seemed to them that the private wholesale companies from which they bought were discriminating against them in favor of private merchants. Letters from the managers of the Hancock, Michigan, and Iron River, Wisconsin, stores appeared in *Tyomies* suggesting the institution of some pool-buying plan by a number of the cooperatives. These letters apparently led to the call for a conference of cooperative representatives, which convened in Superior, the home of *Tyomies*, July 30-31, 1917, with delegates present from nineteen local societies.

Other motives besides the interest in joint purchasing evidently led to this conference. Delegates were anxious to discuss their educational and management problems in general.¹ The chief result of the meeting, however, was the decision to establish a cooperative wholesale. Fifteen of the societies represented agreed to subscribe for shares in the enterprise, the delegates of the other four societies promising only to refer the matter to their memberships.

As a first step the following September the manager of the Hancock society set up a buying office at a borrowed desk in the *Tyomies* building in Superior.² Thence he sallied forth to make buying agreements with millers and coffee roasters for the member stores.

¹ Cf. article by George Halonen in *Third Yearbook, Northern States Cooperative League* (Minneapolis: 1927), pp. 121-3.

² According to the *Cooperative Builder* (Aug. 28, 1937), he shared a room with the editor of a Finnish humorous magazine.

The name chosen for the organization was the Cooperative Central Exchange. It was originally intended that the concern would market the members' potatoes and other products as well as purchase their supplies, but after some initial attempts the marketing function had to be abandoned as impracticable. With very little working capital, most of the organization's business in the early months was sub-jobbing from private wholesalers, though they were able to buy flour and coffee direct. At the end of 1917 the capital paid in amounted to only \$480. Sales of only \$25,000 had been arranged in the first four months. Nevertheless, commissions were sufficient to cover the manager's expenses, and the Exchange was able to show a small net profit from the start.

The following year the organization was able to raise \$6,000 in capital, as the societies sent in their payments for stock and ten additional cooperatives became members. It purchased a three-story building in Superior in September, 1918, and commenced warehousing activities. Sales for the year 1919 were \$313,000, on which there was a net gain of over \$7,000—more than 100 per cent of the Exchange's net worth at the beginning of the year. The wholesale, like many of the local Finnish cooperatives, made it a practice to retain most of its earnings either by putting them in a surplus account or by crediting them to the member societies in the form of share rebates, and after the first two or three years it was able to finance itself largely out of its own operations.

It had been decided by the delegates of the member societies at the first annual meeting of the Exchange (February, 1918) to establish a bakery that would supply the local stores, particularly with the Finnish varieties of baked goods. Such a bakery was installed in the first floor of the warehouse building in October, 1919, and became a permanent part of the wholesale establishment.

The number of societies subscribing for membership in the Exchange went up rapidly during its first four years of operation. From the original fifteen in 1917 the member cooperatives

increased to fifty-six at the end of 1921. Sales to private merchants were forbidden, but orders were taken from cooperative societies which were not members of the Exchange. Sales were made to over one hundred customers in 1921. Business with non-members, however, never amounted to more than one-fourth of the sales of the organization.

The Cooperative Central Exchange was not simply a business concern endeavoring to perform wholesale buying for the cooperative stores. Its establishment also made possible the fulfillment of other needs which the local societies had felt. One of these was the training of cooperative managers and other employees.

As early as July, 1918, the board of the wholesale was able to arrange a one-week course in bookkeeping, in which fifteen students participated. The following year the first session of what became an annual Cooperative Training School was held at Superior. In a period of a few weeks the more experienced cooperative leaders undertook to impart to the students not only the elements of accounting and store management but a brief analysis of economics, sociology, and cooperative history.

The leaders were also concerned with educational work of a broader sort, in developing the interest of the members of the local cooperatives in the activities of their societies and in the movement as a whole, and in building a more unified and progressive movement. They therefore established an educational department in the wholesale in March, 1920, with a full-time director. The man chosen for the position was a Finnish Socialist editor.

Another auxiliary department was started in January, 1922. The irregularity of the bookkeeping of the local societies made it evident that periodical audits would have to be performed, if the central organization was to give the stores much assistance in their management problems. The financial difficulties occasioned in many of the cooperatives by the economic crisis of 1920-1921 brought the problem to a head. The Exchange engaged a Finnish accountant who had already been active in the

movement in northern Minnesota to make several audits in the latter part of 1921, and a regular auditing department was established soon afterward. Within two or three years regular audits were being made for practically all the cooperatives affiliated with the Cooperative Central Exchange.

The auditing department came to play a role of increasing importance in the cooperative store movement. The members of the department not only developed standard accounting forms for the societies and helped to train their employees, but rendered the managers and boards of directors constant advice on their financial and management problems.

ECONOMIC CONDITIONS, 1919-22, AND THEIR EFFECTS ON THE COOPERATIVES

The first year and a half following the close of the war was a very stimulating period for the cooperative movement in the Lake Superior district as well as in the rest of the United States. Retail prices and the cost of living, already relatively high, were mounting still higher. There was a wave of public interest in consumers' cooperatives, both as a means of curbing prices and as a path to a new economic system. Not only were local groups of consumers starting buying clubs or modest stores, but professional promoters were supplying the organizing genius for grandiose cooperative systems.

There seem to have been at least thirty or forty new cooperative stores organized in the Lake Superior district in the two years, 1919 and 1920. In addition, the sales and membership of most of the existing societies were expanding to new heights. The rising prices provided the cooperatives with unusually large surpluses over expenditures.

Prices broke in the summer of 1920. The Cooperative Central Exchange had sent out a warning to the local stores in April advising the managers to buy sparingly and reduce their inventories. The warning, nevertheless, was probably too late to save many of the societies from serious trouble. The upward trend in prices and their record volume of sales had

encouraged the stores to accumulate liberal stocks of merchandise, which they would not have been able to cut materially in two or three months. In some of the new cooperatives in particular, inefficient managers had allowed inventories to grow out of all relation to sales.

On top of their inventory losses the cooperatives had to face sharp declines in their sales. There was widespread unemployment among their members in 1921 and 1922, and people were moving away from some localities to seek work elsewhere. The sales of ten member societies of the Exchange for which figures are available—probably cooperatives of better than average stability—decreased approximately thirty per cent between 1920 and 1922.

The cooperatives at Hancock and Mass, Michigan, were particularly hard hit by these economic forces over which they had no control. It was estimated * that one half of the workers of the copper towns of Michigan moved away in a period of three or four years.

The cooperative wholesale came through the crisis relatively unscathed. With insufficient capital to carry adequate inventories, it was not greatly affected by the fluctuating prices. As the number of its member and non-member customers alike was increasing each year, its sales held up fairly well. From a total of \$409,000 in 1920, they declined to \$312,000 in 1921, but commenced to increase again the following year. Operations resulted in a small net gain each year.

The officials of the Exchange, however, were hard-pressed to save the member stores from disaster. The affairs of many societies reached a critical stage in the winter of 1921-22, and the central organization was called upon for assistance, even by non-members in some cases. Fifteen different societies were given help. The experts from the Exchange not only appraised the financial situations in the local cooperatives and advised them as to policy, but sometimes secured for them experienced managers who were willing to pitch in for several months and

3 Northern States Cooperative League Yearbook, 1925.

straighten out the affairs of the stores. The educational director of the Exchange was also able to help in some cases by thrashing out issues among the members and renewing their support. There were, of course, differences in political faiths among the cooperative membership, which often became paramount to the settlement of business problems.

Several of the member cooperatives were actually in a state of insolvency. With the aid of the representatives of the Exchange, however, it was possible in most cases to effect settlements with the creditors and raise enough new capital to continue business.⁴

Only three of the thirty-odd store societies affiliated with the wholesale were forced to close. This was a much better record than that of the cooperative store movement at large. Of 189 stores in Minnesota listed in a survey by the Minnesota State Government in 1922, at least 67—or more than one-third—had gone out of business by 1925. In the same period the Exchange had lost but 2 of its 26 member cooperatives in Minnesota.

DEVELOPMENT OF THE COOPERATIVES UNDER THE INFLUENCE OF THE WHOLESALE FEDERATION

There were no further failures of stores affiliated with the Cooperative Central Exchange from 1922 until 1930. During this period the federation more than doubled in size. From a total of less than thirty incorporated store societies in the former year the number of members grew to seventy-one at the end of 1929.⁵ The individual membership of the affiliated

⁴ Sales of the local cooperative society in Superior had dropped to less than \$1,000 a month, the store was believed insolvent, and, in addition, the society was being sued for damages in an automobile accident. The board of directors resigned, and a members' meeting voted to go out of business. However, this action was held up by members connected with the Cooperative Central Exchange on the ground that there was not a quorum at the meeting. The Exchange secured a new manager for the store, and within a year or two the business was again on its feet.

⁵ The total number of shareholders in the Exchange at the latter date was actually ninety, the additional members consisting mainly of unincorporated buying clubs—a few of them inactive.

store societies in Minnesota, Wisconsin, and Michigan in 1929 was about 16,000; sales of affiliated stores in these states, which had been \$2,500,000 in 1924 were now \$6,000,000.

This increase did not represent an expansion in the cooperative store movement in terms of numbers of stores. Not only were economic and social conditions in these years unfavorable to the initiation of new cooperatives, but the unfortunate experiences of the period immediately preceding put a damper on the cooperative movement in many communities. Of the forty store cooperatives which joined the wholesale federation, a few were newly-organized societies. Most of them, however, were cooperatives which had already been in existence for some time.

Among the new members were four stores formed by non-Finnish groups. Together with two "American" associations which had joined the Exchange in 1920 and 1921, this brought the number of non-Finnish affiliates to about ten per cent of the total.

The volume of the wholesale business expanded even more than the number of its member stores. Sales passed \$1,000,000 in 1926, and in 1929 reached \$1,755,000.

It was not merely the increased size of the federation which enlarged the sales of the Exchange. Whereas the typical member society had made only 23 per cent of its purchases from the cooperative wholesale in 1934, it bought 37 per cent there in 1929. Some of the stores situated closer to Superior, supplied over half their needs through the Exchange. The latter was naturally better able to serve the stores since its capital was also increasing rapidly.

Aside from the inadequacy of its working capital, the wholesale had been somewhat handicapped in the earlier years by the boycotts of private business men. The wholesale companies in Duluth and Superior which had been supplying the cooperative stores sought to prevent the Exchange from entering the regular wholesale business. To this end they brought pressure on certain manufacturers not to sell to the cooperative wholesale—

which, in the first two or three years, of course, was considered none too good a risk. The Exchange was thereby forced to purchase the products of these manufacturers through private wholesale houses or do without them. These tactics, however, proved of limited effect, and were gradually abandoned. Yet as late as 1928 the cooperative wholesale is known to have suffered boycotts on canned soups and dried fruits.⁶

It was partly in order to meet this situation that the Exchange developed extensive lines of goods under a cooperative label. Coffee and flour were put under this label from the very first, and other lines were steadily added, as satisfactory contracts could be made with manufacturers or canners. Kitchen tests and chemical analyses of these products were reported to have been made in an endeavor to maintain a standard of quality comparable to that of nationally-advertised goods. It was found that satisfactory merchandise could often be secured at a substantially lower price than advertised products, enabling member stores to meet price competition more effectively. And, insofar as acceptance of the cooperative label goods could be built up among the members of the local cooperatives, the Exchange escaped entirely the effect of the boycotts.

Finally, there was the psychological advantage of a cooperative label. Careful use would build up the consumer's faith in the wholesale, his belief in the ability of the cooperatives to supply satisfactory products for his use—a value corresponding, perhaps, to the "Good-Will" on a corporate balance sheet.⁷

While the increased sales of the Exchange were facilitated by the enlargement of its working capital, the capital itself was augmented by the expansion in its operations. A net gain on the business handled was recorded every year, ranging from one per cent of sales in 1923 to two per cent in 1929. The greater part of this net gain was retained in the business either

⁶ See the Year Books of the Northern States Cooperative League, 1925-28; *Cooperative League Year Book*, 1930.

⁷ In the case of a cooperative, "Good-Will" is generally built up without benefit of national advertising—and also without its expense.

in the form of surplus or as credit to the share account of each patron society.⁸ The six per cent interest paid on shares required but a small proportion of the net earnings. Thus, the share capital, which was about \$16,000 at the end of 1922, mounted to \$83,000 by the end of 1929, and the surplus reached \$15,500.

Perhaps of more importance than the increased business of the Exchange was the influence of the wholesale federation and its activities upon the local cooperative societies of which it was formed. Especially significant was the growth in unity of the cooperative store movement in the district.

From one hundred to two hundred representatives of local societies were now brought together in the annual two-day meetings of the Exchange. During the intervening periods the operations of the staff were guided by a board of directors, consisting of leaders from the several districts into which the operating territory of the wholesale was divided. This board generally met five or six times a year, delegating authority to sub-committees between its meetings. Once a year there was also a meeting of the managers of all the affiliated stores.

The local societies, moreover, were learning to join with other cooperatives in nearby communities to secure economies in their buying, sometimes pooling their orders so as to get cheaper freight rates or lower prices, sometimes making joint arrangements for trucking. One such group, the Mesabi Range Cooperative Federation, comprising seventeen societies, initiated a cooperative creamery for the benefit of the farmer members of the local stores. In 1928 and 1929 the Range Federation and other groups of neighboring societies organized regional oil associations. These associations, owned by the local societies on a cooperative basis, set up bulk tanks with tank trucks to supply gasoline and oil to the filling stations owned by

⁸ Credit for patronage refunds was given to non-member cooperatives as well as to members. Societies were thus enabled in many cases to acquire shares and become members without the actual investment of any capital in the Exchange.

the cooperatives and to individual farmer-members of the local societies.

The wholesale federation also sought to unify the cooperative movement on a wider scale by helping to organize the Northern States Cooperative League, an educational federation, in 1922 and giving it continued support. The League included cooperative societies from a larger area than the Lake Superior district. While most of the Lake Superior district stores were affiliated with the League only indirectly through the Cooperative Central Exchange, their representatives attended the annual meetings of the League as delegates of the Exchange, and the conventions were sometimes arranged by local societies in the district. Students from Finnish groups also attended the cooperative training schools conducted by the Northern States Cooperative League in Minneapolis.

The training schools arranged by the educational department of the wholesale were continued each year; they were held in Finnish, however, and were therefore attended only by students of Finnish stock. They were undoubtedly an important force, not only in raising the standards of the store management but in increasing the loyalty of the affiliated stores to the federation. By 1927 more than half of the employees of cooperatives which were members of the Exchange had attended the training schools in Superior, and many of these were the managers of stores.

There was also built up among a great many of the cooperatives a practice of advertising in the *Tyomies*—and later the weekly cooperative newspapers—whenever they needed a new manager or other employee. This greatly expanded the field of selection. The wholesale, through its extensive contacts with the local stores, was able to provide references for many workers who applied for jobs with other societies. These factors enhanced the cooperative workers' mobility—so to speak—and afforded ambitious men both the opportunity for experience in different stores, and a somewhat better chance for advancement.

The work of the educational department of the Exchange was not by any means confined to the training of cooperative employees. A large part of it was devoted to informing the membership of the local societies of the activities and aims of the cooperative movement. With the department's assistance educational committees were formed in most of the cooperatives, charged with arranging public meetings, plays, dances, or other functions which might promote the interest of local consumers in the local store and in the movement.⁹ Many societies regularly appropriated five or ten per cent of their net earnings to the work of these committees. Besides guiding this local activity, the educational director of the wholesale began in 1926 to issue a monthly magazine in English, called *The Cooperative Pyramid-Builder*. It was sent at first only to store managers and employees, but soon became the official organ of the wholesale for English-speaking cooperators.¹⁰ In 1928 an assistant was added to the educational department to edit this publication. The educational director spoke frequently at local meetings and exercised considerable influence in the leadership of the wholesale federation.¹¹

The work of the auditing department in helping the stores to standardize their accounting and advising them in other ways was mentioned earlier. Charges were made to the local societies for audits performed, so that this part of the wholesale establishment was practically self-supporting.

Assistance was also rendered to store managers by other members of the Exchange's staff. Spurred by the competition

⁹ Another educational project was an amateur musical comedy troupe among the employees of the Exchange. With comedians, singers, and chorus girls, this company made one-night stands in one small community after another to interest additional people in the cooperatives.

¹⁰ Semi-official organ of the wholesale for Finnish readers until 1929 was the *Työmies*, which published a special section of cooperative news once a week. *Työmies* was controlled by the Finnish Communists after the Socialist split in 1921.

¹¹ The expenses of the Exchange in connection with this department reached more than \$8,000 in 1929. This equaled nearly one-fourth of the net earnings for the year.

of chain stores and of the members of voluntary chains, the Exchange secured the adoption by the various cooperatives of uniform plans for improving their store facilities. The dimensions of buildings, the lay-out of the different sections of the stores, display tables, heights of counters, widths of shelves—all were planned by the wholesale and accepted gradually by most of the local societies. A standard sign reading: "The Cooperative Store" was adopted, and the fronts of the stores which belonged to the wholesale federation were painted orange and green. The wholesale had no legal power to enforce such standards. Nevertheless, since they were prepared with the approval of the board of directors and subject to the review of the annual delegates' meeting, the consent of most of the societies could be presumed in advance. A few societies, on the other hand, never did conform to such rulings.

As the prestige of the cooperative wholesale grew, it acquired considerable influence even in affairs which the individual cooperatives might have regarded as their own provinces. Auditors or other representatives of the Exchange could not only recommend changes of policy to a local manager, but they could present such matters directly to the board of directors—as they generally did if the question was one of fundamental importance. Beyond that, if the local board resisted the suggestions of the wholesale, the latter could even appeal the matter to a meeting of the individual members. In such cases as these, one could glimpse the significance of the work done by the Exchange's educational director.

CHAPTER XIV

THE LOCAL COOPERATIVE SOCIETIES DURING 'THE 1920's

As has been noted, there was no particular spread in the cooperative store movement during the 1920's. A few new societies were organized in the Lake Superior district, most of them by Finns. And a few of the buying clubs which had been formed in earlier years succeeded in launching stores. There were, on the other hand, numerous failures among those cooperatives not connected with the Cooperative Central Exchange.

The trend of business for different societies within the Exchange group varied greatly, some cooperatives increasing their sales three or four-fold in a period of seven years, while others experienced a decline. Taking an average for the group as a whole, however, it may be estimated that their sales nearly doubled between 1922 and 1929.¹ This was a much larger increase than that of retail trade in general during this period, which was not one of rising prices. It appears, therefore, that most of the cooperative stores in the Cooperative Central Exchange group not only handled an increasingly large quantity of goods, but enlarged their share of the local business.

The sales totals of most of these cooperatives in 1929 were between \$30,000 and \$100,000 a year, fairly substantial volumes of business for stores in the rural areas of this region. There were sixteen societies whose sales were in excess of \$100,000.²

The cooperatives, moreover, seemed to be relatively efficient business organizations. The average margin between the cost

¹ See table on page 210 for year-by-year trend of sales.

² Statistics quoted in this connection do not include cooperatives which are not store societies nor do they include the affiliated societies at Brooklyn, N. Y.; Timmons, Ont.; or Waukegan, Ill.; inasmuch as they are not within the Lake Superior region.

of their goods and their receipts from sales in 1929 was about 15 per cent; yet they were able to show net earnings on the average of some 4 per cent. Thus, their costs of distribution ran to only 11 per cent of their sales.

Only a portion of the net earnings, however, was distributed in the form of patronage dividends. The members generally voted to set something aside to build up the resources of the societies and some societies whose stores showed regular earning went without declaring a rebate for several years. The payment of patronage refunds in shares was frequently chosen as a means of accumulating capital.

In this way most of the federated societies built up their capital fairly steadily after 1922, and by 1929 the net worth of the great majority was in excess of \$10,000 each. Not all the stores, to be sure, were free of financial troubles. In spite of the efforts of leading cooperators many of the stores continued to violate the Rochdale rule of cash trading, and in 1929 as many as one-third of them had large accounts receivable. Twenty or more societies, however, had adopted a cash basis.

CLOQUET, MINNESOTA

The cooperative store society which achieved the greatest expansion during the 1920's was that at Cloquet, Minnesota, a lumber-mill town of 6,000 people. This cooperative, though organized in 1909, apparently got its real start from the date of the great forest fire of October, 1918, which destroyed the property of the society along with every other building in Cloquet. Although the net worth of the association had been reduced to \$492 by the catastrophe, it immediately erected a temporary building and reopened for business. Through a policy of charging relatively low prices to the stricken inhabitants of the town, it attracted considerable trade, transacting a business of \$14,000 a month. Although it operated on a gross margin of less than 11½ per cent during 1919, the store realized a net saving of nearly 4 per cent. While the society was not able to repeat this performance after it had

put up a permanent building and conditions had returned to normal in Cloquet, it maintained a gross margin below 15 per cent and its membership grew steadily every year. Further addition to the membership of the society was made in 1923, when it effected a merger with the Knife Falls Cooperative Association, another store cooperative on the edge of Cloquet, composed principally of farmers.

The Cloquet society, with earnings of 3 to 4 per cent on sales from 1922 through 1926, paid patronage refunds only in shares. The net worth of the business was built up during this period from \$12,000 to \$90,000, largely by this method of saving. These funds enabled it not only to wipe out all of its debts, which in 1919 had amounted to \$22,000, but to provide for the needs of a rapidly growing business.

Sales in 1926 were \$477,000. The cooperative handled groceries and meats, flour and feed, hardware and building materials, farm machinery, dry goods and clothing, shoes, furniture and household goods. It had made special arrangements so that farmers could secure feed and flour directly out of railroad cars at lower prices than from the warehouse. The society had also established an insurance agency to place insurance for members. In 1927 the Cloquet association opened a branch store several miles outside the town; total sales reached \$590,000 by 1930.

The Virginia Work People's Trading Company at Virginia, Minnesota, built up a business of \$422,000 by 1929. Two other societies, one in Illinois and one in Ontario, affiliated with the Cooperative Central Exchange, also developed businesses amounting to several hundreds of thousands of dollars a year. The society at Rock, Michigan, however, situated in the midst of thinly settled country some twenty miles south of Marquette, probably achieved relatively more with its opportunities than any of these.

The Rock cooperative was established by Finnish settlers in 1912 with a capital of \$400. The following summary of its activities is quoted from an article inserted in the *Cooperative*

League Yearbook for 1930 by the board of directors of the Rock Cooperative Company:

Cooperation—with the purpose of helping in every practical way the farmers and workers that compose our membership to obtain a larger income from the marketing of the produce derived from the natural resources of the community and with these incomes to obtain the material necessities and comforts of life in larger quantities and of better quality—has been in the building at Rock for over fifteen years. Every kind of business transaction and service which the members need to have done, and which has been practical to do, has been performed by the Rock Cooperative. . . . The total business done in all lines by the Rock Cooperative Company during its existence is \$3,047,870.11, which is no mean figure for a small rural community.

Timber is one of the valuable natural resources around Rock. The Cooperative has been used by the farmers to develop their logging enterprises. If one or several members find a tract of stumpage worth logging, the cooperative is consulted. The timber man is sent out to appraise the timber and work up figures. If the tract is found valuable, the cooperative gets in touch with the owner on behalf of the members interested, the title to the land often being assumed by the society. Camps are erected, the best of conditions being provided for the workers. Money for operating expenses is advanced by the cooperative outside of a small sum put up as security by the members interested. The wood is marketed through the store on the regular commission basis. This business arrangement has proved a valuable source of income for both the cooperative and the farmers. It has enabled the farmers to rely upon their collective credit, and thus secured larger sums at cheaper rates. Besides, it has given the rank and file logger a bigger income from the timber products.

. . . Besides the main store building, the society owns dwelling houses (for its employees), three warehouses, a building rented to the Postal Department, an oil station and an old cheese factory. Eggs, cream, hides, meats and many other products are marketed through the store. A semi-banking business is done, deposits being accepted and checks written for those who want to send money away. A credit union has recently been organized to accept savings and issue loans.

Everyone around Rock, except our competitors, believes in cooperation, and for good material reasons. Rebates in cash to the amount of \$53,119.90 and in share capital to the amount of \$56,565.97 have been returned to the consumers in the course of fifteen years; \$12,209.18 has been paid in interest on capital stock. This means a total saving of \$121,895.05. If the Rock farmers had not been organized to do their business cooperatively, this vast sum would have gone into the pockets of timber dealers and merchants. Besides these material gains, an effective organization has been built, cooperation has been learned, and confidence in self-help and democratic methods has been created among the local farmers. The Rock Cooperative Company is not only a "dividend" dispenser, however; it is a conscious part of the cooperative movement. Constant educational work in the form of lectures, publications, entertainments, and field work is conducted. Much of the social life of the community centers around the cooperative. . . . As a member of the Marquette District Cooperative Federation, the society has helped buy and equip the cooperative recreational park on Shag Lake near Gwinn, Michigan.

The members and officials realize that . . . cooperators and cooperatives must unite to centralize their purchasing, marketing, and educational efforts. . . . Organized cooperators must help educate and organize the unorganized farmers and workers for cooperation. Existing cooperatives must centralize their buying power to help build wholesale and manufacturing units. The movement must develop its own educational machinery: work closely but independently with all workers' and farmers' organizations; and keep an experimental attitude toward every economic development and new technique.

The number of shareholders in this organization was then approximately four hundred. Its sales of merchandise reached \$195,000 in the year 1929; its marketing of the farmers' products \$249,000. The members' cream it was able to sell to an urban cooperative, that at Waukegan, Illinois, at a price "four cents above the Chicago market."

LOCAL SOCIETIES DURING THE 1920'S 191
ORR, MINNESOTA, AND MASS, MICHIGAN

Another relatively successful society was that at Orr, Minnesota, also a rural community. The Orr cooperative was started by Finnish farmers as a buying club in 1919 with \$350 capital. Within a few years it had realized a net saving of \$16,354 on sales of \$207,000. People of other nationalities joined the society, branches were established at Ray and Gheen, Minnesota and by the end of 1928 there were 281 members holding \$14,000 in shares. The total net worth of their business including the reserves was \$34,000.

The cooperative at Mass, Michigan, one of those started as a result of the copper strike of 1913, built up a membership of several hundred during the war years, but was hard hit by the depression in the copper country which followed. By 1923 it was practically bankrupt. With the aid of the cooperative wholesale, nevertheless, it was able to straighten out its affairs. By 1927 it had doubled its sales, paid off all of its debts, and realized net earnings from its business of \$30,000.

LESS SUCCESSFUL SOCIETIES

Not all the store societies affiliated with the Exchange, however, achieved business success during this period. At Gilbert, Minnesota, an iron mining town, many members of the cooperative suffered from unemployment during the latter part of the 1920's, and the sales fell from \$148,000 in 1923 to \$101,000 in 1929. Certain other societies never fully recovered from the losses incurred in the post-war depression. The cooperative organized in Duluth by non-Finnish railroad men in 1919, which had purchased a large store building when values were at their peak just after the war, became heavily loaded with accounts receivable at the time of the railroad strike in 1922; it did little more than struggle through the following decade.

There were, as noted, a number of failures among the cooperatives not affiliated with the wholesale. Many which did not actually fail, sold out to private merchants, or closed because of the lack of interest among the members.

COOPERATIVES OUTSIDE THE EXCHANGE GROUP

Most of the cooperative stores in Minnesota and Wisconsin outside the Exchange group were in the central and southern parts of these states, yet there must have been at least one or two score unaffiliated societies within the territory of the cooperative wholesale. Nearly all of the unaffiliated societies were reported to be composed of farmers.³ They had been started in nearly every case by groups of foreign-born people other than Finns; many were Scandinavian, some were German.

The unaffiliated cooperatives had practically no contact with one another or with the cooperative movement at large—the Northern States Cooperative League was able to secure the support of very few—and they carried on no educational activities. The members seemed to have no interest in the movement and very little in their own associations. The meetings, held only once a year, were poorly attended, and the boards of directors exercised but a loose supervision over the managements. Most of the stores actually transacted more business with non-members than with members. The managers had generally had previous experience in business but no cooperative training. Only six out of eighty-one non-Finnish managers had ever managed any other cooperative store.

One society which did affiliate with the Northern States Cooperative League and with the national league was the Soo Cooperative Mercantile Association at Sault Ste Marie, Michigan. This cooperative had been organized in 1913. It had had but one manager since 1915; he had built up an efficient business organization with several stores, which had handled business as large as \$686,000 in 1929, returning large patronage rebates.⁴ Most of this business was on credit and of the asso-

³ V. S. Alanne, article on cooperative stores in Minnesota, *Northern States Cooperative League Yearbook*, 1926, pp. 141-8. Also V. S. Alanne: "Cooperative Store Managers in the West North Central States and Michigan", *Northern States Cooperative League Yearbook*, 1927, pp. 178-182.

⁴ Rebates in this society were paid not only to patrons in proportion to their purchases, but to the employees in proportion to their wages—at the

ciation's customers only half were shareholders. There was little or no educational work. Of the members, most of whom were American or Canadian-born, many were apparently well-to-do. The main store catered principally to the wealthier classes of the community. As may be judged from the fact that two of its leaders were connected with a local bank in an official capacity, the membership of this society was not swayed by any spirit of antagonism to the private method of business.

same percentage rate. One worker who had driven a truck for the cooperative stated that he had received as much as \$200 in dividends in one year between the rebates on his wages and those on his purchases from the society.

CHAPTER XV

SOCIAL AND POLITICAL BARRIERS TO COOPERATION

It has been indicated earlier that the nationality factor was not a vital element in the initiation of most of the Finnish cooperatives in the Lake Superior district. There were private Finnish merchants in most of the communities where the Finns settled in any numbers; hence the Finns were not generally dependent on storekeepers whose language they did not understand. There were some places, nevertheless, where the Finns found no stores of their own nationality. In such cases their desire both to have the benefit of their own language and to secure Finnish types of food must have played an important part in the genesis of a Finnish cooperative.

The difference in nationality must always have given the Finnish societies an advantage over American competitors in securing the trade of the Finnish population, even though there might have been private Finnish stores to share their patronage. The fact that they did not easily learn English drove the Finns back among themselves, encouraged them to develop their own social and cultural activities outside those of the American community, and thus to form particularly cohesive social groups. A Finn not only tended naturally to trade at the same store as his friends; he would hesitate not to for fear of offending his fellows. Such factors favored the cooperative especially in the smaller towns where it was likely to be the only Finnish store.

It must be noted, however, that less than half the Finns in the Lake Superior district were members of cooperative store societies even as late as 1929. In many sections where Finns were living none existed, but even in towns where there were Finnish cooperatives, many Finnish people remained outside them. This was partly a matter of political and religious differences: the cooperatives were often dominated by radical

groups with whom the members of the Finnish churches and temperance societies would have nothing to do. More often, probably, it was merely a case of indifference to the cooperative gospel, together with satisfactory accommodation by other stores.

LANGUAGE BARRIERS

Whether or not their Finnish character gave the societies a special advantage in securing Finnish support, there is no doubt that it erected a barrier to "Americans"—as the non-Finnish persons were frequently distinguished. To draw from a description of one of these cooperatives by George Jacobson,¹ the Finns not only owned the store, they had pioneered together to build it. They considered this store a sort of Finnish club. They gathered at the store, hung on the counters, and stood in groups around the floor talking to each other in nothing but Finnish. If a Swedish fellow worker came in they gave him a queer, cold side-glance and went on talking Finnish. The clerks and the manager spoke Finnish. A clerk asked just enough in English to find out what groceries the customer wanted, made change and abruptly ignored his presence to engage in a lively conversation in Finnish. They gathered at the annual meeting to argue in Finnish; they elected a board of Finns, who spoke little but Finnish, and conducted all business meetings in Finnish. They carried on their cooperative dances, entertainments, and educational meetings in Finnish.

Jacobson described the non-Finns reaction as follows:

Finnish being spoken at the store and at all cooperative affairs is no inducement to the English-speaking people to join the cooperative. They think of cooperatives as exclusively Finnish: for, by, and of Finns. In fact most Cooperative Central Exchange stores are popularly known as the "Finn stores". The American worker of other nationalistic extractions does not feel at home in

¹ Fieldman's Report to the Eighth Annual Convention of the Northern States' Cooperative League, *The Cooperative League Yearbook, 1930* (The Cooperative League, New York), pp. 120-124.

the store, not to mention annual meetings carried on in Finnish, even though it's often of decided material advantage for him to trade there. He often goes out of his way to avoid the cooperative and builds around himself a shell of prejudice and misunderstanding. . . .

Not only does the absence of English keep the American worker out but it exposes him to every kind of underhanded propaganda about the movement and the store. The local cooperative activity and education is isolated in the Finnish language; the outsider has very little chance to learn about cooperation from cooperators. Private merchants, local patriots, and the local press play on his prejudices and his confused mind.²

In spite of such psychological obstacles many of the Finnish cooperatives did attract increasing numbers of English-speaking customers. Operating on low margins over wholesale costs, they presumably sold at relatively low prices, and may have given better quality than their private competitors. Patronage rebates, where they were paid, must also have been an attraction.

It was a difficult task, however, to get these people to become interested and active members of the organizations. "In some communities like Virginia and Rock," said Jacobson, "a large number of the non-Finnish people trade at the cooperative, but are unable to participate in the affairs of the organization even if they are invited and wish to, due to the language barrier."

"Proceedings can be translated from one language to the other . . . [but] if Finnish is the official language, the English-speaking cooperators get drowned out and as a rule they never return to a second meeting."³ Besides, meetings held in two languages were likely to be very tedious.

The addition of many new voting members from among the "Americans", who generally knew little of cooperative principles, presented the societies with a pressing educational

² *Ibid.*

³ *Ibid.*

problem. Where, as at Cloquet, the membership more than doubled in a period of four or five years, this problem was particularly acute. To quote from the article inserted in the *Cooperative League Yearbook for 1930* by the Cloquet Cooperative Society:

The problem of assimilating the large influx of new members into our organization, which we have had now for several years in succession, is rapidly becoming a serious one. These new members have been recruited from the non-member customers which through their patronage have automatically become members, the patronage dividends having been distributed not in cash but in share credits.

To make true cooperators of individuals who previously have had no idea of the principles and the aims of Consumers' Cooperation, is no easy task and will require a great deal of time and effort. We may yet be compelled to call a temporary halt to this practice of ours of making the non-member patrons automatically members of our organization by applying their dividends as payments on a share. This we may have to do until we have been able to devise ways and means as to how to make cooperators of the newly acquired members and thus safeguard the future of our society.

A question may be raised, however, as to what extent the hesitancy here expressed about accepting these customers as members was actually based on the rational ground of cooperative principle. Perhaps, as the writer found in the society at Maynard, Massachusetts, the original Finnish members were jealous of losing their control. Jacobson remarked:

Quite often the educational work carried on among the English-speaking workers and farmers has been, or at least resulted in, getting his trade but not his participation. This is possibly due to the fear among some of the pioneer Finnish cooperators that the American is not to be trusted in a cooperative way; that he will upset the boat if given a voice. They are afraid they will be shoved aside by the intruders and that the exclusive Finnish make-up of the local cooperative in which they have found so much recreation, entertainment, and self-expression—this Finland within America—

will be done away with. They fear the loss of this culture life, and build barriers to keep the intruder out, even though they may hold a vision of the labor and cooperative movement.

Then, Finnish exclusiveness is also due in a measure to the determination for strategic control of the cooperative by certain political factions within the Finnish nationality. Where this undemocratic practice is carried too far, factional fights and splits will result.⁴

The various problems occasioned by the difference in nationality were recognized by the leaders of the cooperative wholesale. The central organization itself was affected by similar difficulties. Cooperatives formed by Americans or by foreign-born of other nationalities hesitated to join the Exchange or even to buy from it because of a feeling that it was a Finnish and not an American institution. Needless to say, this attitude was sedulously fostered by the Exchange's competitors. Of the non-Finnish societies which did become members, most had not made any investment in the wholesale. They had, however, found it to their material advantage to patronize it, and the credit placed to their account from patronage dividends had automatically provided them with shares.

As the Exchange grew it became increasingly evident that a limit would be set upon the expansion of the cooperative movement and especially on that of the wholesale federation, if it was to be confined to the Finnish population. The educational department began to urge upon the local members that they must attract the non-Finnish people and give them a part in the affairs of their societies. They were asked to change their meetings to the English language as rapidly as possible, and to elect English-speaking persons to their boards of directors. The *Cooperative Pyramid Builder* was developed to reach both the younger generation of Finns who had learned English at school and the other Americans. Some societies subscribed to this magazine for all their English-reading shareholders. It

⁴ *Ibid.* For further discussion of the problem raised in the last paragraph see p. 194 *et seq.*

was slow work, however. It was hard to persuade groups to adopt English as their official language, when their leaders and most respected members could often understand no English at all.

There was, moreover, another aspect of the situation which stiffened the barrier set up by difference of language, namely, the political complexion of the cooperatives.

THE POLITICAL ORIENTATION OF THE FINNISH COOPERATIVES

Most of the Finnish cooperatives in the Lake Superior district, as has been pointed out, were started by Socialist groups. While they represented a response to the practical needs of the members of these groups rather than a part of the Socialist party program, their policies were naturally influenced by the political and social views of their leaders. These Socialist leaders, moreover, took a leading part in the establishment of the cooperative wholesale. The founders of the Exchange believed that the cooperative stores were to be looked upon as an integral part of the working-class movement, and should stand ready to assist the other branches of that movement, the workers' party and the labor unions.

The political organization which survived the split among the Finnish Socialists of the region in 1913-14, subsequently formed a left-wing group within the American Socialist party. Industrial conditions were more conducive to an extreme brand of revolutionary Marxism in the Lake Superior district than in other parts of the country. Both in the copper mines and in the iron mines production was carried on by the agents of large corporations whose directors and beneficiaries lived many hundreds of miles away. The workers, both in the mines and on the coal and ore docks, suffered from low wages and seasonal unemployment. Their housing was mostly poor and ugly. Conditions of work in the lumber camps were worse, and the immigrants who had attempted to settle on the land were still partly dependent on industrial employment.

Efforts of the workers to better their lot by political or economic means were often suppressed by agents of the employers. Systems of espionage were instituted by the corporations, and employees who agitated for reforms or sought to organize the other workers were frequently discharged and refused further employment by any company. Radicals and militants were thus forced out on the cut-over land to make a living as best they could. Strikes in the mining towns were bitter and bloody affairs.

One by-product of these conditions, no doubt, was the prevalent belief in programs of organized violence as a means of social reform. Hence the widespread following of the I.W.W. in this region as well as the left-wing character of the Socialist movement.⁵

When the successful Bolshevik party in Russia issued a call to the Marxist parties of other countries to join a new Communist International under its leadership to proceed with the predicted world revolution, the Finnish Workers' Federation (as their Socialist organization in the region was known) followed its lead. Together with other left-wing elements it broke away from the American Socialist party to form the new Communist party.

The Finnish cooperatives previously under Socialist influence thus became connected with the Communist International. Most of the leaders of the wholesale federation, for several years after 1922, were members of the Communist party. For contact with the Finnish cooperative membership, the Exchange relied upon the newspaper, *Tyomies*, organ of the Finnish Workers' Federation.

⁵ It may also be argued that the Finns were more prone to take extreme positions on social questions than other groups in the population. Their peculiar language difficulty and its cultural effects tended to insulate them from the social attitudes of other American groups and also make it somewhat more difficult for them to rise from the unskilled laboring class. Pertinent factors in their national background are their habits of self-reliance and their limited experience as a free nation.

In many local societies the leadership of the cooperative worked hand in hand with the Communist leadership—the two were, in fact, often identical. The cooperatives continued to share the same halls with the workers' political clubs. Both the local societies and the wholesale made donations for various Communist causes. Probably more important than the financial assistance, however, was the opportunity provided the party to extend its message and its influence to the cooperative membership. The hammer-and-sickle, Communist emblem, was even used on the cooperative label.

To the cooperative leaders the cooperative stores were only one phase of an inevitable struggle of the working class to overthrow the capitalist system and secure control of the means of production. Such control could never be achieved by the cooperatives themselves, according to Marxist theory, but only with the aid of the workers' unions and their political party. An instance of this reasoning may be quoted from an article by the manager of the Cooperative Central Exchange, called "Pink Pills for Pale People";⁶

To produce, we need raw materials. We soon find that all basic raw materials are owned by big capital.

. . . no ruling class ever gave up its power without a fight.

. . . it is plainly evident that present society is composed of two opposing classes. . . .

In this class conflict the cooperative movement is a mighty weapon in the hands of the workers . . . it's during the struggles of the workers on the industrial field that they have organized cooperative enterprises. . . .

. . . the cooperative movement, if its aim is a better system of society and not dividend checks, *must be a labor movement*. It must work hand in hand with labor in all its struggles, be they on the economic or the political field.

George Halonen, educational director of the Exchange, declared: "The main task in the educational work has been

⁶ Eskel Ronn, "Pink Pills for Pale People," *First Yearbook, Northern States Cooperative League* (Minneapolis: 1925).

to connect the isolated cooperatives with each other for common purposes, and to make the masses understand that the cooperative movement is a working-class movement and thereby a part of the general labor movement."⁷

Meanwhile, the Cooperative Central Exchange participated in the Cooperative League of the U. S. A., many of whose members did not agree with this class theory of the cooperative movement. The president of the league, Dr. J. P. Warbasse, in particular, held that the movement should be absolutely non-partisan. Everyone was a consumer, claimed Dr. Warbasse, and in this role everyone was eligible for membership in the movement, whatever his economic status. Moreover, he maintained that it was a violation of Rochdale principles for consumers' cooperatives to ally themselves with any special party or groups. Dr. Warbasse was himself a man of some wealth, and it was by virtue of his financial support that the national league had been formed and sustained in its early years.⁸

The Finnish radicals were hostile to the leadership of the Cooperative League both because of its non-partisan doctrines and its "bourgeois" character. At the National Cooperative Congress held in Minneapolis in 1926, the delegates of the Cooperative Central Exchange were able to secure the adoption of the following resolution:

Whereas, the cooperative movement in its nature is primarily a working class movement against the present system based on profit, and

Whereas, a change in the present economic system of society can be accomplished only through the united action of the whole working class, therefore

⁷ George Halonen, in *Second Yearbook, Northern States Cooperative League* (Minneapolis: 1926), p. 56.

⁸ The league was founded in 1915 by Dr. Warbasse and several other interested individuals. According to Cedric Long, "For three or four years this league was little more than a propaganda agency subsidized exclusively from private funds." In the 1920's, when it had acquired a dues-paying membership among the consumers' cooperative societies of the country, it was still financed, at least to the extent of its office facilities, by Dr. Warbasse.

Be it Resolved, that this Fifth National Cooperative Congress . . . declares the cooperative movement to be a part of the general labor movement, and that therefore the cooperative movement should seek the cooperation of all workers' and farmers' movements for the benefit of the exploited toilers.

At one time they also threatened to unseat the president of the league.

In the communities of the Lake Superior district officials of the Finnish cooperatives talked openly of the class struggle, urging the workers and farmers to unite against the capitalist class. They espoused the causes of the economic under-dogs at every opportunity. They publicly attacked the American system of government as a tool of the employers.

It was only to be expected that the Finnish cooperatives became connected in the public mind with communism. While a large section of the Finnish population supported neither Communists nor the cooperatives, to the indiscriminating the terms "Finn," "Communist," and "Cooperative" became practically synonymous.

Private business interests were eager to identify their cooperative competitors with both the Finns and the Communists. By thus classing them as "un-American", they not only justified in their own minds their attempts to kill the cooperatives, but enlisted on their side the social prejudices of the rest of the community.

While this thorough-going advocacy of working-class revolution may have solidified the support of the cooperatives by the radical elements in the population, it undoubtedly helped to repel the majority. Conservatives refused to go in the cooperative stores; many others feared to, lest their names be added to the blacklists of their employers.

The more conservative cooperative societies were loath to join the cooperative wholesale because of its radical complexion. A number of the Finnish associations formed by farm groups were relatively conservative and opposed to Marxist organizations. Gradually, over a number of years, practically

all the Finnish cooperatives did become members of the wholesale federation, but often it was because they needed the business assistance or the buying advantages that the Exchange was able to give them, not out of support for the principles of the organization. As for the "American" societies, the Exchange's Communist reputation together with the difference in nationality sufficed to keep many of them out. The Soo Cooperative Mercantile Association, for example, was interested enough in the cooperative movement to join the Northern States Cooperative League, but it was alienated from the wholesale, according to the Soo manager, because the leaders of the wholesale were "Reds."

The identification in the public mind of consumers' cooperation with the Finns and with communism, promoted by private business, shut the door to cooperation as a method of self-help for many non-Finnish groups. They did not understand the Finns, and communism to most was something foreign and sinister. So, where the success of Finnish societies might have inspired more cooperative undertakings by Americans, instead cooperation stood condemned in their eyes, not of itself, but by its doubtful connections.

As time went on, however, there were signs of change in the attitudes of cooperative leaders. Officials of the wholesale federation commenced to weaken in their support of the Communist program, to take the position that socialism might be achieved in this country by gradual, peaceful change.

They were influenced, no doubt, by the improvement in economic conditions after 1922 and the relative prosperity which prevailed in the United States from then until 1929. They saw that communism made little headway in this country. While the Exchange and its affiliated societies were growing into an independent force of considerable strength, the labor movement of which it was supposed to be a part was getting weaker rather than stronger. They saw also that the cooperatives' alliance with the Communist party was limiting their growth.

The fact that the leaders were having more and more contact with Americans and with the American social structure may have led them to revise some of their views. V. S. Alanne, perhaps the first of the Finnish cooperative officials to take a stand against alliance with the Communists, had resigned his post as educational director of the Exchange in January, 1925, and had gone to live in Minneapolis as educational director for the Franklin Cooperative Creamery Association and secretary of the Northern States Cooperative League. In 1928 he wrote:

On one hand we have those cooperators who urge that our movement must be considered a part of the labor movement and that it should, in its activities, assume the class struggle attitude.

On the other hand, there are those cooperators—and the undersigned is in sympathy with them—who do not believe in the wisdom of tying up our movement too closely with any political movement. . . . Those cooperators who maintain that our movement must be a part of the labor movement . . . are ready to accept the intellectual hegemony of a certain working-class party, which again means that at least at times they are willing to take dictates in their cooperative work from this particular political party they belong to.

The main support to our cooperative movement comes from the working people. To this extent it is clear that our cooperative movement is largely a working people's movement. It is also clear that our cooperatives should at all times strive to maintain friendly relations with farm and labor organizations of all kinds. But we must strive to build our movement on the broadest possible basis and not let it become divided by any class or party lines. It is the great task of the cooperative movement to ultimately do away with such class and party distinctions . . .⁹

Alanne's change of mind put him in disfavor with the leaders at Superior, whose official position was still in support of the Communist party. The Exchange even threatened to withdraw from the Northern States Cooperative League. In the same publication in which Alanne wrote, George Halonen, who had

⁹ V. S. Alanne, "Some Vital Problems of Consumers' Cooperation in the United States," *Fourth Yearbook, Northern States Cooperative League* (Minneapolis: 1928), pp. 26-27.

succeeded the former at the wholesale, declared: "Only by becoming a part of the labor movement and actively taking part in the struggles of the working class, can the cooperative movement in America hope to become a strong mass movement. The Cooperative Central Exchange bases all its propaganda and educational work on this foundation."¹⁰

Halonon, too, however, soon began to take a more moderate position. And at the National Cooperative Congress at Waukegan, Illinois, October 29-31, 1928, the delegates of the Cooperative Central Exchange exhibited a somewhat more conciliatory attitude towards the other elements in the national league.

THE SPLIT AMONG THE FINNISH COOPERATIVES IN 1929-31

A crisis was reached in 1929. The leadership of the Communist International in Moscow is said to have anticipated a world-wide economic crisis, which it hoped would radicalize the masses. It decided to call upon all its resources to help prepare for the opportunities such a crisis might present. Wherever its representatives were in positions of influence and authority, it would now openly exert its power.

Accordingly, in July, 1929, the board of directors of the Cooperative Central Exchange received a cablegram from Moscow asking them for support. They were required to give \$5,000 to the Communist party. At the same time an attempt was made to unseat the general manager and the educational director.

A majority of the board, however, refused to accede to these demands. They maintained that the disposition of so large a sum as \$5,000, even though it was to take the nominal form of a loan, was a matter which must be referred to the member societies. The board claimed to have no power to make such a grant. The issue, including the leadership of the wholesale, was thereby left to the annual meeting of delegates in April, 1930.

¹⁰ *Fourth Yearbook, Northern States Cooperative League* (Minneapolis, 1928), p. 126.

Meanwhile, the Communists opened a bitter campaign against the controlling officials of the Exchange, bringing pressure to bear through every local cooperative or any other organization in which they were represented. The editor of *Tyomies*, who refused to go along with this program, was discharged, and the newspaper began a long series of vituperative attacks on the wholesale's leadership. The latter's officials were given no opportunity to make a rebuttal. The Exchange, therefore, arranged a special edition of the *Cooperative Pyramid Builder* to be printed in Finnish in order to state their case to the Finnish cooperators. When this edition was ready for distribution, the printing plant was invaded by a group of "strong-arm men" who succeeded in burning several thousand copies. Nevertheless, the cooperative wholesale proceeded in December, 1929, to establish a weekly newspaper in the Finnish language, so that thereafter it had its own organs in both Finnish and English.

The Communists apparently expected to control the annual meeting of the Exchange. It was attended by 249 delegates and was reputedly a dramatic affair. At the end of three days of bitter and sometimes violent debate, the Communists were defeated by a large majority. The meeting not only rejected the party's demands, but voted to oust from the board the three directors who sided with the party, including the president.

Most of the Finnish member societies, as well as the wholesale, were torn by dissension. The Communists, however, were able to secure control of only fourteen¹¹ of the seventy-one store societies affiliated with the Exchange. These societies, representing about a fifth of the local membership and a sixth of the sales of the Exchange group,¹² subsequently established

11 Several of these cooperatives had suffered reductions in sales in 1929 when the sales of most societies were still increasing. It seems probable that economic conditions were more unsatisfactory in the localities of these fourteen societies than elsewhere.

12 The proportionate strength of the Communist societies was greatest in the upper peninsula of Michigan, where they had close to 1500 members out of a total of 4,000-odd members in all affiliated cooperatives in that district.

a central organization of their own, the Workers' and Farmers' Cooperative Unity Alliance, with headquarters in the *Tyomies* building in Superior.

When their demands were again defeated at the meeting of the wholesale federation in 1931, the Communist factions commenced a systematic boycott of the Exchange and of all the stores which supported it. The cooperatives under Communist control endeavored to centralize their purchases through the Unity Alliance. The latter, however, did not have either the working capital or the facilities to do more than sub-jobbing and most of the Communist store orders went in actuality to the large private wholesale companies in Duluth.

Communist minorities in the other societies ceased to patronize the stores. Where possible, they set up cooperative stores of their own, either as new societies or as branches of one of the cooperatives under left-wing control. Adherents of the Exchange in turn set up other stores to compete with Communist societies. Thus, consumers were treated to the spectacle of two Finnish cooperative societies competing with one another in more than a dozen communities.

To three of the local cooperatives, each of whose business position was none too strong, the factional struggles soon proved fatal. Certain other failures which occurred during the subsequent business depression could probably be attributed in some measure to the boycotts and competition between cooperatives. A great many of the Exchange societies suffered not only reductions in patronage, but the loss of some of their most valuable members.¹³

¹³ The shares in the cooperative wholesale owned by the Communist societies, including their earnings from patronage dividends, amounted to more than \$20,000. The Exchange, however, refused to redeem their shares. Although they had withdrawn their patronage from the wholesale and continued to vilify it and its supporters, they remained nominal members, and sent delegates to the annual meetings. Their membership in the Northern States Cooperative League they allowed to lapse by failing to pay any further dues.

CHAPTER XVI

THE COOPERATIVES AS AN INDEPENDENT MOVEMENT—THE DEPRESSION TO DATE

THE economic depression which set in during 1930 and the years following affected the business of the cooperatives in the Lake Superior district as well as that of private enterprise. The decline in prices together with an even greater curtailment in people's incomes reduced retail sales at practically all stores. The cooperatives, in addition, felt the effects of their internal divisions on the political question as the defeated minorities in most societies commenced a general boycott of the cooperative stores.

The dollar volume of sales of the cooperative societies in the Lake Superior district shrank about 36 per cent between 1929 and 1932. It was practically impossible to achieve a proportionate reduction of expenses. While the expenses of the stores were reduced somewhat, the percentage of the consumer's dollar absorbed by expenses in the cooperatives affiliated with the cooperative wholesale rose from a little less than 12 per cent in 1929 to nearly 15 in 1932.¹ The drop in sales volume, moreover, since it was caused partly by smaller incomes, was almost inevitably accompanied by considerable losses from bad debts at the many stores allowing credit. A further source of loss was the depreciation in inventories brought about by declining prices.

Under these influences the average net earnings of the affiliated cooperatives fell from 3.46 per cent of sales in 1929 to .97 per cent in 1932. Many of the societies showed net losses in the latter year rather than net gains. Nearly half the stores, in fact, suffered net losses from their retail operations in 1932.

¹ 1937 *Yearbook*, Central Cooperative Wholesale, "Comparative Percentages of Store Societies Affiliated with the Central Cooperative Wholesale", p. 61.

TABLE 4

SALES OF CENTRAL COOPERATIVE WHOLESALE AND ITS AFFILIATED
STORE COOPERATIVES, 1919-1938

Year	Sales of All Affiliated Stores in Lake Superior Region ^a	No. of Societies Reporting ^b	Sales of Central Cooperative Wholesale ^c	Index of Sales of Individual Cooperatives ^d	Sales of All Retailers in U. S. ^e
	(\$ 000)		(\$ 000)	(1929 = 100)	(1929 = 100)
1919			314	65	
1920			410	69	
1921			312	55	
1922			338	48	
1923			504	54	
1924			613	64	
1925	2,856	39	836	74	
1926	3,565	48	1,048	80	
1927	3,967	50	1,256	86	
1928	4,810	60	1,518	93	
1929	—	—	1,756	100	100
1930	5,596	70	1,768	99	87
1931	—	—	1,510	79	72
1932	—	—	1,310	64	52
1933	3,360 (Approx.)	60	1,383	66	51
1934	4,438	60	1,788	87	59
1935	5,262	61	2,185	102	68
1936	6,783	66	2,846	129	77
1937	8,171	69	3,357	147	81
1938	7,959	82	3,169	138	72

^a Statistics for 1925-30 based on reports in year books of Northern States Cooperative League and Cooperative League of U.S.A.; for 1933-38 based on reports in yearbooks of Central Cooperative Wholesale.

^b Number of societies reporting their sales was usually two or three less than the total in operation.

^c *Year Book, 1939*, Central Cooperative Wholesale, p. 7. The published total for 1938 was adjusted to include taxes and freight on gasoline, which had been included in previous years.

Many of these, nevertheless, secured sufficient income from their marketing of member's produce or through rebates on their wholesale purchases to offset the retailing loss, and leave them with a small net income.² Very few of the associations were forced out of business.

RELATIVE FORTUNES OF THE COOPERATIVES IN THE DEPRESSION

A comparison of the cooperatives' difficulties during the depression with those of private retailers (See Table 4) indicates that the former fared relatively well. The reduction in retail trade as a whole, in the seventeen counties where most of the cooperatives were located, according to statistics of the U. S. Census of Business, was not 36 per cent, but 50 per cent.³ Moreover, the proportion of failures among the stores affiliated with the Cooperative Central Exchange was smaller than that for all retail traders. Of the fifty-seven store societies which seem to have been actively supporting the Exchange at the end of 1930, only two failed; among the Communist group of

² This index, for the years 1928-37, is based on the sales of a group of 43 cooperative store societies which transacted over 70% of the business of all affiliated store societies in the Lake Superior region in 1937 (*Cooperative League Year Book, 1939*, p. 71). For other years it is based on the year-to-year change in sales of societies reported in successive Year Books of the Cooperative League and in the Central Cooperative Wholesale Year Book, 1939; the number of societies covered is 10 up to 1924, then an increasing number up to 57 for 1927 and 69 for 1938.

³ U. S. Dept. of Commerce, *Domestic Commerce*, vol. 23, no. 8 (Mar. 20, 1939), p. 164.

² "Special income (net)" averaged 0.56% of sales for all member cooperatives in 1932. This item was actually larger on the average than net income from trading, which was only 0.41% in 1932. For some stores special income probably amounted to as much of 2% of sales.

³ Other census figures may also be cited showing the extent of the decline in sales: Total retail sales in the U. S. declined 49%; sales of food stores in U. S.—37%; sales of dealers in farm supplies and of country general stores in the U. S.—58%. These figures show the drop between 1929 and 1933. Sales of the cooperatives fell 36% between 1929 and 1932, but recovered two points in 1933.

fourteen there were three failures. No statistics have ever been published showing the total number of retail enterprises which failed or went out of business during the depression. The records of business failures collected by Dun & Bradstreet indicate, nevertheless, that not less than one half of the retailers in business in 1929 had gone out of business by 1933.⁴

It appears, in addition, that the drop in the sales of the Exchange societies was no greater than the decline in prices. Retail food prices, as measured by the index of the U. S. Bureau of Labor Statistics, from 1929 to 1933 fell 37 per cent; prices for feed, flour, and other farm supplies dropped even more. One may conclude that most of the member societies were actually selling as large a quantity of goods in 1932 or 1933 as in 1929. Further, since their sales fell less than those of private merchants, they were probably handling a larger percentage of the total business than in the earlier period. A comparison of the number of members of fifty-three of the societies at the beginning of 1935 with their membership six years earlier shows an increase from 13,041 to 17,141 during these years.⁵

The relative success of the cooperatives during the depression can be attributed in part to the soundness of their business policies, especially those followed in the preceding years. Most of the societies had accumulated substantial reserves. Most of them were also well prepared to meet their current liabilities: the total current assets of all member stores in 1929 were equal

⁴ Even in average years the proportion of retailers who close up their shops is very large. Statistics collected by Dun & Bradstreet for 1935 when there were 1,510,000 retail firms in business, show that while only 7,331 retail firms actually filed in bankruptcy in that year more than 300,000 went out of business. The number which went out of business during the years 1930-1933 is not known. In view of the fact that the number of firms filing in bankruptcy in those years was twice that of 1935, one may hazard a guess that of the number of retailers who attempted to do business during each of the depression years one-third closed up shop by the year's end.

Dun & Bradstreet, Inc., *Dun's Statistical Review*, *passim*.

⁵ Central Cooperative Wholesale, *Year Book*, 1935, pp. 5-8; *Cooperative League Year Book*, 1930, pp. 296-299.

to twice their current indebtedness.⁶ Many of the stores operated on a cash basis, and were not troubled with mounting accounts receivable.

The cooperatives evidently succeeded in attracting consumers who had been patronizing private merchants. What were the attractions? Few of the societies were able to pay large rebates during these years. It is possible, however, that their prices were lower than those of many of their private competitors: although their expense ratios were rising, the Exchange societies continued to sell on the relatively modest margin of 15 per cent. Whatever savings they were able to offer undoubtedly seemed larger to consumers when consumers' incomes were being drastically reduced. During the depression, also, increasing dissatisfaction with the system of private enterprise led to greater interest in possible alternatives to the profit system.

The business of the cooperative wholesale (the name of which was changed in 1931 from Cooperative Central Exchange to Central Cooperative Wholesale) withstood the effects of depression even better than that of the local stores. Whereas, the dollar sales of all wholesale distributors were reduced more than 5 per cent, according to Census statistics, the sales of the Exchange fell only from \$1,768,000, the peak reached in 1930, to \$1,309,000 in 1932, a decline of 26 per cent. Since the drop in prices was greater than 26 per cent⁷ it appears that the wholesale was not only transacting a larger share of the business in the district, but was actually handling more merchandise at the bottom of the depression than in 1929 or 1930.

The withdrawal of the fourteen Communist member societies apparently did not prove a vital loss to the wholesale. The loss of their patronage was partly offset by the addition of half a

⁶ Many societies redeemed shares for their members during the depression as well as meeting their debts to others.

Those societies which did fail during the depression, on the other hand, had been operating largely on borrowed capital.

⁷ According to the indexes of the U. S. Bureau of Labor Statistics, average wholesale prices for foods declined 32½% between 1930 and 1932.

dozen new store cooperatives to the membership in 1930 and 1931. The stores which had remained loyal to the central organization, meanwhile, patronized it to an increasing extent. The proportion of its purchases which the typical member⁸ of the group made through the cooperative wholesale increased from 37 per cent in 1930 to nearly 50 per cent by 1933.

The Exchange provided some material encouragement to its members' patronage by reducing its expenses in line with the drop in its sales—holding the expense ratio slightly below the 1929 and 1930 level—and bringing its gross margin down from 11 per cent to 9 per cent. This involved a cut in the ratio of its net earnings to less than 1 per cent of sales. However, since it had been the policy in previous years to retain most of the earnings in the business rather than return them to the stores, the effect of this reduction was to slow up the accumulation of the wholesale's capital rather than to lower the modest rebates paid to the members.

The Exchange also built up its sales volume by the continual addition of new lines of merchandise to its business. The hardware department was gradually extended to include many new items and in 1931 a clothing department was opened. Additional goods were also being put under a cooperative label.

EXPANSION OF COOPERATIVE BUSINESS AFTER 1933

With the improvement in economic conditions after the middle of 1933—the rise in price-levels and the recovery in people's cash incomes—the business of the cooperatives in the Lake Superior district expanded much more rapidly than that of private merchants, and the cooperatives continued to increase their share of the total volume of trade. Beginning with 1934, the dollar volume of sales of the societies affiliated with the Exchange were substantially larger each year than in the year preceding. By 1936 the sales of the local stores supporting the wholesale were on the average about 10 per cent higher than they had been in 1929. Since prices in 1936 were somewhat

⁸ The term "typical" refers to the median percentage in this respect.

lower than they had been before the depression, the increase in the actual quantity of goods which they handled was considerably more than 10 per cent.

The increase in the volume of their sales helped the stores to reduce the ratio of their expenses, which had risen during the earlier depression years. In 1936 the average expense had declined to 10½ per cent of sales, a ratio lower than that of any previous period. This enabled the cooperatives to lower their average gross margin slightly to 14 per cent, and still secure net earnings—including "other income"—averaging more than 4½ per cent of sales. Only one member of the wholesale group incurred a net trading loss in 1936. The amount of its loss was approximately offset by income from other sources, so that its net deficit for the year was only \$26.

The sales of the large Cloquet Cooperative Society were twice as large in 1936 as they had been in 1929. On the business of this association depression influences seemed to have no ill effects. Dollar sales declined only from \$580,000 in 1930 to \$469,000 in 1932, and increased again in 1933 to almost the 1930 total. In 1936 the society's sales were \$1,126,000, including between one-quarter and one-third of the retail business done in Cloquet.⁹

The operations of the Cloquet cooperative were extremely economical, and its low prices together with patronage rebates of from three to five per cent undoubtedly attracted many consumers from competing stores. Its business was also aided by two factors: the relatively stable industries of the town, and the addition of new departments to the cooperative establishment. A large filling station was opened in Cloquet in 1931, and a small cooperative society at Mahtowa, Minnesota, was merged with the society in 1932. The filling station was subsequently enlarged by the construction of a garage and an automobile salesroom. In 1936 Store No. 2 in Cloquet was

⁹ Sales of all stores in Cloquet as shown by the *Census of Business, 1935*, were \$3,064,000. Sales by this cooperative in its Cloquet stores were \$745,000 in 1935, \$973,000 in 1936.

moved into a larger and more centrally located building, and later a second filling station was established nearby.

The cooperative at Rock, Michigan, was seriously affected by the first two or three years of depression. Both the demand for forest products and the local supply, on which the members had depended largely for their income, were curtailed after 1929, and the sales of the Rock store were reduced by more than half. Meanwhile, however, the society extended its activities by opening branch stores at Chatham and Ishpeming in 1931 and at Gladstone in 1933. Farmer members hoped they would be able to market their farm products directly through the urban stores at Gladstone and Ishpeming, and a sausage factory was established at Rock as a part of this plan. As a result of these moves, the retail volume of business of the society in 1936 was \$255,000, compared with a peak of \$197,000 in 1929.

The sales of the cooperative in Superior, Wisconsin, where the sales of other stores declined by 50 per cent during the depression, not only equalled their 1929 volume in 1933 but by 1936 reached \$178,000, compared with \$77,000 before the depression. This society increased the number of its stores from one to three, and opened a service station and a garage. Many other store societies, particularly those in rural communities, enlarged both their activities and their membership over the depression years. In many small communities in 1936 the cooperative was transacting the bulk of the local business in the marketing of the farmers' products as well as in retail trade. In Amasa and Herman, Michigan, and perhaps in one or two other places the cooperative was the only business in the locality.

There were cases, of course, in which individual cooperatives failed to make progress during the depression years or even met with serious reverses. The failure of two member societies of the group in the years 1931 and 1932 has already been mentioned. Another store, at Crystal Falls, Michigan, which joined the wholesale in 1934, failed in 1935. The Virginia

Work People's Trading Company, one of the largest members of the Exchange group in 1930, lost one-half of its patronage between then and 1936, and saw its reserves diminish from \$38,000 to \$4,000 in the same period.

The Communist-controlled societies which withdrew from the wholesale group did not fare as well on the whole as did the other cooperatives. The percentage of failure, as has been mentioned, was greater; the failures included the Eben Farmers' Cooperative, Eben, Michigan, the largest member of the seceding group. A few of the others, such as the cooperatives at Mass and Ironwood, Michigan, achieved larger sales in 1936 than in 1929. On the average, however, the sales volume of the Communist stores remained substantially below the sales of earlier years.

The Communist societies at a special membership meeting June 19, 1938, decided to discontinue the business of the Workers and Farmers Cooperative Unity Alliance. Some of the societies subsequently began to make purchases from the Central Cooperative Wholesale.

THE DEVELOPMENT OF DISTRICT FEDERATIONS

The loyal members of the Cooperative Wholesale not only increased their patronage of the central organization, but extended the activities of their district federations. These activities had been initiated during the 1920's through the pooling of orders or the sharing of one trucking service. They took a more organized form about 1928 and 1929 when the first regional oil associations were set up to handle gasoline in bulk for the local stores and their farmer-members. These associations, owned and controlled by the cooperative societies in each district, proved models for the development of many additional district activities.

The societies on the Mesabi-Vermilion Iron Ranges of Minnesota set up a creamery¹⁰ and a sausage factory in 1934

¹⁰ The Mesaba Range Cooperative Creamery, organized in 1928, fell under the control of the Communists after the "split". The Range Cooperative

under the management of a Range Cooperative Federation, into which the Range Cooperative Oil Association, established earlier, was subsequently merged. The Range Federation later added an auto sales agency and garage, a farm machinery department, and an insurance service, besides providing an educational director for the assistance of the member societies. This federation is the largest of the district groups, embracing eighteen cooperative associations with more than six thousand individual shareholders.¹¹

Five member societies in northern Wisconsin had been the first to organize a regional oil association. This group soon decided to build a warehouse to handle certain other commodities for which the individual stores alone had too little volume of sales, including lumber, roofing, cement, and other building materials, nails, explosives, and farm machinery. These were sold directly to the members of the local stores. The patronage rebates on oil and farm machinery were paid directly to the local members, but rebates on the other items were credited to them through the member societies, who paid but one rebate, including these with the individuals' other purchases.

The sort of circumstances which often led to the addition of new cooperative departments is illustrated by the following report:

By 1935 the Range Cooperative Federation had several trucks in operation that needed periodic check-up and repairs. Most of the member societies also had a truck or two, to say nothing about the thousands of dollars spent by our membership each year for buying automobiles. It was quite logical, therefore, to have the Federation at that time acquire an auto sales and repair service department for its membership. . . .¹²

Federation which was controlled by the stores loyal to the wholesale, therefore set up a creamery of its own.

11 E. A. Whitney, "Range Cooperative Federation", *Cooperative League Year Book*, 1939, p. 162.

12 *Ibid.*

The volume of business transacted by the cooperatives through district federations mounted rapidly after 1930, reaching \$457,000 in 1934—nearly all of it then in petroleum products. By 1937 the sales of the Range Federation alone exceeded this figure, and the volume of all the district groups had risen to \$1,251,000. Typical net earnings, reflecting principally the results of the petroleum business were equal to 7 or 8 per cent of sales.

The latest development on a regional basis is that of cooperative burial service. Undertaking was started in 1937 by the Range Cooperative Federation and by the Northland Cooperative Burial Association, an organization of cooperatives in the area to the southwest of Duluth with headquarters at Cloquet. They are declared to be providing modest funerals for the local members at only a fraction of the usual charge.

THE EXPANSION OF THE WHOLESALE

The business of the Cooperative Wholesale at Superior also began to expand rapidly with the improvement in economic conditions. The dollar volume of its sales increased by more than 100 per cent between 1933 and 1936, reaching \$2,846,000 in the latter year. Aided by this rise in sales, the wholesale staff was able to reduce the ratio of expenses from over 8 per cent in 1932 and 7.31 per cent in 1933 to 4.98 per cent of sales in 1936. This made possible a cut in the gross margin to 7 per cent, while net earnings recovered to approximately 2 per cent of sales.

The member cooperatives took advantage of the enlarged earnings to declare larger patronage rebates. Of the \$32,000 earned by the wholesale in 1934, \$15,000 was returned to the local stores in cash. Over half of the \$37,000 earned in 1935 was paid back. By 1936, however, it was evident that the working capital of the central organization was growing too slowly to keep pace with the rise in sales. Although it was decided to pay eventually three-quarters of the net earnings of that year back to the societies, most of the cash payment was

to be retained for the use of the wholesale until December, 1939.

The physical facilities of the wholesale were greatly expanded by the purchase of a large, four-story building and a garage for about \$100,000. These structures were secured in December, 1934, on relatively favorable terms, after the private wholesale company by which they had been built went into receivership. A further expansion was undertaken in 1936 by the establishment of a branch warehouse and feed mill at Virginia, Minnesota. Besides processing some of its own feed in the Virginia branch, the wholesale had begun to roast its own coffee with the purchase of the necessary equipment in 1935. A second feed mill was acquired at Superior in 1938.

The organization continued to add new lines of merchandise to its business. A gasoline and oil department was formed at the end of 1934 to serve the regional oil associations, which became members of the wholesale federation. The Superior wholesale joined with other cooperative wholesales in founding National Cooperatives, Inc., a brokerage agency to pool their orders and make joint contracts for commodities under a cooperative label. It participated in the contracts with refiners for gasoline.¹³

Other goods which the wholesale now undertook to distribute included auto accessories, tractors, radios and electrical appliances. Most of these were secured directly from manufacturers under a cooperative label, bringing the number of items sold under such labels to well over two hundred by 1937.

The marked growth in the Central Cooperative Wholesale and its member societies in the two or three years up to 1936 consisted mainly in the increasing support from consumers secured by the member stores, and, of course, in the extension of wholesaling to new lines of merchandise. In 1936, however, another factor began to assume importance. This was the

¹³The addition of this department, which handled gasoline only on a brokerage basis, and consequently had very small expenses, tended to reduce the average ratio of expense for all departments by nearly $\frac{1}{2}$ of 1%.

organization of new stores among non-Finnish groups with the assistance of the wholesale.

A widespread interest in consumers' cooperation as a means of reform had followed bad times and their inevitable discontent—an interest which was stimulated after 1933, of course, by the rising cost of living. People of other foreign extractions now began to take more interest in the Finnish cooperative societies, even to admire them for the success they had achieved. Farmers who belonged to producers' cooperatives now considered whether the cooperative method could not be extended to their buying. Cooperative buying groups were now being organized in many other parts of the country. Gas and oil cooperatives were already spreading over most of the Middle West, and some of their members were ready to turn next to cooperative stores.

Seven cooperative stores were added to the membership of the Central Cooperative Wholesale during 1936, two in 1937, and nine in 1939. Of these only four were associations which had been in existence for a period of years. Four were stores recently initiated by cooperative creameries or oil associations, and the others were all newly-organized societies. Practically all were non-Finnish groups. A full-time field man had been added to the educational department of the wholesale in 1936 to assist new groups to organize. Such assistance was generally limited to the regular operating territory of the wholesale. At the annual meeting in 1939, however, the educational department reported inquiries from many communities in North Dakota and suggested the possibility of a branch warehouse there some time in the future.¹⁴

The addition of these stores to the federation brought the number of store societies actively supporting the wholesale in Michigan, Minnesota, and Wisconsin to approximately eighty-

¹⁴ This is an area not yet served by any cooperative grocery wholesale. Stores in territory to the south of the Lake Superior region are now served by the Midland Cooperative Wholesale of Minneapolis and the Cooperative Wholesale of Chicago.

five and their total retail sales to about eight million dollars in 1938. There were then some sixty non-member store associations which were also patronizing the wholesale organization. Refunds on their purchases in the form of credit towards shares in the wholesale would automatically add most of these to the federation in the course of time.

Also affiliated with the Central Cooperative Wholesale at the end of 1938 were seven regional oil associations and district federations, four active buying clubs, three cooperative creameries without store departments, a cooperative boarding house, a mutual savings bank, and a cooperative elevator society.

CHAPTER XVII

AN ECONOMIC APPRAISAL OF THE CENTRAL COOPERATIVE WHOLE- SALE GROUP

THERE is no doubt that the cooperative stores affiliated with the Central Cooperative Wholesale are relatively efficient agencies for the distribution of goods. This fact has been reflected in the continued extension of their trade at the expense of private enterprise. They have won the support not only of the Finns and of the progressive groups in the population, but have attracted many thousands of consumers who were interested only in getting the most for their money. Their efficiency has also been reflected in the relatively small number of failures that have occurred.

Judged by conventional business standards, as well as by their attraction of consumers, these cooperatives seem firmly founded. The total current assets of sixty-six store societies at the end of 1936 were equal to two and one-half times their current liabilities. Their aggregate share capital was \$741,000, to which they had added surplus-reserves of \$517,000. Of the sixty-six societies, only eleven had a combined share capital and surplus of less than \$5,000.

OPERATING RATIOS FOR THE GROUP AS A WHOLE

The net earnings of the group were unusually large for retail trade. The aggregate net income in 1936 was \$312,000, representing $4\frac{1}{2}$ per cent on sales. Fourteen of the sixty-six societies realized a net income of more than 7 per cent of their sales, while only five made less than 2 per cent. The median or "typical" income figure was 4.1 per cent.

These statistics may be compared with those collected from private merchants all over the country by Dun & Bradstreet, Inc., in its *Retail Survey for 1936* (See Table 5). The typical net earnings of 1,051 grocery and meat stores were found to

TABLE 5

OPERATING RATIOS OF CENTRAL COOPERATIVE WHOLESALE STORE SOCIETIES
 COMPARED WITH RATIOS OF PRIVATE INDEPENDENT AND CHAIN STORES

Item	Cooperatives (General Stores) ^a	Independent Grocery and Meat Stores ^b	Independent Country General Stores ^c	Chain Food Stores ^d
	1936	1936	1936	1934
Typical Sales (\$ 000)	101	34	22	41
GROSS MARGIN	14.1	18.5	17.9	—
Usual Range (Upper Limit	15.2	21.4	22.4	—
of Experience ^e (Lower Limit	12.8	15.5	13.6	—
Salaries & Wages	6.0	10.5	9.8	9.2
Tenancy, Heat, Light & Power ..	1.8 ^f	2.2	2.0	3.8
Advertising .....	.3 ^g	0.5	0.4	1.1
Other Expenses	2.6 ^h	3.2	3.4	2.0
TOTAL EXPENSES	10.4	16.4	15.6	16.1
TOTAL NET INCOME	4.6	2.1	2.3	2.2
Rate of Stock-turn	9.0	15.3	4.1	14.7
Usual Range (Upper Limit	10.4	20.8	6.5	—
of Experience ^e (Lower Limit	6.8	11.1	2.5	—

^a Averages for 64 societies from Central Cooperative Wholesale, *Year Book, 1937*, p. 60.

^b Median figures for 1,051 firms from Dun & Bradstreet, Inc., *1937 Retail Survey*, "Survey No. 10".

^c Median figures for 1,919 firms from Dun & Bradstreet, Inc., *1937 Retail Survey*, "Survey No. 17".

^d Includes retail store expense only—except for advertising—and excludes expense of store supervision, taxes other than real estate, and interest. Median figures for 29 regular grocery chains (operating both grocery stores and combination food stores), from Carl N. Schmals, *Expenses and Profits of Food Chains in 1934*, Harvard Business School, Bureau of Business Research, Bulletin No. 99 (Boston, 1936), p. 20. Figure on rate of stock-turn, not published in original study, was secured directly from the Harvard Bureau of Business Research.

^e The interquartile range: within these limits fall the middle 50% of the cases.

be 2.1 per cent, while for 1,919 country general stores the median profit was 2.3 per cent.¹ It should be remarked that the earnings of the cooperative included an average income of nearly 1 per cent from other sources than retail trade—such as marketing, rebates on their wholesale purchases, and rent. The “other income” included in the figures for the private stores probably ran much smaller. Even with allowance for this difference, however, the earnings of most of the cooperatives were larger than those of the typical retail business.

Consumers' cooperative societies, one may reflect, should not be primarily concerned with the size of net profits. The earnings belong to the members in proportion to their patronage, and are, presumably, either paid back to the members or used to build up the cooperatives' ability to serve them. It is important to know whether these earnings were the result of a higher markup. For, if the prices charged by the cooperatives were relatively high, the members would be paying out of one pocket what they took in the other.

The typical gross margin of the cooperatives', i. e., the difference between the cost of the goods and the receipts from their sale, was 14.0 per cent of sales. The typical gross margin shown by the *Retail Survey*, on the other hand, was 18.5 per cent for the grocery and meat stores, 17.9 per cent for country general stores.² The data do not indicate that the typical margin

¹ Statistics for the cooperatives include (1) taxes other than on real estate, and (2) repairs and depreciation of store equipment, under the heading: “Tenancy, Heat, Light & Power”; do not include them under “Other Expenses”.

² 1937. Not available for 1936.

³ The *Retail Survey* includes median figures by regions, by size of business, and by size of town, as well as the median for all stores. The cooperatives, however, do not fall within any one of these regions, nor within any one size classification. The writer has therefore used only the U. S. total figure, unless there appeared to be significant differences among the several regions or groups.

⁴ As noted in the table, there was a rather wide range in the margins reported by country general stores. One fourth had margins below 13.6%. It is possible that many of these stores specialized in commodities with rapid

of private stores varied appreciably from one part of the country to another. A lower gross margin, to be sure, is not conclusive evidence of a lower mark-up: waste or deterioration of merchandise might also reduce the gross margin. Yet since the stock turnover of their stores was relatively rapid for the general store type of business, this factor would hardly be a source of much loss to the cooperatives. It may reasonably be concluded that the mark-ups of the cooperatives were, if anything, lower than those of their independent store competitors. Their large earnings were evidently due to relatively efficient operation.

EXPENSES OF OPERATION

This conclusion seems to be borne out by the statistics of the cooperatives' expenses. The median operating expenses reported for the store societies affiliated with the wholesale were 10.4 per cent of their sales, as compared with 16.4 per cent for the grocery and meat stores reporting to Dun & Bradstreet and 15.6 per cent for the country general stores.³ It may be noted from Table 6 that the expense ratio of the cooperatives was not as low in other years as it was in 1936. The ratio of expenses to sales was 12.0 per cent in 1934, 10.9 per cent in 1935, and 11.2 per cent in 1937 (in 1938, when business recession took effect, the expense ratio jumped to 13.6 per cent). Yet this does not change the conclusions: even in these years cooperative expenses were low compared with those of independent stores.

Comparison of the expenses of operation of the cooperative stores with the expenses of chain stores (also shown in Table 5) provides a similar picture. Retail store expense of large food chains in 1934 averaged 16.1 per cent, exclusive of interest, taxes other than real estate, and the cost of super-

turnover and low margin such as flour and feed, and that the cooperatives correspond more closely to them than to the higher-margin stores.

³The median expense was somewhat lower—14.1%—for 270 grocery stores with filling stations, which were classified in the *Retail Survey*.

vision. Cooperative expenses in 1936, exclusive only of interest, were $4\frac{1}{2}$ per cent less.⁴ One advantage of the cooperative stores, over the chain stores in particular was in advertising expense. A more important one was in the costs of tenancy, heat, and light, which are shown by the published figures to be over twice as high for the chains. To some extent this difference

TABLE 6

AVERAGE OPERATING RATIOS IN 1934, 1936, AND 1937, WITH AVERAGE RATIOS OF CITY STORES IN 1937: CENTRAL COOPERATIVE WHOLESALE STORE SOCIETIES
(Percent of Sales)

Items	All Store Societies			16 City Stores 1937
	1934	1936	1937	
Gross Margin	14.5	14.1	14.3	15.8
Salaries, Wages, & Payroll Taxes	6.6	6.0	6.6	7.9
Overhead Expenses*	3.1	2.4	2.4	2.4
Other Expenses	2.3	2.0	2.2	2.6
Total Expenses	12.0	10.4	11.2	12.9
Net Income from Trading	2.5	3.7	3.1	2.9
Total Net Income	3.1	4.6	4.2	^b

Sources: Central Cooperative Wholesale, *Year Book 1936*, p. 66; *Year Book 1937*, p. 60.

* Rent, taxes, repairs, depreciation, insurance and licenses, water, heat, light, ice, and power.

^b Not available.

merely reflects the fact that most of the chain stores were located in large cities, while these cooperatives were in small towns and rural areas where rents are typically much lower. Still, as pointed out in Chapter VI, it is a fact that chain store companies seek the more expensive locations; even in this region the local chain stores undoubtedly paid higher rents than cooperative stores situated in the same towns.

⁴ It has been noted that the cooperative expense ratio decreased between 1934 and 1936 (see Table 6). It is probable that the ratio of chain store expenses decreased somewhat also, although the increase in their sales between these two years was less than the increase in sales of the cooperatives.

The major difference between the cooperatives, on one hand, and both chain stores and independents, on the other, was in salaries and wages. This was a reflection of the ability of the cooperative stores to achieve larger sales per employee. On the basis of statistics of the number of employees in sixty-seven societies, collected as of December 31, 1937,⁵ average sales per employee for those societies in 1937 were \$14,400. Census figures for all retail trade in the United States show average sales per retail worker⁶ of \$6,000 in 1935, and \$8,300 in 1929 when total retail sales were at their peak. The figures for Minnesota fail to indicate that the average performance in the region in which the cooperatives were operating was any different from that in the country as a whole. Chain stores in the grocery and meat business had average sales per employee of \$10,700 in 1935.

RURAL VS. URBAN

It may be asked to what extent conclusions drawn from the expense figures for the Central Cooperative Wholesale store societies as a group are borne out by the experience of those cooperative societies located in urban communities. The operating ratios for sixteen urban store societies, transacting about 40 per cent of the business of the group as a whole, are therefore included in Table 6. These statistics show that the city stores had an average gross margin 1.5 percentage points higher than the average for all sixty-seven societies in 1937 and an expense ratio 1.7 points higher, and realized approximately the same rate of earnings from trading operations as did the group as a whole. Comparison of the experience of the city stores with that of the rural stores considered separately, of course, shows differences in gross margin and expense nearly twice as great.

⁵ Central Cooperative Wholesale, *Year Book*, 1938, pp. 70-71.

⁶ Including active proprietors and partners of unincorporated business as well as employees.

One explanation of the lower gross margin in rural stores may be that they handled a larger proportion of bulk items such as flour, feed, and fencing, on which the margin is ordinarily lower than it is on other articles. As for the difference in expenses, it may be noted that this was concentrated in the expenditure for salaries and wages. These expenditures were higher in the city not because workers in urban stores performed a smaller amount of work in terms of sales per employee, but because city workers were better paid.

Study of the figures for city stores separately leads to some modification of the previous conclusions as to cooperative efficiency. The difference between the cost of distribution in the urban cooperatives and the operating expenses of private distributors was nearly 2 per cent less than the difference between the private stores and all the Central Cooperative Wholesale store societies taken together. Thus, a part of the contrast between cooperative expenses and private expenses can be explained by the fact that a large proportion of the cooperatives were in rural sections—where they paid lower wages to their employees than did the urban cooperatives.

THE EFFICIENCY OF THE CLOQUET COOPERATIVE SOCIETY

To turn from averages and over-all figures to specific cases, attention may be directed to the business of the Cloquet Cooperative Society, situated in a manufacturing town of 7,000 people, but with an extensive membership in the surrounding country-side as well. The Cloquet society has grown to be by far the largest cooperative in the Lake Superior district, as well as the largest store society in the United States. Its sales in 1936 exceeded \$1,000,000. It operated two stores in the town of Cloquet and two others in rural communities, and included a number of special departments as well as groceries and meat. It is estimated on the basis of Census figures that the society handled between one-quarter and one-third of all the retail business in Cloquet in 1936 (See page 212).

TABLE 7
SALES AND OPERATING RATIOS COMPARED BY DEPARTMENTS,
CLOQUET COOPERATIVE SOCIETY, 1936

Department	Sales	Gross Margin	Salaries & Wages	Total Expenses	Net Income ^a	Stock-turn
	\$ (000)	%	%	%	%	Times per year
Store A (Cloquet)						
Groceries	155	11.8	6.3	9.3	2.5	22.1
Meat	86	17.1	9.4	14.7	2.3	30.8
Dry Goods	65	18.0	6.5	9.1	8.8	6.5
Hardware	80	15.2	5.5	8.3	6.8	14.4
Store B (Cloquet)						
Groceries and General Merchandise	222	11.1	5.6	8.3	3.0	20.4
Meat	72	20.2	8.4	12.9	7.4	92.7
Store C (Rural)						
General Store	86	13.8	4.9	8.3	6.6	23.1
Store D (Rural)						
General Store	67	11.8	4.6	8.3	4.5	10.9
Service Station and Garage (Cloquet)	52	23.0	13.2	18.2	10.5	20.5
Car Sales (Cloquet)	57	11.6	4.8	7.7	3.9	15.1
Coal (Cloquet)	47	17.9	0.4	10.5	7.4	73.8
Feed (Cloquet)	133	7.3	4.4	6.0	1.3	30.4
ALL DEPARTMENTS	1,125	13.6	6.0	9.5	4.8	19.2

Source: Cloquet Cooperative Society, "Income and Expense Statement", December 31, 1936. (The departments have been re-classified by the writer in more explanatory form.)

^a Includes "special income or expense"—principally rebates on wholesale purchases. "Net income from trading" for each department may be calculated by subtracting total expenses from gross margin. "Special income" (net) was a major factor only for the service station and garage, where it amounted to 5.7% of sales. This probably should be regarded as an addition to the gross margin for the department.

The expense ratios of the two "merchandise" departments of the cooperative in the town of Cloquet, each of which did more than \$150,000 business (principally in groceries) in 1936, were 9.3 and 8.3 per cent respectively. The typical expense of the 548 straight grocery stores which reported to Dun & Bradstreet was 15.8 per cent, and there were probably few stores to be found with expense ratios below 10 per cent.⁷ For the grocery sides of chain combination stores, according to the Harvard study, store expenses, only, averaged 13.0 per cent in 1934. Even the six cash, self-service stores in Los Angeles super-markets, studied by the *Progressive Grocer* as of 1934, incurred expenses equal to 12 per cent of their sales.

The economies achieved by the Cloquet cooperative in these departments cannot be ascribed to the elimination of services usually provided by grocery stores. The cooperative maintained delivery service and also permitted a number of charge accounts.

The expenses of the meat departments operated in conjunction with these cooperative grocery stores were also usually low. Expense ratios of 14.7 per cent and 12.9 per cent respectively in 1936 may be compared to average store expenses of 19.5 per cent in 1934 for the meat sides of the chain combination stores covered in the Harvard study. The greatest economies achieved by the society, however, were neither grocery stores nor meat markets, but in other lines of merchandise whose costs of distribution are commonly much larger.

⁷ Comparison may be made with expense figures for individual stores compiled by *The Progressive Grocer*, 161 Sixth Avenue, New York, N. Y.: "Operating Expenses of 110 Selected Food Stores". This study was confined to "selected master merchants—all merchants who made a profit in 1934, a depression year". Of 13 cash grocery and meat stores with self-service, there were 4 with expenses below 10%. Among 24 straight grocery stores, the three lowest expense ratios were 9.0%, 10.3% and 10.9% respectively—the first of these three, however, allowed a total of \$1680 to the two partners and \$510 to the one employee for the year, while the third allowed the proprietor \$753 and his one employee \$700. Average remuneration in the Cloquet grocery departments, including part-time employees, was about \$900 a year. The Cloquet departments, moreover (whose expenses in 1934 were 10.1% and 7.85%) provided delivery as well as the usual store service.

Thus, the gross margins of hardware merchants, according to Dun & Bradstreet's *1937 Retail Survey*, usually run from 20 to 30 per cent of their sales, and their expenses only slightly lower.⁸ In the hardware department of the Cloquet Cooperative Society, however, expenses were only 8.4 per cent of sales. This record may have been achieved, at least in part, by specializing in quick-moving items such as nails and fencing, which were bought in carload lots, and by carrying only limited lines of certain other kinds of hardware. The inventory of the hardware department—\$4,738 in 1936—was much smaller than that of the typical hardware store.

In dry goods, automobile, coal and feed departments, as well as in hardware, the expenses of the cooperative were at most only one-half those of typical private merchants.⁹ While the inventories carried in these departments were not conspicuously small as compared with those of typical private dealers, they were very low in proportion to the volume of business handled. The stock of the business of the society taken as a whole was turned over at the rate of nineteen times a year.

The ratio of expenses to sales for all departments of the Cloquet Cooperative Society combined was 9.5 per cent. Salaries and wages alone were 6.0 per cent. It has already been pointed out that the expenses of the cooperative store for wages were much less than those of private stores. This did not seem to be explained, insofar as Cloquet was concerned, by low wage rates. The lowest wage paid in 1936 was \$12 a week; \$20 was a typical wage for store clerks. These wages compared favorably with those paid in private stores in Cloquet. The hours worked—forty-eight per week—were less than the hours usual in private stores. On the other hand, it seems likely that the top

⁸ The "Usual Range" in the margins of the hardware stores reporting was from 24 to 33%, of the hardware and farm implement dealers 18 to 27%.

⁹ One exception may be made to this statement. Whereas the typical expense of 141 dealers in feed, grain, and hay, including all reporting firms, was 13.2% of sales contrasted with the cooperative's ratio of 6.1%, the typical expense of 34 of these dealers, situated in towns of less than 20,000 and doing a business of \$50,000-\$100,000 a year, was 9.9%.

salaries paid by the cooperative were considerably lower than would be paid by a private company of comparable size, and that the cooperative effected some saving thereby.¹⁰ The heads of departments were paid only \$30-36 a week and the manager of this million-dollar business contented himself with \$40. (For a discussion of "The Loyalty of the Cooperative Personnel" see p. 278 *et sequi*.)

The major saving in salary and wage expense, however, must be attributed to the ability to handle a relatively large volume of business with a given sales force—more sales per employee. Thus, sales per employee in 1935 and again in 1936 were more than \$16,000,¹¹ while the average (including proprietors of unincorporated business, for the United States was only \$6,000,¹² and that for the total trade in Cloquet \$8,200.¹⁰ This was in spite of the fact that the cooperative clerks in Cloquet were on a five-day, forty-eight-hour week.

Expenses of the cooperative other than those for salaries and wages were also unusually low. Thus, tenancy costs (including all taxes), water, heat, light, and power, plus repair and depreciation of store equipment amounted altogether to only 1.6 per cent of sales. This may be compared with average expenses for these items of 4.3 per cent for chain food stores in 1934.

Prices charged by the Cloquet Cooperative Society were not set merely to cover the actual expenses of operation, it should

10 If one were to assume that a private firm of similar size would pay its manager \$6,000 a year and the heads of departments—each handling sales of from \$50,000 to \$200,000 a year—\$45 a week each, the annual payroll would be increased by some \$10,000, equivalent to nearly 1% of the sales of the Cloquet cooperative.

Stated differently, this cooperative spent 0.2% of sales for executive services as compared with 1.4% found by the Harvard Bureau of Business Research to be spent by food chains for executive services—including the wholesale function—in 1934.

11 Calculated by taking the number of employees at the end of each year. Since the number employed increased substantially during the year, this figure may represent an understatement of \$2,000-3,000.

12 *Census of American Business, 1935.*

be noted. In accordance with the Rochdale system a margin more nearly approximating that of private stores was maintained—13½ per cent in 1936—and the extra charge was paid back to consumers in the form of a patronage rebate. The net earnings realized in 1936 permitted the payment of a refund of 5 per cent.

This does not imply that the prevailing prices of private trade were followed in all instances. In the new garage of the society the mechanics charged 75c an hour for labor, although it was the custom in other garages to charge \$1.50. In the feed, hardware, and dry goods departments goods were evidently sold at a lower mark-up than at private stores. In some cases, of course, the mere fact that the cooperative was able to pay a 5 per cent rebate, even though it did not undercut private merchants, was sufficient to drive prices down. Thus, although the new car sales department tried to do no more than match the terms of the private dealers, the gross margin realized was only 11½ per cent, suggesting that local dealers were doing business on a low margin in order to compete with the cooperative. The typical margin for the 891 motor vehicle dealers reporting to Dun & Bradstreet was 16.9 per cent.¹³

In order to check the conclusions as to the efficiency of the cooperative, which were based largely on comparisons with averages for firms over the country, the writer undertook a brief price-comparison between the no. 1 store of the cooperative society and three of the other stores. The stores chosen were a

¹³ Competition in the food business was especially keen in Cloquet. The cooperative stores, although they offered delivery and limited credit, were evidently meeting the prices of the chains and other cash and carry stores, if not setting the pace. They were transacting about one-third of the local food business. In spite of their low expenses the net earnings of the Cloquet store departments were somewhat smaller than those of other divisions of the cooperative business. An independent grocer apparently giving credit and delivery service told the writer that he was operating on a margin varying from 12 to 15%, and that there wasn't much profit left out of that. According to the former manager of a local chain store, none of the private stores in Cloquet was earning much money. The business manager of the local newspaper, on the other hand, did not believe that the merchants were making out so badly.

large, independent Finnish grocery store, the local store of a national chain, and the branch of a large Duluth cash grocery. Comparative prices were ascertained on twenty grocery and meat items. (See Appendix III).

This comparison indicated that the prices of the cooperative were not only much lower than those of the independent, but probably a little lower on the average than those of either of the other two stores—just how much the extent of the comparison would hardly permit one to measure. The cooperative was from 5 to 25 per cent lower than either of its two cash competitors on ten of the twenty items, including potatoes, oranges, beef, and eggs. On only two of the twenty—bread and coffee—were both these competitors lower than the cooperative. The national chain store was from 3 to 8 per cent lower on four articles and 25 per cent lower on rolled oats.

It was impossible to take account of all possible difference in quality in making this comparison. While the cooperative society carried but one grade of bulk coffee at a relatively high price, its ingredients may have been of better grade than those of the cheaper coffees sold by its cash competitors. Its bread was also claimed to be of better quality. The meat at the cooperative, which was sold at several cents a pound below the other stores, was stated by a housewife¹⁴—the member of a group opposed to the cooperative—to be as good as any in town.

If, then, the cooperative was selling at prices even lower on the average than those of its keenest price competitors, it appears that the 5 per cent rebate paid by the society at the end of the year represented a saving to consumers on meats and groceries at any rate of at least that amount.

A portion of the society's savings were achieved by buying advantages as well as by its low expenses of operation. Thus,

¹⁴ The wife of the business manager of the local newspaper, who had no interest in cooperative principles. Her husband was skeptical of cooperation, said they patronized the stores that advertised in the paper. She purchased most of her meats from the cooperative, however, because of the quality and the service she secured there.

with meat sales of \$200,000-\$300,000 a year, the cooperative was able to buy in unusually large quantities and had installed a large refrigerator room for this purpose. Its meat prices were fully one-fifth lower than those of competing stores. A considerable proportion of its other lines it purchased by the carload, securing lower freight rates as well as favorable prices. One of the private grocers in Cloquet declared that the cooperative sold some things cheaper than he could buy them at wholesale. The cooperative, moreover, secured patronage rebates, amounting in 1936 to \$7,904—equal to 0.7 per cent of its total sales—from the cooperative wholesale and the regional oil association of which it was a member.

As noted elsewhere, the cooperative allowed some charge accounts and provided satisfactory delivery service.¹⁵ The two stores in Cloquet were conveniently located, on the whole, although Store No. 1 was a block from the main shopping street. On the other hand, the latter store was of homely appearance both outside and in, and both stores were crowded for space. Patrons may have suffered some inconvenience from limited stocks carried in certain lines. The amount of service ordinarily demanded in a semi-rural community such as Cloquet is probably much less than that in more densely populated areas.

The Cloquet cooperative seems, on the whole, to have achieved for consumers substantial savings in the process of distribution as compared with the performance of private merchants, without any appreciable sacrifice in quality of service rendered. Statistics of the operations of the society indicate, moreover, that it was distributing goods more cheaply than efficient retailers in other parts of the country as well as in Cloquet. While savings were made in all departments, they were particularly large in coal, hardware, dry goods, and in the service station and garage. (See Table 7).

It is likely that in the case of meats, automobiles, and possibly other commodities, prices were lower in Cloquet generally

¹⁵ Only 0.6 per cent of sales was spent on delivery—exclusive of coal—in 1936.

than in comparable communities elsewhere, benefiting not only cooperative patrons, but all local consumers.

The chief factor to which it seems possible to attribute this efficiency is the large volume of sales handled by the cooperative—especially large in proportion to the size of the trading area. This apparently aided the reduction of expenses by permitting maximum utilization of all items of an overhead nature, such as store facilities, heat, light, and power, and even certain types of labor cost. Large volume also facilitated quantity buying of goods at wholesale with savings both in the price paid and in transportation costs. One other factor which may be mentioned, which is also related to the large volume, was the speed with which the society turned over its stock of goods—nineteen times a year.

THE COOPERATIVE IN SUPERIOR, WISCONSIN

The Cloquet cooperative, of course, cannot be considered typical of the Lake Superior group as a whole. It has not only been more successful, but is much larger than the others and handles a greater variety of merchandise. In order to study the operation of more average societies, the writer chose those at Superior, Wisconsin, and Ely, Minnesota. These are not representative of the rural cooperatives which make up the bulk of the Central Cooperative group, but they do provide examples of the experiences of cooperatives started in the small towns and cities of this area—the question in which the writer was particularly interested.

Superior, a city of 36,000 population in 1930, is principally a railroad and shipping center, peopled mainly by Americans, Scandinavians, Germans, and Poles. The Finns form a relatively small group. There were altogether 1,529 persons of Finnish birth or parentage in Superior according to the Census of 1930. It has, besides, a relatively shifting population with a large percentage of dock workers who are employed only for the seven months that the Lakes are free of ice.

In Superior—as in Duluth on the opposite side of the harbor—the cooperative movement which has been so successful in the surrounding area, has seemed to be on rather barren soil. A cooperative store was founded by the Finns in Superior in 1915—one of at least three separate enterprises launched by Superior consumers at one time or another. Two non-Finnish coöperatives failed during the 1920's, and the Finnish store was bankrupt at one time (see p. 174). The latter, however, struggled out of its difficulties, began to secure an increasing amount of non-Finnish patronage as early as 1929, and transacted a total business of \$178,000 in 1936. At that time it operated two stores and a service station, and was in the process of opening a garage and a third store. This cooperative, known as the People's Cooperative Society, is estimated to have been handling about three per cent of the total food business in Superior and a much smaller proportion of the town's total retail business.

The expenses of the People's Cooperative Society were 14.5 per cent of its sales in 1936, a considerably higher ratio than that of the Cloquet cooperative. This ratio compared favorably, on the other hand, with expense figures for private stores in the country as a whole—15.6 per cent for typical grocery stores and 16.4 per cent for typical grocery and meat stores reporting to Dun and Bradstreet for 1936, 16.1 per cent (store expense only) for food chains studied by Harvard as of 1934. The expenditures of the cooperatives for rent and for delivery service appeared to be no lower than those of a typical independent store of similar size—though lower than those of chain stores; the cooperative did achieve savings, on the other hand, by lower advertising expense and the maintenance of a rapid turnover of its merchandise—25 times in 1935 and 29 times in 1937 (not available for 1936).¹⁶ Information secured from private merchants in Superior indicated that the total expenses

¹⁶ Presence of the cooperative wholesale in the same city may have made it easier for the Superior cooperative to carry smaller inventories in proportion to its volume of sales.

of the society were at least as low as the average expenses of its local competitors. Cooperative sales per employee in 1937 and 1938 were around \$10,000, compared with sales per retail worker (including proprietor) of \$6,500 for all stores in Superior in 1935.

The two stores of the cooperative society were both conveniently located, one in the main shopping district. Store appearance was fair, arrangement of merchandise good, and the service seemed to be satisfactory. The choice of goods was probably somewhat limited as compared to competing stores. Credit was allowed to about a third of the patrons and goods were delivered.

As a means of judging the values provided to consumers by the cooperative, the prices for twenty grocery and meat items charged by the no. 1 cooperative store were compared with those of four private stores—so chosen as to include merchants rendering varying degrees of service as well as the principal competitors of the cooperative. There was also available a more comprehensive price inquiry—covering eighty different articles—which had been made with some care by a committee of cooperative members in the summer of 1934, an inquiry which included three of the same stores. (See Appendix III).

One of the stores, a so-called "cut-rate independent", was shown by both studies to charge prices averaging 3 or 4 per cent lower than those of the cooperative. This store was located on the main street near the poorer residential district. On a Saturday afternoon when it was visited by the writer, it was crowded, dirty, disorderly, and noisy. The manager stated that he provided both credit and delivery service. This store, according to the report of the cooperative committee, "specializes in the purchase of distressed stocks, shoddy merchandise and so-called 'goods in second hands'. Brokers have long recognized stores of this type as an outlet for stale warehouse stocks. . ." Its prices were lower than those of the cooperative on eight of the twenty commodities priced by the writer, the same on ten, higher on two.

Prices at a major chain store—of fair appearance, selling on a cash-and-carry basis in a central location—were also indicated to be slightly lower than those of the cooperative store by both price comparisons. In neither case, however, did the difference average more than one per cent. The prices of an attractive “cash” independent in a “neighborhood” location appeared from the writer’s comparison to be approximately the same as prices at the cooperative. At the fourth competing store prices were more than five per cent higher, according to both the writer’s inquiry and that of the cooperative committee in 1934. This was a store, however, of unusually good appearance both inside and out, centrally located, whose proprietors prided themselves on the excellence of their service, on the quality of their goods, and on an extremely wide variety of merchandise.

It appeared on the basis of these comparisons—making due allowance for the kind of service offered its customers by each store—that the prices charged by the Superior cooperative were not appreciably higher or lower than those of competing private stores. The cooperative society realized a gross margin of 18.3 per cent in 1936—similar to the margins of typical private merchants in the country as a whole.¹⁷ Operating on this margin it achieved net earnings of 4.2 per cent.¹⁸ A refund of 2.2 per cent was paid to patrons in the form of shares of stock, to provide for expansion of the business, and 2 per cent was returned in cash. This 2 per cent probably represented the immediate pecuniary advantage of patronizing the cooperative in Superior.

THE ELY, MINNESOTA, COOPERATIVE ASSOCIATION

Ely, Minnesota, is an iron mining town with a population of some six thousand persons, situated on the Vermilion Range

17 Cf. Dun & Bradstreet, Inc., *1937 Retail Survey*.

18 Comparisons have been made with the ratios of private food stores. The stores of the People’s Cooperative Society carried not only food but other goods, including work clothing, auto accessories, and coal, and it operated a service station beginning in July, 1936. These kinds of business, however, are not believed to have made up a sufficiently large percentage of the sales in 1936 to have affected the operating ratios materially.

more than a hundred miles from Duluth-Superior and almost equally remote from other centers of population. Finns and Yugoslavs, together with their children, make up the principal elements in the local population. Finnish miners initiated the local cooperative society in 1923, it was incorporated as the Ely Cooperative Association in 1926, and is now one of the larger enterprises of the town. It transacts a business of a general store nature, with a gasoline pump and feeds and flour for farmer members behind the store, but the bulk of its sales are of food. It also operates a small branch store at nearby Winton. Total sales in the twelve months ending April 30, 1937, were \$124,000, which included perhaps 4 per cent of the total retail trade in Ely and about one-tenth of the local food business.

The operating expenses of the Ely Cooperative Association were 11.35 per cent of its sales, representing a larger ratio than that of the society at Cloquet, but still unusually low. Salary and wage expense came to only 6.8 per cent of sales, the result of relatively large sales per employee—\$14,700 in the cooperative's fiscal year, 1937-38, compared with slightly more than \$6,000 for all stores in Ely in the Census year, 1935. Savings also resulted from lower expenses for advertising and for building maintenance and repair than are usual in private stores. The stock of the cooperative was turned over 19½ times during the year.

The cooperative store was in a corner location a block from the principal shopping street, but still within the business district. The appearance of the store was attractive outside; inside it was rather disorderly. According to the manager, about one-half the business was done on credit, and a considerable proportion of the sales were delivered. Brief comparison with two other stores indicated that cooperative prices were on a competitive level considering the amount of services provided to customers. (See Appendix III).

There were no chain stores in Ely. The nearest counterpart to a chain store was the branch of a large Duluth grocery store,

which had been operating in Ely for only a few months. This was the town's only cash store. It was well located and well arranged. A comparison of a few of the prices charged with those of the cooperative indicated that the average at the cash store was somewhat lower. The latter's prices were lower on eight articles, higher on only two, and the same on six others including beef. However, inquiry revealed that the beef was of a cheaper grade¹⁹ than the beef sold by the cooperative store.

Cooperative prices were also compared with those of the largest store in town, an attractive and well arranged establishment on a desirable corner location on the main street. This store gave complete credit and delivery service, and, of course, carried a wide variety of merchandise.²⁰ The prices of this store were lower than those of the cooperative on two articles, the same on three others, but higher on twelve.

The gross margin realized by the Ely Cooperative Association was 16.3 per cent in its fiscal year, 1936-37. The difference between the gross margin and the expenses of operation yielded the association net earnings equal to 4.9 per cent of sales. Nearly all of this amount was returned to patrons in rebates, but half in the form of credit on shares in the society and only half in outright cash refunds. In Ely, then, as in Superior, consumers realized a modest advantage in patronizing the cooperative.

THE EFFICIENCY OF COOPERATIVE RETAILING

The chances for survival of the Lake Superior district cooperatives in competition with private merchants—on strictly economic grounds—seems from the evidence to be very good. Sample studies indicated that cooperative prices in 1936 were

¹⁹ The butcher at the cooperative stated that he bought Swift's Premium beef, whole sides at 16c per lb., plus ½c freight, and said that he did not believe the cash market handled as high a grade of meat. The butcher at the cash store subsequently informed the writer that his store paid only 11c per lb. for its beef.

²⁰ The manager stated that his "overhead expenses" were 17-18 per cent of the sales.

as low as those of their private competitors. Indeed, to judge from the low gross margins on which they operated, some of the cooperative stores—as in the case of Cloquet—set prices below the levels generally established by private retailers.

At the same time, the expenses of operation of the cooperatives were enough lower than those of most private merchants so that their net earnings were substantially larger. Their efficiency may be explained to some extent by their relatively large size: only half a dozen did less than \$30,000 business in 1936, and the majority sold more than \$50,000—a volume often regarded by progressive food merchants as that required for efficient operation.²¹ It is also significant that many of the rural societies—probably one-half or more—handled more than a quarter of the total business in their respective communities. This naturally enabled them to buy in comparatively large quantities, and must have been at least partly responsible for their rapid turnover of stock.

The question may still be raised whether or not the size of the rebates the cooperatives were able to pay to consumers was sufficiently large to prove a major attraction. No comprehensive records are available as to the amount of refund actually paid by the Lake Superior district societies in recent years. It may be pointed out, however, that the median earnings of the sixty-six cooperatives which have been discussed were approximately 4 per cent of their sales in each of the years 1935-38. It is from these earnings, of course, that patronage refunds are paid.²² Not all of the earnings, be it noted, were paid out in refunds; most societies have made it a practice to set aside a considerable proportion of their earnings for purposes of further expansion, and will probably continue to do so. In consequence, the patronage rebates paid by most societies

²¹ Carl N. Schmalz, *Operating Results of Consumer Cooperatives in the United States in 1937*, Harvard Business School, Bureau of Business Research, Bulletin No. 108 (Boston, Bureau of Business Research, 1939), p. 6.

²² Interest on shares was treated as a special expense and deducted from "net income from trading" in the calculation of net earnings. Therefore, no charge was necessary against the 4% to cover such interest.

have been small—probably not more than 3 per cent. A rebate of this size can hardly be considered a major attraction to the average consumer.

Nevertheless even a small refund, combined with the competitive prices established by the cooperatives of this area, leaves the cooperative stores in a relatively strong position. The writer, unfortunately, was able to collect very little data on the quality of the goods sold by the stores or on the nature of the service which they render—both of which are rather intangible values. It may be remarked that leaders of the cooperatives claim the achievement of distinctly higher standards in these respects, especially as to quality. If these claims are correct, they should help to give the cooperatives by and large a definite economic advantage over their private competitors.

THE OPERATIONS OF THE CENTRAL COOPERATIVE WHOLESALE

Whether or not the cooperatives succeed in competition with private stores, their influence on the American economy as a whole—or even on the process of distribution as such—will remain comparatively limited unless they expand beyond the field of retail trade. One of the aims of the cooperative movement is “production for use”, which presumably involves actual entrance into the field of production. In order to develop their own mills and factories, however, the cooperatives must first develop a system for distribution on the wholesale level. The wholesale organizations may then gradually acquire their productive establishments.

It is, therefore, necessary to inquire into the success of the wholesale business established by the local cooperative societies in the Lake Superior district. This inquiry may be approached from two different angles. We wish to know whether the cooperatives can successfully build up their own wholesale in competition with private firms. And, it is particularly important to determine whether such a cooperative wholesale offers any improvements in the job of distribution as compared with private enterprise.

The Central Cooperative Wholesale, founded by cooperatives of this region in 1917, had by 1936 come to handle a business of \$2,846,000. A peak volume of \$3,357,000 was reached the following year. The actual quantity of goods sold had increased in every year of its existence without exception, even though lower prices had caused a reduction in dollar sales during 1931 and 1932.²³ Besides the general merchandise business and the bakery, established in 1919, the wholesale added a clothing department in 1932, a gasoline and oil department in 1935, a coffee-roasting plant in 1935, a branch wholesale and feed mill at Virginia, Minnesota, in 1936, and finally, near the end of 1938, a larger feed mill in Superior. General merchandise, however, including dry groceries, canned goods, flour, and feed, continued to represent the bulk of its wholesale business.

There were sixty-eight store societies affiliated and actively supporting the wholesale at the end of 1936. The total number of shareholding cooperatives, including seven regional oil associations, cooperative creameries, buying clubs, etc., was 107. One hundred and fifty-one cooperatives, including both members and non-members, made purchases from the wholesale during the year. Purchases by non-members were very small; the typical member society, however, bought 45 per cent of all the goods it needed from the Central Cooperative Wholesale.²⁴

Examination of the financial reports of the wholesale as of December 31, 1936, shows that the share capital—all of it held by member cooperatives—was \$183,000, and the net worth including surplus and current earnings \$263,000. This was small in comparison with the capital of private merchants with

²³ Sales in 1938 were \$3,169,000, 5.6% less than in 1937. Wholesale commodity prices were 9% lower, according to the index of the Bureau of Labor Statistics.

²⁴ By the end of 1938 the number of active member store societies had increased to approximately 85, all shareholders to 118, and the total number of patrons to 182.

a similar volume of business.²⁵ Two-thirds of the tangible net worth—an unduly large proportion—was composed of fixed assets, indicating relatively small working capital. The ratio of current assets to current liabilities was 2.1, which is generally considered sufficient for a sound enterprise, but is not high for this type of business. On the other hand, notes and accounts receivable were only 2 per cent of the year's sales, and were partly offset by customers' advance payments. Accounts were generally collected on a two weeks basis. The wholesale's turnover of its average merchandise inventory was unusually favorable—fifteen times in 1936, compared with a typical stock-turn of from six to ten in private wholesale grocery firms.²⁶ Net earnings, moreover, were equal to 2 per cent of the sales and represented a return of 23 per cent on the average net worth of the organization.

In comparing the costs of distribution through cooperative and through private channels, these net earnings of the cooperative may be regarded as one of the savings of cooperative distribution. The cost to consumers of private distribution includes both expenses of operation and the net profits, if any, realized by the enterprisers. The net profits commonly range from zero to 2 per cent of the wholesale price. Net profits of the cooperative wholesale belong to the retail cooperatives which are, in turn, owned by the consumers. The net profits or net earnings of the Central Cooperative Wholesale over a period of years have averaged over 1½ per cent of the wholesale price. Nine-tenths of these earnings have been paid back to the cooperatives as patronage refunds—one-tenth being retained as surplus. A large part of the refunds, to be sure, has been paid in the form of credit on shares in the central organization, a device which has enabled it to accumulate much-needed capital. Approximately ⅔ of 1 per cent has been returned in cash.

²⁵ Roy Foulke, *Behind the Scenes of Business* (New York: Dun & Bradstreet, Inc., 1938).

²⁶ *Ibid.*

EXPENSES IN WHOLESALING

An accurate comparison of the expenses of operation of the Central Cooperative Wholesale with those of private distributors is difficult because of the varied nature of its business. Something like one-fourth of its sales, on the one hand, consist of bulk items such as flour and feed, gasoline and oil, on which costs are relatively low. On the other hand, there are included in the general merchandise department of the business such commodities as bakery products, hardware and electrical appliances, roofing, and other building supplies, all of which generally cost more to distribute than do groceries. Nevertheless, groceries and allied products make up the largest part of the total sales. Comparison has, therefore, been made with the expenses of private grocery distributors.

The expenses of operation of the Central Cooperative Wholesale were unusually low in comparison with those of private, independent wholesalers. Thus, expenses in 1936 were 4.98 per cent of sales—5.02 per cent in the general merchandise department—which may be compared with expenses of 9 to 10 per cent for typical wholesale grocery merchants in that year.²⁷

The greatest saving effected by the cooperative wholesale was in selling expenses which came to only 0.8 per cent of sales. Even if one were to include the expenditures of the educational department of the wholesale (0.25 per cent) as a selling expense, these would still be less than one-half the usual selling expenses of private wholesale merchants.²⁸ There also appeared to be a considerable economy under the item: "administrative and office salaries", which—including compensation of directors—amounted to 1.2 per cent of sales. Wages paid to the wholesale's employees were not particularly low—the minimum for regular employees being \$18 a week; but the salaries of the general manager and the heads of departments were lower

²⁷ Dun & Bradstreet, Inc., *1937 Wholesale Survey*, Report No. 1, p. 13.

²⁸ 2.4% for wholesale grocers in 1936. *Ibid.*

See also Harvard Bureau of Business Research, *Operating Expenses in the Wholesale Grocery Business, 1923*, Bulletin No. 40.

than would be paid in a private business of comparable size. The manager, for example, was paid \$58 a week—equivalent to \$3,000 a year. According to the manager of a large private wholesale business operating in the same territory, a private firm of the size of the Central Cooperative Wholesale would pay its manager from \$6,000 to \$10,000 a year. (See p. 275 *et seq.* for a discussion of "The Loyalty of the Cooperative Personnel.")

The wholesale's losses from bad debts were negligible, coming to less than 0.1 per cent of sales. The losses of private wholesale merchants on this account commonly run to 0.5 per cent.²⁹ For warehousing, handling, and shipping—the physical process of distribution—the costs of the cooperative wholesale were a little more than 2.0 per cent of sales, or nearly as large as those of private wholesalers.

The fact that selling expenses were lower for the cooperative wholesale may be explained on the ground that its business was transacted almost entirely with its own shareholders—96.8 per cent of sales was to members in 1936. In consequence, a very large part of the selling consisted of taking orders rather than persuasion. Local cooperatives were probably motivated not only by certain social ideals and a sense of loyalty to the movement, but by the knowledge that their funds were invested in the wholesale and that they would share in any profits to the extent of their purchases. A continuing contact was maintained between the stores and their central organization through the weekly cooperative newspapers, occasional public meetings and cooperative rallies, cooperative managers' conferences, and semi-annual visits by the auditors from the wholesale, who not only checked the accounts of the store, but advised them in their management problems. The wholesale also arranged special sales for the benefit of the member stores, providing handbills, displays and advertising. The advantage to the wholesale of dealing with its own members was reflected in unusually large

²⁹ *Loc. cit.*

sales per customer; the average purchases of seventy-four member cooperatives in 1936 were \$36,000 each.

Expenses of operation would also be lower with a quick turnover of inventory. This in turn reflected the fact that a smaller number of different items was carried in stock than is customary for private wholesale merchants. Two factors enabled the cooperative wholesale to dispense with the usually wide variety of stock. In the first place, it did not have to cater to the wants of nearly so many customers in order to achieve its volume of sales. Secondly, the promotion of cooperative-label merchandise made it unnecessary to carry the several different brands of each article which might be demanded of the ordinary store by an average group of consumers.

Although the expenses of the cooperative wholesale were substantially lower than those of private, independent wholesale merchants, they were not as low as those of certain wholesale establishments sponsoring so-called "voluntary chains", nor those of retailer-owned wholesales (also known as retailer cooperatives). A special study by the Census for 1929 indicated that "the voluntary chain permitted the wholesaler to secure larger sales per retail store and therefore a larger volume with fewer accounts than was true of the more typical method of selling. Fifteen wholesale establishments which reported all business through member stores averaged 241 retail-member outlets with sales of \$7,139 per outlet. . . . For the entire group of 95 wholesale establishments [operating voluntary chains], the total expenses were 8.13 per cent, as compared with . . . 4.63 per cent for 15 establishments selling exclusively through cooperating retail-member stores. These percentages compare with the average of 9.1 per cent for all general-line wholesale merchants in the grocery and food-specialty trade."³⁰ According to the report of an investigation of a group of retailer-owned wholesales by the Federal Trade Commission, "the retailer cooperative figures apparently demonstrate that the

³⁰ Bureau of the Census, "Grocery and Food Specialties," p. 85, in *Wholesale Distribution, 1929*.

actual operating expenses necessary to get goods from the manufacturer to the retailer need not exceed the average for this group or about 4 per cent of sales, and studies of these companies according to sales volume groups do not indicate that this figure is dependent in any appreciable degree upon the factor of size."³¹ The operating expenses of the Central Co-operative Wholesale, on the other hand, as stated above, were 4.98 per cent of sales in 1936 and slightly higher in other recent years.³²

Although no exact comparison can be made, the expenses incurred by the chain store companies in their wholesaling operations are, if anything, slightly higher than those of the retailer-owned wholesales, and not appreciably different from those of the Central Co-operative Wholesale. The Harvard study for 1934 reported: ". . . The cost to the chains of performing their central office functions amounts to between 6.0 and 9.9 per cent of the wholesalers' selling prices."³³ These functions, in addition to the services ordinarily performed by wholesalers, it should be noted, include advertising, transportation, store supervision, and taxes other than those of real estate.

Both the chain store warehouses and the private retail member wholesales were probably quite as successful in reducing selling expense as the cooperative wholesale. In addition, the latter was handicapped by the great distances over which its member cooperatives were scattered.³⁴ The private organiza-

³¹ Federal Trade Commission, *Chain-Store Inquiry: Cooperative Grocery Chains*, p. xxii.

³² Expense ratios of the Central Co-operative Wholesale for each of the six years 1933-38 were as follows: 1933-7.31%, 1934-6.33%, 1935-5.89%, 1936-4.98%, 1937-5.00%, 1938-5.45%. (Official figures for 1938, excluding gasoline freight and tax from sales totals for the first time, have been adjusted by the writer here and elsewhere in this study to include these items, so that they will be comparable with preceding years' figures.)

³³ *Expenses and Profits of Food Chains in 1934*, p. 19.

³⁴ From Middle River, Minnesota, on the west, to Sault Ste Marie, Michigan, on the east is more than 500 miles across. The region is so thinly populated that the Great Atlantic and Pacific Tea Company has not deemed it a practical territory for its chain stores.

tions were able to select the locations of their member stores to a considerable extent and, therefore, to concentrate the membership of an individual warehouse within easy operating range.

It is interesting to compare these statistics for the Central Cooperative Wholesale and for private merchants in the United States with those for the English Cooperative Wholesale Society. The English wholesale, of course, with sales in the neighborhood of \$500,000,000 a year, serves a territory very intensively developed by member cooperatives. Expenses of the English organization in 1935 for all distributive departments were 2.2 per cent of sales; for the grocery and provisions department they were 1.3 per cent.³⁵ The exceptional economy of cooperative wholesale distribution in England is explained by Carr-Saunders, Florence, and Peers on the following grounds: (1) the volume of business concentrated in one organization; (2) a quasi-monopolized market; (3) the fact that a large proportion of the goods "are sent direct from works to the retail society." To what extent may these three conditions be duplicated in this country? The first condition, size, already exists to a considerable degree in the case of certain American chain store companies and retail-member wholesales, to a much smaller degree for the Central Cooperative Wholesale. The second, quasi-monopoly, characterizes all three types of business in the United States. As respects the third point, it may be conjectured that large retail outlets facilitate direct shipment from manufacturers to the stores, and that the larger average size of chain stores and of the member cooperatives of the Central Cooperative Wholesale would give these two groups some advantage over most retail-member wholesale organizations. None of these American groups, however, approach the typical size of retail cooperatives in England.

35 A. M. Carr-Saunders, P. Sargant Florence and Robert Peers: *Consumers' Cooperation in Great Britain* (Harper & Brothers, New York, 1938), pp. 397-99.

PRICES PAID TO PRODUCERS

Expenses of operation, of course, are not the sole determinant of the savings achieved by a wholesale business. Prices paid to producers by the wholesale might be either lower or higher than those paid by competing organizations. No comparison could be made of the actual prices paid by the Central Cooperative Wholesale with those paid by private firms, but certain factors may be pointed out, which might affect the prices paid. The aggregate buying power of the cooperative wholesale was much less than that of large corporate chains and the larger retail-member wholesales, though comparing favorably with that of most independent wholesale merchants. Its stock turnover appears to have been less than that of chain store warehouses but much greater than that of typical retailer-owned wholesales and twice as rapid as the turnover of ordinary wholesale merchants.³⁶ Limitation of purchases to a smaller variety of goods and quick turnover both make for larger individual orders and discounts for quantity. The development of a line of goods under the cooperative label should be noticed in this connection. By the beginning of 1938, 316 different commodities, comprising some 1,200 individual items out of a total of "over 3,000" carried in stock were packed under the CO-OP label.³⁷ Substitution of these articles for a variety of private and advertised brands made it possible to place larger orders with single sources of supply. Discounts by manufacturers on contracts for these cooperative label goods were encouraged not only by larger orders, but by a drastic reduction in the manufacturers' selling expense. These selling expenses, including salesmen's salaries, traveling expenses, and advertising, may cost a manufacturer one-sixth of his selling price in the case of grocery products and considerably more

³⁶ Dun & Bradstreet, Inc., *1937 Wholesale Survey*, Report No. 1, pp. 13 & 19. Bureau of the Census, *Wholesale Distribution*, 1933, vol. I, table 1.

³⁷ Central Cooperative Wholesale, *Year Book 1938*, p. 16.

with paints and varnishes, drugs and toilet articles.³⁸ The assurance of continuing orders and promotion of the sale of the products by the wholesale and retail organizations largely obviate these expenditures on the part of the manufacturer. Discounts received on CO-OP articles were said by the buyer for the wholesale to be passed on to the member cooperatives in the form of lower prices.³⁹

The advantage to the cooperatives of promoting their own brand in place of nationally advertised products was pointed out by the manager of the Central Cooperative Wholesale in an article appearing in 1929. He cited comparative wholesale prices on fifteen articles, such as the following:

Article	"Cooperator's Best"	Nationally-advertised
Rolled oats, per case	\$2.20	\$2.65
Wheat cereal, per case	2.90	3.90
Pork and beans, per doz.	1.95	2.30
Soup, per case .....	.95	1.15
Macaroni, per case	1.80	1.90
etc.		

"The above prices are those prevailing in the (Central Cooperative Wholesale) territory. In every case listed above, the 'Cooperators' Best' merchandise has been tested and found to be equal to or better than the most widely used corresponding nationally-advertised product.

38 Association of National Advertisers, Inc., with the cooperation of the National Association of Cost Accountants: *An Analysis of Distribution Costs of 312 Manufacturers*, New York, 1933.

39 Differences between the prices of nationally advertised products and cooperative label products in favor of the latter were noted by the writer at cooperative stores. A particularly striking instance was noted in the cooperative at Brunswick, Minnesota:

Soap Flakes	Weight	Price	Wheat Cereal	Weight	Price
Oxydol	24 oz.	\$.24	Wheatena	22 oz.	\$.22
Rinso	24 "	.24	Ralston	24 "	.22
CO-OP	24 "	.19	CO-OP	28 "	.20
"Health Soap"					
Lifebuoy	4 oz.	\$.10			
CO-OP	4 "	.05			

Smaller differences were noted elsewhere. These differences indicate that the cooperatives did have the benefit of lower wholesale prices on these cooperative label products.

"The savings the cooperators are able to make by the use of their own labeled goods is from 5 per cent to 31 per cent with an average of 12.8 per cent on the above examples alone."⁴⁰

This source of savings is not exclusive to the cooperative, however. Chain stores, retail-member wholesalers, and independent wholesale merchants may each have articles packed under labels of their own and seek to concentrate their sales on such private label products. It is well known to what extent certain chain stores, in particular, have developed their own private brands. It is possible, nevertheless, that cooperatives may have some advantage in the promotion of these lines. National advertising is continually building up consumer demand for various manufacturers brands which private merchants will feel it wise to stock in order to increase or maintain their volume of sales. A comparison of the operating ratios of private wholesales handling varying proportions of goods under their own brands shows a tendency for their expenses to be larger as they handle larger proportions of sales under their own labels.⁴¹ Cooperatives, because they represent a movement of social protest against private business, and because they have an organized membership, should be able to persuade consumers to purchase cooperative label products in preference to advertised brands even when there is no apparent advantage in price or quality.⁴² Private distributors, for the most part, have attempted to sell their private brands only on the basis of a price differential.

⁴⁰ Eskel Ronn in the *Cooperative Pyramid Builder* (Central Cooperative Wholesale, Superior, Wisconsin), IV, No. 5 (May, 1929), p. 139.

⁴¹ Dun & Bradstreet, Inc., *op. cit.*, pp. 17-18.

⁴² To quote from the report of the general manager to the annual meeting of the Central Cooperative Wholesale, April 15-16, 1935: "With consistent educational propaganda, we are rapidly overcoming the resistance that exists in the field of distribution against the so-called 'private label' products—of which CO-OP is one—in competition with the nationally advertised goods." A year later he reported: "With an aggressive sales program of CO-OP label goods, we can gradually do away with nationally advertised brands in our stores." Annual meeting, April 13-14, 1936.

QUALITY STANDARDS

One of the advantages claimed by the cooperative wholesale for the use of its own label was the opportunity to maintain higher standards of quality since it could order goods to its own specifications and need not rely upon the brands of various manufacturers. Furthermore, if a source of supply became unsatisfactory for any reason, it was possible to shift to some other source without confronting consumers with a change in the name of the brand carried.

To what extent the CO-OP label has been used to raise quality standards it is difficult to determine. "Among matters under new business" at the annual meeting of delegates of member cooperatives on April 13-14, 1936, it was reported that "the quality of merchandise distributed by the Central Cooperative Wholesale, and chiefly goods under the CO-OP label, came in for searching questions and considerable discussion." The head buyer explained, "When products are placed under the CO-OP label, reliability of the source is one important consideration; government grading standards are used wherever available; tests and analyses of samples are made, the Central Cooperative Wholesale spending upon laboratory tests considerably more than ordinary wholesale concerns. Contracts with producers provide for return and indemnity if goods fail to come up to the specified standards and formulas, and these are checked by sample tests of deliveries."⁴³ Delegates to the annual meetings, however, continued to express a desire for better quality, and at the annual meeting April 11-12, 1938, a resolution was presented by the resolutions committee and subsequently referred to the board of directors, which would have instructed the board to:

1. Make a thorough investigation as to the feasibility of applying a labeling system for cooperative merchandise that is approved by the Federal government, or that some other suitable approved system of descriptive labeling be adopted.

⁴³ Central Cooperative Wholesale, *Year Book, 1936*, "Summary of Proceedings at Annual Meeting . . .", p. 11.

2. Employ a full-time, adequately trained kitchen tester immediately, or just as soon as a suitable person can be found.

3. Immediately purchase, with the aid of technical advice, adequate kitchen, laboratory, and other equipment that will allow more scientific testing of foods and other products, thus ensuring that the buyers at the wholesale will be in possession of sufficient information to improve and protect the quality of cooperative products.

4. Widely publicize the results of testing to member societies so that this information will be available to cooperative workers and members.

Employment of a kitchen tester and plans for a laboratory and testing kitchen were announced by the wholesale July 15, 1939.

WHOLESALING—CONCLUSIONS

The foregoing review of the activities of the Central Co-operative Wholesale does not indicate that competition by private enterprisers is likely to undermine cooperative wholesaling in this territory. The cooperative business has expanded consistently despite a limited supply of working capital. Its operations appear sound from the financial point of view. Expenses of operation in recent years were much lower than those of the "old-line" private wholesale merchants, and, at the least, could be said to approach the economy of the most efficient types of wholesale distribution, the chain store warehouses and retailer-owned wholesales. The assurance of the patronage of its principal customers and its concentration on a single line of goods apparently make possible more economical distribution than is characteristic of American wholesale business as a whole. The performance of the English Co-operative Wholesale may be an indication that a cooperative organization has some advantage for economy which private business does not have. Development of an extensive line of cooperative label goods and the gradual elimination of competing brands from retail shelves may offer one means of achieving lower costs to the consumer, both in wholesaling and in retail distribution.

PRODUCTIVE DEPARTMENTS

The cooperatives in the Lake Superior district have not yet succeeded in producing the goods which their members consume to any considerable extent, even though modest progress is being made in that direction. In 1936 the cooperative wholesale operated two productive departments, the coffee-roasting department and the bakery. The volume of these two departments amounted to approximately 6 per cent of the total wholesale business. With the acquisition of the feed mill in the latter part of 1938 the proportion of its merchandise which the wholesale processed itself increased somewhat—possibly to 10 per cent.

No analysis has been undertaken of the efficiency of these productive departments. The operating statements of the wholesale, it may be noted in passing, show both the gross distributing margins and the net earnings to be larger in the baking and coffee departments than in those handling goods processed outside. Net earnings of the newly-acquired feed mill for the first six months of 1939 were reported⁴⁴ to be 3 per cent of its sales, which was also larger than the average earnings for the business as a whole. These results might be regarded as a demonstration that definite savings were achieved by cooperative production. It is not known, however, how the usual margins of profit in the distribution of these goods compared with the margins of profit in other lines.

AUDITING AND EDUCATION

In considering the possible economies which the Central Cooperative Wholesale has achieved for the member cooperatives it is important not to overlook the services of the Auditing and Educational Departments of the central organization. Audits of the accounts of the affiliated stores have been insisted on by the wholesale; most of the societies have audits semi-annually. The work of the wholesale auditors has been a

⁴⁴ *Cooperative Builder*, July 29, 1939.

major factor in building up both the financial strength and the operating efficiency of the stores. A recent publication explains the services rendered by the auditors as follows :

The main purpose of the Department has been to render specialized auditing and accounting service for the affiliated societies of the Central Cooperative Wholesale. The audit reports have acquainted the cooperative membership with the financial condition and operations of their respective association; have criticized in a constructive way the management and operations of the societies; have helped to root out dishonesty and inefficiency; have instilled confidence in the shareholders as to honest and efficient management of their society.

In early years the bookkeeping of the cooperative stores was often poor. A uniform accounting system, with standardized bookkeeping forms especially devised for cooperative stores, oil associations, creameries, etc., has greatly simplified the accounting work of the cooperatives; and regular examinations have resulted in up-to-date record-keeping.

Education has been an important part of the auditing department program. In addition to teaching bookkeeping at the Cooperative Training School, the auditing department has taught new bookkeepers on the job, has educated managers by suggestions and demands for improvements in management, and has educated boards of directors by helping them to analyze financial statements and by thorough discussion of problems in their board meetings. Almost the entire crew of auditors is self-trained by the department.⁴⁵

The auditing department has provided a means for pooling the financial experience of the individual cooperatives throughout the entire Lake Superior region. It is an indication of the success of the department that the balance sheets and income and expense statements of every store cooperative and oil association affiliated with the wholesale are brought together and published each year in the Central Cooperative Wholesale *Year Book*.

⁴⁵ Central Cooperative Wholesale, *20th Year* (Superior, Wis., 1937), pp. 23-4.

The activities of the educational department will be discussed at more length elsewhere. The educational work has also played a major part in the economic success of the entire movement. It has not merely had the indirect effect of creating interest in the ideals and opportunities of the movement and thus increasing patronage of cooperative enterprises. It has played a more direct part in cooperative efficiency by stimulating intelligent participation in the affairs of the societies by the members. More specifically, it has aided in the sale of cooperative label merchandise and helped concentrate the purchases of the local cooperatives in the cooperative wholesale.

SAVINGS REALIZED BY THE DISTRICT FEDERATIONS

The principal business developed so far by district federations of local cooperative societies has been in petroleum bulk tank stations supplying the service station and gas pumps of the local stores. It is difficult to compare the operating efficiency of these oil associations with that of private oil companies, inasmuch as margins and expenses of operation vary greatly according to the proportion of gasoline sold directly to individual consumers as compared with that sold through filling stations. These regional oil associations, however, have evidently effected substantial savings. Selling at prevailing prices, they have secured typical net earnings in recent years of 9 per cent of their sales. In 1936, for example, operating on an average margin of 18.8 per cent, they had average net earnings of 8.8 per cent.

A particularly striking case is that of the C-A-P Cooperative Oil Association, serving ten local cooperative societies in Carlton, Aitkin, and Pine Counties, Minnesota. This association has sold \$773,000 of petroleum products in the nine years, 1929-37, realizing \$99,700 in net earnings, of which \$87,000 has been returned to the member cooperatives in the form of patronage dividends.

There were five regional oil associations affiliated with the Central Cooperative Wholesale in 1937, with sales in that year

ranging from \$37,600 for the smallest to \$223,900 for the large one with headquarters in Cloquet. There were, in addition, the district federations centered at Maple, Wisconsin, and Virginia, Minnesota, whose business included other commodities besides petroleum products. It is probably too early to assess the results of the entrance of these two associations into other lines such as automobile sales and farm machinery. These associations had net earnings for their business as a whole of 4.6 per cent and 3.1 per cent respectively for the two-year period, 1937-38.

THE COMPARATIVE EFFICIENCY OF COOPERATIVE DISTRIBUTION AS A WHOLE

The efficiency of the consumers' cooperative system in the Lake Superior district, considered as a whole, compares very favorably with that of private distribution in the United States. The gross margins and expenses of the rural stores which make up most of this cooperative group have been substantially lower in recent years than those of typical private merchants. Costs of distribution through those cooperatives located in small towns and cities were higher than those of the rural cooperatives, but still somewhat lower than those of private stores—either independents or chains. In the case of the cooperatives in the town of Cloquet, the largest cooperative society in the region, costs in all departments were markedly lower than those of private distributors. A considerable degree of economy has been achieved also in general wholesaling and in the bulk distribution of petroleum products.

A rough comparison can be made of the costs of getting goods from the manufacturer to the consumer through cooperative channels in the Lake Superior region with corresponding costs for private agencies of distribution in the United States as a whole. In Table 8 the gross margins of the wholesale business have been converted to a percentage of the retail price, and the total of wholesale and retail margins combined has been shown for various types of distributors. The combined

cost of retail and wholesale trade for all kinds of distributors and all sorts of commodities, as calculated for 1929 by the economists of the Twentieth Century Fund, was approximately 30 per cent of the value of the goods distributed. The cost of distributing food, where turnover is relatively rapid, is generally lower than that for other types of merchandise. Thus, the combined margins of typical wholesale grocers and country general stores which sell a large proportion of food in rural areas such as that in which most of the cooperatives operate, were 26.8 per cent of the retail price for 1936. These agencies, to be sure, were not as economical as the chain stores. For sixty-six food chains the average gross margin, covering both their retail stores and their warehouse operations, was 23.9 per cent as of 1934. With these totals may be compared the costs for the cooperatives, doing a general store type of business with food as the major item. The combined gross margin of the local stores and the wholesale for the year 1936 was 20.1 per cent, more than 3 per cent lower than the figure quoted for the chain stores and more than 6 per cent less than the combined total for the independent merchants.

The cooperative societies, moreover, had about 5 per cent of the value of the goods left after all expenses were paid. This represented the net earnings of the retail stores and the wholesale together, and a large part of it was repaid to consumers in the form of patronage dividends, thereby constituting a reduction in the costs of distribution to consumers. The gross margin has quite properly been used to measure the costs borne by the consuming public in the case of private agencies for distribution, inasmuch as whatever net profit merchants are able to realize over and above their expenses is included in the prices which consumers pay. For cooperatives, however, the gross margin is not a true measure. In the cooperatives all the net profit, after interest is paid on the capital, belongs to the members in proportion to the purchases they have made—membership being open to all consumers; consequently, the total business expenses including interest on capital, is a more logical

CONSUMERS' COOPERATIVES

TABLE 8

COSTS TO THE CONSUMER OF PRIVATE AND COOPERATIVE FORMS
OF DISTRIBUTION

(Per cent of retail price)

Agency	(1) Retail Margin	(2) Wholesale Margin	(1 + 2) Combined Margin
All Distributors, 1929 ^a	19 approx.	10½ approx.	30 approx.
Independent Food Merchants, 1936: .			26.8
Country General Stores ^b	17.9		
Wholesale Groceries ^c		8.9	
Chain Food Stores, 1934 ^d			23.9
Consumers' Cooperatives, Gross Margins in 1936: ^e			20.1
Store Societies Affiliated with Central Cooperative Wholesale .	14.1		
Central Cooperative Wholesale ...		6.0	
Consumers' Cooperatives, Expenses in 1936: ^e			15.4
Store Societies	10.4		
Central Cooperative Wholesale ...		5.0	
Consumers' Cooperatives in Great Britain, Gross Margins in 1932: ^f			25.3
100 Cooperative Societies— Grocery departments	22.9		
Cooperative Wholesale Society— Grocery and Provisions		2.4	
Consumers' Cooperatives in Great Britain, Expenses in 1932: ^f ..			13.8
100 Cooperative Societies—	12.8		
Cooperative Wholesale Society ...		1.0	

^a Twentieth Century Fund, *Does Distribution Cost Too Much?*, pp. 117-18. Refers to distribution of all types of merchandise.

^b A typical figure for 1,919 stores. Dun & Bradstreet, Inc., *1937 Retail Survey*, Survey No. 17. This was selected as the group most comparable to the Lake Superior district cooperatives. The bulk of the group's sales are of food. The survey of grocery and meat stores showed a typical gross margin of 18.5 per cent.

^c Dun & Bradstreet, Inc., *1937 Wholesale Survey, Report No. 1, Wholesale Grocers*, p. 13. About half the concerns reporting sponsored voluntary

measure. In practice, cooperative members have permitted a larger or smaller part of the earnings to remain in the business for use as reserves or, more generally, for expansion of the activities of the society. Nevertheless, the actual cost of distributing goods through the cooperatives in the Lake Superior district was only 15.4 per cent of the retail price in 1936, 9 to 11 per cent less than the cost to consumers of distribution through private business.

How are these results to be interpreted? Have the cooperatives achieved an important reduction in the costs of distribution? It may be pointed out that these results were achieved in one distinct region and for the most part in rural communities, the demands of which may be more easily satisfied than those of urban consumers. The cooperatives may not have given as much service on the average as independent merchants in the same region. It seems evident, nevertheless, that most of the reduction in cost reflects the performance of a more efficient job of distribution by this particular group of cooperatives.

Comparison of the costs of these American cooperatives with cooperatives in Great Britain shows that the American

chains. The typical margin for these firms was not substantially different, however, from that for the group as a whole.

⁴Carl N. Schmalz, *Expenses and Profits of Food Chains in 1934*, Harvard Business School, Bureau of Business Research, Bulletin No. 99 (Boston, Bureau of Business Research, 1936), p. 3. If 1934 figures had been used for the cooperatives as well as for the chains, the comparison would have been different. Thus, the combined margin for the Central Cooperative Wholesale Group in 1934 was 21.4%, expenses 17.4%. In other words, the cooperatives, aided by an increase in their sales of 48 per cent between 1934 and 1936, reduced their gross margin by 1.3 per cent of sales between these two years. May not the chains have effected some reduction in their margin also? The increase in the sales of the chains between 1934 and 1936, although it was much less than the increase in the sales of the cooperatives, probably did enable them to operate on a somewhat lower gross margin in 1936 than the one shown for 1934.

* Derived from statistics in Central Cooperative Wholesale, *Year Book 1937*, pp. 5, 58. Figures used here for the retail cooperatives are not medians, but arithmetic averages of the statistics for all societies.

²A. M. Carr-Saunders, P. Sargant Florence, and Robert Peers: *Consumers' Co-operation in Great Britain*, pp. 377, 397, 401.

group operated on a considerably smaller gross margin than the much older and much larger societies in Great Britain. Expenses of the British cooperatives, however, were little more than one-half their gross margin. The expense of cooperative wholesaling in Great Britain was so low that the combined expenses of the British cooperatives were only 13.8 per cent of retail prices in 1932, which was 1.6 points less than the expenses of the Central Cooperative Wholesale group in 1936. It is worthy of note that the British cooperatives, in addition to their economies in the retail and wholesale fields have affected a particularly drastic reduction in the distribution costs connected with manufacturing. Whereas the costs incurred for the sale of their products by manufacturers in this country amount to 10 per cent or more of the retail price even in the grocery business, the expenses for distribution from productive enterprises owned by the English Cooperative Wholesale Society were equal to less than $\frac{1}{2}$ of 1 per cent in 1932.⁴⁶ The American cooperatives around Lake Superior have not yet entered the field of manufacturing to any extent.

⁴⁶ *Consumers' Cooperation in Great Britain*, p. 401.

CHAPTER XVIII

THE DIRECTION AND PERSONNEL OF THE COOPERATIVES

Two major elements in the efficiency of any business are the quality of its direction and the character of the personnel. One possible explanation of the successful operation of the cooperative enterprises in the Lake Superior district is the part which has been played in their direction by the boards of directors and the membership. It is the board elected by the members which is responsible for the administration of each society. This board engages the manager and other employees, determines the operating policies of the business, and supervises generally the conduct of the enterprise.

THE ROLE PLAYED BY BOARDS OF DIRECTORS

The boards of directors, varying in size from five to fifteen, are usually required by the by-laws of each society to meet at least once a month; on occasions they meet more frequently. The directors of the Cloquet Cooperative Society had met thirteen times in the six months preceding the writer's visit. Meetings of the Cloquet board often lasted from 7 p. m. to midnight; directors received no compensation for their work, but were remunerated for the cost of traveling to the meetings. The importance which is attached to sound direction by the boards of each cooperative is indicated by the institution of circuit schools for directors on the same plan as those for employees by the educational department of the Central Cooperative Wholesale.

The board of the wholesale itself has taken an active part in the administration of the central organization. The whole board of fifteen members has met three or four times a year, the meetings lasting two and sometimes three days, in addition to the short meetings immediately before and after the annual meeting of delegates. The full board "considers and passes

on such matters as: wage agreements, election of new employees, organizing of new departments, approval of new articles of merchandise or new lines to be handled. . ."¹ An executive committee of nine meets in other months to go over the financial reports of the wholesale and the reports of the auditing, educational, and other departments, together with other routine matters. Still other administrative duties are delegated to other committees of the board. A copy of the minutes of each meeting of each committee is sent to every board member. The directors receive \$3.00 a day for their attendance at meetings, besides their hotel and traveling expenses. The total expenses of the board have run about 0.1 per cent of the sales of the wholesale.

The directors of the Central Cooperative Wholesale are elected by the delegates of the member cooperatives for overlapping, three-year terms. They are selected by districts, and their choice now actually takes place at meetings of the district federations. Of the fifteen members of the board in 1937, nine were farmers, three were cooperative store managers, two were workers living in the city, and one was editor of a cooperative paper.²

MEMBERSHIP PARTICIPATION IN CONTROL

The individual societies usually have membership meetings twice yearly. The members at these meetings not only select the directors, but decide the disposition of the net earnings, and have final voice on any other matters they wish to consider. This occasionally includes the employment of the manager or other employees. The meetings often set up committees of the members to carry out specific policies.

To be a member, of course, a person must own a share in the society—commonly set at \$10.00 each. Since the cooperatives generally pay patronage refunds to non-members as well as members, sufficient credit to pay for a full share frequently

¹ Central Cooperative Wholesale, *20th Year*, p. 6.

² *Ibid.*

accumulates for a steady patron within one year. Nevertheless, most of the cooperatives have transacted at least a modest amount of their business with persons who were not members, and in a few societies a majority of the sales have been to non-member consumers.

Of the shareholders themselves a large proportion do not attend meetings. It may be estimated that from one-quarter to one-half of the members attend the annual meetings of most of the Lake Superior region cooperatives, and a smaller number attend the semi-annual meetings. The proportion of the total membership taking part tends to decline as the size of the association grows larger. Even in the smaller cooperatives of 100-200 members, at least fifty members have usually come to meetings. On the other hand, in the Cloquet society with its 2,700 shareholders attendance has ranged from 400 to 600—the latter representing the capacity of the auditorium. In the nature of the country in which the cooperatives are situated, the distance of many members from the meetings has proved a difficulty, especially where members are served by branch stores—frequently thirty miles or more from the headquarters. Societies with several stores have instituted a system of branch store meetings, with directors elected to represent each branch and local committees elected to administer the local stores.

Delegates to the annual meeting of the Central Cooperative Wholesale are chosen by the members' meetings of the local societies. Practically all the affiliated cooperatives are represented at these wholesale delegate meetings, which last two days. Comprehensive reports are presented to the delegates in advance in printed form, and discussions at the meetings, it is reported, "are at times quite extensive and thorough."³ There were 295 delegates from 83 member societies present at the annual meeting in 1937.

The delegates' votes are based on the number of individual shareholding members in their respective societies, each member society being entitled to one vote for each fifty of its own

³ *Ibid.*, p. 5.

individual members. In order to exercise these votes, however, the member society must own a corresponding number of shares at \$100 each.

The local cooperative societies, through their delegates, have final authority over the policies and operations of the central organization. It may be worth noting again (See Chapter XIII) that the wholesale, in turn, exercises considerable influence over the affiliated stores, because of the work of its educational and auditing departments in particular, to say nothing of the other services it renders to the stores.

LANGUAGE DIFFICULTIES

A major difficulty in securing participation by all the members of the societies in their direction has been the difference in language between the Finnish and non-Finnish members. The desirability of bringing English-speaking shareholders into a share in the control was recognized by leaders of the wholesale in the 1920's. The Finnish-American societies were urged to hold their meetings in English, and most of these cooperatives have gradually made this transition. This has meant a hardship and sometimes the alienation of the oldest and most experienced cooperators, many of whom had failed to learn English.

This problem was recognized earlier and has been more successfully handled, in some of the Lake Superior cooperatives, at any rate, than it was in the United Cooperative Society of Maynard, Massachusetts. In both the Cloquet and Superior cooperatives, for example, several non-Finnish members have been elected to the boards of directors, and in Superior especially, non-Finnish members have taken an active part in the cooperative. Difference of language remains, to be sure, a crucial problem for the Central Cooperative Wholesale.

At the annual meeting of the wholesale in 1938 a resolution was presented by non-Finnish delegates which stated that "at least 20% of the affiliated societies of the Central Cooperative

Wholesale are non-Finnish societies . . .",⁴ yet all the directors had been chosen from the Finnish membership; and which requested the use of proportional representation in the election of directors. No action had been taken on this proposal by 1939.

The meetings of delegates of the wholesale, for which English is the official language, have been noticeably hampered by the difference in language. The problem has not been entirely solved by the institution of an advance meeting for discussion in Finnish of the questions to come before the wholesale meeting.

EFFICIENCY AND MEMBERSHIP CONTROL

Supervision of the cooperative enterprises by the boards of directors and through them by the membership seems to have been a force making for more efficient management, or at the very least for the detection of bad management, in most of the societies. In the wholesale the board must receive considerable credit for the conduct of the business.

It is in another respect, nevertheless, that membership participation has had the greatest effect on efficiency, namely, loyalty of the members to the cooperative stores. Even though it is only a minority who attend meetings and feel themselves truly part of the organization, still, the interest of these consumers and their confidence in the business assures the cooperative of a substantial volume of business and, perhaps, permits the elimination of unnecessary services which would be thought essential to keep customers in a private establishment. A corresponding loyalty of the shareholders to their own enterprise has aided the wholesale. This helps to explain why costs in the cooperatives are lower.

EFFICIENCY OF PERSONNEL—COMPENSATION

It has been observed that sales per employee were larger in the cooperatives than in private stores; rapid turnover and low expenses gave evidence of efficient management. Perhaps

⁴ Minutes, *Year Book*, 1938, p. 31.

this means that the reason these cooperatives were so efficient was that they had unusually able workers and managers. Then it may be asked: if the employees were unusual, was it because the cooperative policies were such as to build up a capable personnel? Were the employees stimulated to better performance by a special interest in the ideals of the cooperative movement? Or was it merely by chance that these particular cooperatives happened to have unusually efficient men in their service?

The wages, hours of work, and other working conditions in the Lake Superior cooperative stores do not seem to have been of a sort which would attract able workers from private employment. Weekly wages in the urban stores have been, on the whole, about as low as those paid by private merchants. Wages in rural cooperatives have been much less than those in the towns; whether they have been worse than the standards of private business in the same areas it is hard to say, since most country stores are operated by their proprietors with little, if any, help other than that of members of their own families. In some urban communities hours of work per week have been shorter than those of private stores; in the country stores cooperative hours have been very long. The tenure of cooperative employees has generally been more secure than that of workers in private stores, inasmuch as they cannot be dismissed without an appeal to the board of directors and sometimes to the membership, and few cooperatives have failed. Workers have frequently had the privilege of a week's vacation with pay. On the other hand, extra duties have often been expected of employees of a cooperative, such as attendance at meetings and assistance with educational work, which are not required of the employees of a private merchant.

The managers especially have been burdened with additional duties outside their regular hours, and the hours of managers have generally been longer than those of other employees. Salaries of most of the cooperative managers in 1936 were reported to have ranged from \$100 to \$175 a month (not in-

cluding living quarters and light and heat often provided to managers by rural societies). The manager of a new cooperative store at Brunswick, Minnesota, indeed, was paid only \$80 a month, and his clerk \$45; they were expected to keep the store open 84 hours a week. In general, it seems that managers have been paid less than workers in private business, considering their responsibilities; employees on the bottom of the ladder have, perhaps, been paid somewhat better.⁵

Standards of employment have been lowest and hardest to improve in those cooperatives in whose membership farmers have predominated. As compared with their own cash income from the sale of farm products, \$75-100 a month has seemed liberal to farmers. And they have not been able to accept the fact that other workers, engaged in different sorts of occupations, should not need to work as long a day as do they themselves.

In the wholesale the minimum wage for regular employees was \$18 a week, and the average weekly wage for all workers including eight on part-time, in September, 1936, was approximately \$26. This was much better than wages paid in private wholesales, according to the agent for the Cooperative Workers' Union.

SELECTION, TRAINING, AND PROMOTION

Arrangements for the recognition of merit and promotion were not satisfactory, at least during the earlier years of the movement.⁶ Nevertheless, cooperative employees in 1936 expressed the belief that there was more opportunity for advancement within the cooperatives than there was in private business.

⁵ In a resolution presented by the board of directors to the annual meeting of the Central Cooperative Wholesale in 1938, it was stated: "With very few exceptions, the cooperatives belonging to the CCW have paid to their workers within the lower brackets somewhat higher wages than those paid by private business, operating in the same field and in the same localities, to workers in corresponding positions." *Central Cooperative Wholesale, Year Book 1938*, p. 31.

⁶ *Cooperative League Year Book, 1930*, pp. 123-4.

Employees have been chosen almost entirely within the cooperative movement—i. e., they were generally selected from members of the societies, and persons identified with private business were avoided. Whether or not “pull” of other sorts has played a prominent part in choice of employees, cooperatives have frowned on the appointment of relatives of directors, and board members have generally resigned whenever they or their relatives accepted employment from the same society. In recent years most appointments have come to be made only after advertisements for applicants have been placed in the weekly *Cooperative Builder* or in the *Finnish Cooperative Weekly*, which have circulations throughout the Lake Superior region and reach other parts of the country as well. Advertisements are used not only for managers and experienced workers but for gasoline station attendants and store assistants. The ads usually request applicants to state the salary wanted, a practice which has tended to keep rates of pay at lower levels. Nevertheless, they have been beneficial both in widening the field of selection for cooperatives seeking workers and in providing greater opportunities for workers desiring cooperative jobs.

The wholesale has taken an active role in encouraging the exchange of managers and other employees among the member cooperatives and in training the cooperative workers. A training school, eight weeks in length, has been conducted by the staff of the wholesale every autumn since 1919. Here thirty or forty students each year have had courses not only in business and accounting subjects, but also in “Cooperation—History, Principles and Methods”; “Organization, Administration, and Educational Methods of Cooperatives”; “Elements of Economics and Social Theory”. The cost of the school has been shared by the wholesale, the students, and local societies from which they came. According to Clarence W. Failor, “Most graduates of this school have found jobs as bookkeepers and salespersons, while a few have been promoted to managerial

positions. In spite of deaths and marriages, four-fifths of the graduates were employed in cooperatives in 1938." ⁷

Another means of increasing efficiency has been semi-annual meetings of store managers from all over the Lake Superior district. Joint meetings of directors, managers, and employees, have been held locally. In 1938 "circuit schools" were started and conducted by the wholesale, where employees could come together in their own neighborhoods one night a week for several sessions dealing with merchandising methods. This training method reached nearly all cooperative workers, while the resident training schools held annually in Superior have included but a small fraction.

Through these developments workers have found increased opportunities in recent years for training and promotion. The cooperatives in turn have secured a more experienced and efficient personnel. Limiting themselves as they have, however, to cooperative-trained men, the cooperatives have continued to find it hard to fill technical and administrative positions satisfactorily. There is certainly too little evidence to conclude that the cooperative employees have been appreciably superior in ability to the employees of efficient private competitors.

EMPLOYEE ORGANIZATION

Union organization among the employees of the cooperatives has not presented a uniform pattern. Most of the workers in the wholesale and a large proportion of those in urban stores have joined unions; most of the employees in rural areas have not.

Cooperative employees who were union-minded at first belonged to a Cooperative Workers' Union organized in 1930. This type of organization did not prove satisfactory. The members of the union realized that as long as the employees of private firms remained unorganized, improvements in wages or working conditions secured from the cooperative societies

⁷ *Careers in Consumer Cooperation* (Science Research Associates, Chicago, 1939), p. 19.

would tend to handicap the societies in competition with private business. The Cooperative Workers' Union called no strikes, but confined itself to peaceful negotiations and educational work. In 1936 and 1937 its following waned rapidly.

By 1936 city-wide unions were being organized among retail workers as well as truck drivers in the Central Cooperative Wholesale territory. Cooperative employees were among the first to join these unions. Workers in the wholesale enrolled in the warehousemen's union. One of the truck drivers of the Central Cooperative Wholesale was leader of the city-wide labor federation.

The wholesale has generally been friendly to labor unions, has contributed strike funds, and has recently given one of its workers leave of absence to do labor organizing. It has, nevertheless,* taken the position that cooperative employees should not demand higher wages than the standards achieved by union workers in private employment. According to a resolution presented to the annual meeting in 1938,

The board of directors have knowledge of numerous instances in which the labor unions have demanded for the employees of the cooperatives higher wages and shorter working hours than what the same unions have demanded from private business concerns operating in the same field in the same localities. To the credit of the employees of our cooperatives, it must be said, that to our knowledge they have not made these demands themselves, but as they are often represented by persons—usually the officials of the respective labor unions—the demands presented by them are naturally formulated accordingly. From union officials of this type there has even emanated, to our knowledge at least in two instances, an idea that all the net earnings of the cooperatives belong to the employees. . . .⁸

Further difficulties of the sort indicated in this statement arose in August, 1938, when a one-week strike of store clerks and truck drivers caused a shut-down of three of the stores

⁸ "Minutes of the 21st Annual Meeting... April 11 and 12, 1938", *Year Book 1938*, p. 30.

and the service station of the Cloquet Cooperative Society. The board of directors of this society, in the direction of which rural members take a more active part than do members in the town, had sought to increase hours or lower wages on the expiration of a previous contract with store clerks. The change was intended to bring terms of employment in line with those of union clerks in nearby Duluth. The board was forced to abandon this proposal, though it did secure an "open shop" rule for new employees.⁹

THE LOYALTY OF THE COOPERATIVE PERSONNEL

A large proportion of the cooperative workers have regarded their work not merely from the standpoint of an employee but from the viewpoint of consumers as well. Inquiry made by Clarence W. Failor of 526 cooperative employees in the Lake Superior district and other parts of the Middle West disclosed that more than one-half listed the opportunity to work for social ideals and the promotion of cooperation as one of the rewards of their work.¹⁰ Possibly this is part of the explanation of the efficiency of cooperative operations.

Managers of the cooperative societies contented themselves with lower pay than that of managers of private stores. The principal executives of the movement, it was noted in the preceding chapter, accepted salaries no more than half as large as they might have received in the employ of private corporations. They were willing to make these financial sacrifices because in their philosophy they were opposed to private business, and because they considered they were building a better kind of economic system.

It is important to notice in this connection that the cooperative executives had been drawn from the cooperative membership and trained in the movement. Their friends and associates, perhaps their own families, were farmers or industrial workers. It was this class in society to which they felt they

⁹ U. S. Dept. of Labor, *Monthly Labor Review*, Vol. 47 (Dec., '38), p. 1315.

¹⁰ *Op. cit.*, p. 17.

belonged, not the business and professional class. This bond with the lower-income group was strengthened, no doubt, by their common immigrant background.

As a consequence, their financial standards were set, not by the standards of living maintained by private businessmen, but by those of workers and farmers. By comparison with the incomes of the class to which they belonged, the salaries of the cooperative managers and executives were handsome.¹¹

Managers with a private-business background, on the other hand, have not made satisfactory personnel for the cooperatives, in the opinions of leaders of the movement. The wholesale especially recommends against employment of such persons by newly-initiated stores. Thus—the need of the cooperatives to train their own workers. In the words of H. V. Nurmi, the late manager of the Central Cooperative Wholesale: “The movement will not expand any faster than we are able to train employees and executives who will conscientiously and wholeheartedly work for the interests of the common people.”¹²

¹¹ It has been suggested by a student of the labor movement that it is by low salaries rather than high that cooperatives and labor unions alike can secure the best leadership. When labor leaders were paid on the scale of business executives, they moved to better residential districts, raised their standards of living, and commenced to associate with the well-to-do class. They lost their loyalty to the unions, forgot their lower-class attitudes, and often moved into business or professional positions.

¹² *Cooperative League Year Book, 1932.*

CHAPTER XIX

FACTORS AFFECTING COOPERATIVE GROWTH

EXPANSION of cooperative enterprise in the Lake Superior district has been based partly on competition of a strictly economic type. This takes its most obvious form in the prices charged by cooperative business as compared with those of private establishments and the savings, if any, which the cooperatives are able to return to consumers. It has already been observed that the cooperative stores enjoyed an advantage in this respect.

THE PATRONAGE REBATE

The institution of the patronage rebate as such may also serve to attract the custom of consumers. To many persons the rebate is desirable not merely because it means that their total expenditures are reduced, but because it gives them a lump sum over and above their usual sources of income once every year. It is for them a painless method of saving. This type of appeal was emphasized by the custom in the cooperative at Cloquet for the society to retain the savings for most of the following year and pay them to patrons in December, when they could be conveniently utilized for Christmas shopping.¹ Cooperative refunds also tend to attract more patronage from each consumer, inasmuch as they increase with the amount of a person's purchases.

STORE LOCATION

Store location is not an especially important factor in competition in the Lake Superior region, where most business is done in small towns or at cross-road stores. While the urban cooperatives avoided the high-rent spots, they were conveniently

¹ This device served to increase the working capital of the cooperative by nearly the amount of the annual refunds, as compared with the capital of societies which paid refunds to consumers at the beginning of the following year.

located for most consumers. The appearance of most of the cooperative stores, although not up to the best private establishments in the cities, was better than that of typical private competitors.

It has been noted that the cooperatives spent less for advertising in recent years than did typical private merchants—considerably less than the chains. To a small extent this difference was offset by the expenditures of the cooperatives for educational work, which is in a sense a “selling” expense. The wholesale spent 0.25 per cent of sales for its educational department in 1936. Local societies incurred educational expenses of 0.1 per cent, and appropriated an unknown amount out of earnings for the same purpose.

EDUCATIONAL WORK

Major emphasis in their efforts to build cooperative enterprise has been placed by the Central Cooperative Wholesale societies on educational work. “Have this understood from the beginning: If you fail in cooperative education, you stand to fail in all else.”²—So the wholesale has instructed persons interested in organizing cooperative stores. “By cooperative education we mean the knowledge necessary for organized consumers to understand what the cooperative movement is and how they may successfully establish and conduct their own enterprises. . . .” But it is more than the means to a material end: “To the extent that cooperation is applied, it supplants profit exploitation and leads to economic democracy; for that reason, to millions of cooperators throughout the world it is also an instrument of profound social reform. It makes for better individuals and better nations, better homes and communities, protected and nourished by security and abundance.”³ Educational work based on this philosophy has been effectively utilized to increase the loyalty of existing members and to win the interest of other persons in the cooperative movement.

² Quoted from the standard instructions of the wholesale in *20th Year*, p. 19.

³ *Ibid.*, p. 20.

A large part of the educational work has been carried on through central or federated organizations such as the Central Cooperative Wholesale, the Women's Cooperative Guild, the Cooperative Youth League, the Cooperative Publishing Association, and the district federations. The lead has been taken by the educational department of the wholesale. The staff of this department has been increased in recent years from two to four full-time workers.

The educational department of the wholesale has assisted with the organization of new societies, provided speakers for cooperative meetings, prepared and distributed literature concerning the cooperatives, conducted training schools for employees, and generally endeavored to coordinate the activities of all the other educational agencies in the district. Its leaders have exerted a major influence in the Lake Superior district cooperatives.⁴

Recent meetings of delegates to the wholesale have been marked by some controversy as to the amount which should be expended for education. Increases urged by the Range societies have been opposed by more conservative cooperatives, particularly that at Cloquet, which has itself spent only 0.1-0.2 per cent of sales for educational purposes in recent years. The board of the wholesale was evidently dissatisfied with the existing program, reporting to the annual meeting in 1939:

. . . It is also evident that cooperative educational work is not increasing in efficiency to the same extent as the commercial activities of the CCW, and is not keeping pace with the material progress of the cooperatives; as a result, there is a tendency among the members and supporters of our cooperatives to forget the social aims and purposes of the cooperative movement and to interest themselves in educational work only to the extent that it serves the business aims of the movement.

The history of the cooperative movement and its practical experiences in the past prove conclusively that the cooperatives will

⁴ The present manager of the Central Cooperative Wholesale, A. J. Hayes, was previously a member of the educational department.

not succeed and prosper in the long run if they are interested only in immediate material benefits and are devoid of any social aims. . . .⁵

The growth of the district federations has provided opportunities for more effective educational work, but the federations have not had available the necessary funds. The Arrowhead and Range federations have employed educational directors, and the Marquette district federation engaged an educational man for three months in 1938—until its funds became exhausted. Finally, in 1939, the Central Cooperative Wholesale determined to appoint resident educational directors in each of several districts.

Educational committees have been set up by the members of most of the individual cooperatives. "In their respective communities . . . [they] arrange public entertainments, picnics, and lectures; distribute cooperative literature and papers; conduct drives for members and patrons for their store societies, and otherwise promote cooperative education among both members and prospective patrons."⁶ Not all of the societies have such committees, however, and some of the existing committees are relatively inactive.

WOMEN'S GUILD AND YOUTH LEAGUE

Women's Cooperative Guild units have been set up in most of the local cooperative societies to do organizing and educational work. One of their major functions has been the conduct of summer camps for children. Five camps were held in 1937, attended by 500 children for two-week periods. Cooperative exhibits at fairs, picnics, and socials were also arranged by Guild units.

There were some sixty locals of the Women's Guild with more than 1,500 members in the Lake Superior district in 1937. There were also Co-op Clubs including both men and women.

⁵ *Year Book, 1939*, p. 17.

⁶ *Ibid.*, p. 21.

Of the guilds and clubs together three-fourths were Finnish-language groups. In some cooperatives separate guilds had been organized among the Finnish and non-Finnish women.

A counterpart to the women's organization is the Cooperative Youth League which, like the former, has a full-time secretary in Superior and many local units throughout the territory. A conference of the League in 1938 was attended by 223 young people. Athletics have been sponsored among cooperative members, such as the annual co-op basketball tournament in which various cooperatives are represented. A cooperative youth course lasting four weeks has been held at Brule, Wisconsin, each summer for several years.

In addition to the youth courses and camps for children, several one-week institutes for adults, combining recreation with discussion of cooperative problems, have been held at rural points in the Lake Superior district each summer. "Circuit schools" and district conferences for directors and employees of the cooperatives have been mentioned elsewhere.

Meeting halls, dormitories, and recreation facilities are maintained in at least three districts by cooperative park associations, in which the local store societies are shareholders.⁷ These parks furnish places for the summer camps and institutes, and also for weekend rallies or festivals, which are attended by as many as several thousand persons.

COOPERATIVE PUBLICATIONS

All the other educational agencies are served by the two weekly newspapers of the Cooperative Publishing Association in Superior, one published in English and one in Finnish. The

⁷ The spirit in which these cooperative activities are carried on is indicated in the following news item from the *Cooperative Builder*, May 6, 1939:

The damage done to the pavilion at the Co-op Park, Farmers Lake, by the heavy snows that squashed it last winter has been looked over and estimated to be very heavy. . . . The actual rebuilding will begin on Sunday, May 7—9:30 a. m.—and people from all the different localities are invited to come down with their hammers and saws and all necessary tools to take part in the rebuilding.

The cleaning of the Park will also be done on the same day. All those planning on working at cleaning should bring their rakes and axes and shovels or whatever they think they need. Lunch will be served.

Cooperative Builder, first established in magazine form in 1926 as the *Pyramid-Builder*,⁸ is the only English-language weekly published by the cooperative movement in the United States. A five-column newspaper of 12-16 pages, it covers not merely the field of cooperatives but those of labor, public ownership, and political action. Its special departments make it a family newspaper, with sections devoted to women, youth, children, health, and farm. Novels by popular authors are run in serial form. Editorials and letter-columns provide a forum for discussion of cooperative policies and related problems. The *Builder* and the *Finnish Cooperative Weekly* also serve as media through which to reach the cooperative membership throughout the area with advertisements for the cooperative stores.

The Cooperative Publishing Association which issues these newspapers is nominally a separate organization, but is owned and controlled by the cooperatives affiliated with the Central Cooperative Wholesale. Its operations have been on a financially self-sustaining basis. Combined circulation of the two weekly papers was 25,000 in 1939. Some of the member cooperatives have made appropriations from their education funds to send one of these papers to every individual member who wishes to read it.

SOCIAL OBJECTIVES IN THE EDUCATIONAL WORK

Primary emphasis in the educational work is given to the social philosophy which underlies the cooperative movement in the Lake Superior region. This philosophy considers the mass of workers and farmers to be exploited by the owners of capital. It regards the system of private enterprise for profit as fundamentally unsound. Control of distribution and of a

⁸ "Why was it called 'Pyramid-Builder'? 'The cooperative movement', it was said, 'must be built like a pyramid, with a broad base of consumers organized into local societies, which in turn are banded into a central organization for wholesale buying, production, and education. The whole structure is supported and controlled by the base, which must always be broader than the top.'"

large part of production, it holds, must gradually be assumed by the people as consumers through voluntary organization in cooperatives. The key to control of the business system, the people's purchasing power, rests in their own hands.

The background of this philosophy, as developed by the Finnish-American cooperators, is Marxism. It has, to be sure, parted ways with the Communist followers of Marx. For the cooperative leaders the basic element in the economy must be the organizations of consumers, embracing all occupational groups, rather than labor unions and other producer organizations—although existence of the latter is believed to be necessary. The attainment of their gradualist, voluntary program; naturally involves before all else the education of consumers.

Education on the basis of these social objectives has evidently proved an element of strength in the growth of the cooperatives of the Central Cooperative Wholesale group. Persons who accepted this philosophy would tend to support the cooperative enterprises on general principles and would conscientiously avoid support to private business. According to V. S. Alanne:

Wherever comprehensive educational work has been carried on in a locality before a cooperative business enterprise is started, its success is almost always assured. This certainly accounts for the success of the Finnish cooperative stores in northeastern Minnesota, northern Wisconsin and the upper Peninsula of Michigan.

* * * * *

For years, before these societies were organized, Finnish newspapers published by working-class and farmer organizations [in the United States] carried on intensive propaganda and educational work teaching these workers and farmers the A.B.C.'s of economics and sociology from a really progressive point of view. These papers analyzed the inherent contradiction of the capitalist system and proved to the satisfaction of their readers that the cooperative system of production and distribution was the coming thing. That is why the average member of a Finnish cooperative society in the

Northern States district is an ardent cooperator and a loyal supporter of all genuine cooperative undertakings.⁹

The same emphasis has been maintained by the cooperatives of the Central Cooperative Wholesale group in more recent years. To quote the report of the board of directors of the wholesale to the annual meeting in 1937: "In all our educational work, we have pointed out the fact that our ultimate aim is the replacement of the profit system of society with a more just social order, which can be realized only through the united efforts of the laboring masses."¹⁰

ORGANIZING METHODS

Insisting on the voluntary nature of the movement, the leaders have consistently refrained from efforts to organize new cooperatives on their own initiative.

. . . The Wholesale was set up in 1917 primarily as a service agency for existing retail cooperatives, not a promotional agency to create new ones.

The CCW has never gone into a community and planted a cooperative society there. It would be utterly against its policy to do so. It believes that the local people should do the planting, and that if the local people in any community have not yet sufficient interest to raise their own capital and plant a cooperative, then that community is not ready for a cooperative.

However, the CCW does give advice and educational aid, both by letter and through personal calls by fieldmen, to local groups which indicate a desire to organize. . . .¹¹

A full-time fieldman has been on the staff of the educational department of the wholesale since 1935 specifically to help in the organization of new cooperatives. Initiative for such organization, nevertheless, must come from local consumers. The wholesale has discouraged very rapid organization by the

9 "Trends of Today in the Finnish Cooperatives" in *Cooperation*, June, 1932.

10 *Year Book*, 1937, p. 10.

11 *Cooperative Builder*, editorial, Aug. 12, 1939.

local members, pointing out that a failure generally precludes further attempts at cooperation in the same locality for ten years or more.

The leaders of the movement have conceived the strength of the local cooperatives to depend upon the members' own initiative and their own responsibility for the conduct of the business.¹² This belief has involved a more comprehensive educational program than would be necessary merely to secure the passive support of consumers.

Our movement's conception of an Educational Program is a broad one. It aims much farther than any specified campaigns, propaganda specials, or projects. We have those too, but they are only a part. We look upon the raising of the whole level of information, native culture and recreation as of paramount importance not only as far as furtherance of cooperation is concerned, but in the building of any intelligent and competent mass movement. Any permanent economic organization of real strength, whether union, farm, or cooperative, must eventually reinforce itself with those elements which come from a membership characterized by informed, clear thinking on current problems of all kinds, self-culture, and the healthy morale possible only through self-activity in education, culture and recreation.

That is why in this district the numerous hall associations, educational societies, clubs, women's guilds, youth leagues, and the like, are considered so important. In many communities they are the only centers of education, culture and recreation. They serve their members and prospective members to a thousand and one purposes, binding them together in social and community life.

And as this basis of organization of educational activities is thus broad and many-sided, so also is it capable of making use of more

¹² Leaders of the Central Cooperative Wholesale group have been critical of the program recently launched by the Midland Cooperative Wholesale in Minneapolis to organize cooperative stores in central and southern Minnesota and Wisconsin with more direct aid from the wholesale organization. Under the Midland plan management of the local stores is provided by the wholesale on a contract basis and the stores will be expected to give all their patronage to the Midland grocery department. Part of the capital for the stores in turn is furnished by the wholesale.

than some restricted educational material or type of activity. Some of the Cooperative Clubs, for instance, are in effect farm or labor forum organizations, with cooperation only as the chief element of interest in their program. The same is true of the various hall associations and educational societies. Our women's guilds similarly interest themselves in peace work, anti-liquor education and maternity aid legislation, discuss labor problems, etc.¹⁸

COOPERATION WITH FARM AND LABOR GROUPS

The cooperatives of this region have not taken the position that consumers' cooperation alone provides an adequate program for the reform of society. They have conceded the need for workers and farmers to improve their bargaining power by means of other types of organization, the need for public ownership of certain industries, and the necessity of a progressive party to promote a political program in the interests of the low-income groups. The cooperatives have assisted workers and farmers to organize labor unions and farm marketing associations. The cooperative newspapers, for example, gave helpful publicity to the recent strikes of timber workers and newspaper men in this district. A donation was made by the wholesale to the timber workers. Some of the store societies have, of course, provided marketing facilities for farmers, and more recently the educational department of the wholesale has assisted in the organization of cooperative marketing agencies.

Representatives of the Central Cooperative Wholesale societies took part in the recent organization of the Minnesota Farmer-Cooperative-Labor Council. This council, including the representatives of the State Federation of Labor, consumers' cooperatives, producers' cooperatives, and general farm organizations, was set up to conduct educational work looking toward greater cooperation between farmers and city workers. The consumers' cooperatives whose membership embraces both groups can take a leading part in this task.

18 A. J. Hayes, "The Educational Program of the Central Cooperative Wholesale and Its Member Societies," *Cooperative League Year Book*, 1936, p. 73.

PROSPECTS FOR COOPERATIVE GROWTH IN THE
SUPERIOR REGION

Endeavors to secure the support of additional consumers for the cooperative stores have met with much the same obstacles as have those in Maynard, Massachusetts. Even though a large proportion of the patronage of the cooperatives—in many societies the majority—now comes from English-speaking people, the cooperatives have continued to be directed by Finnish members, and they are widely regarded among the general population as Finnish stores. Added to this is their former connection with the Communists. In spite of the split that occurred between the Communists and the cooperatives, the program of the movement still seems radical to most non-Finnish persons. Members of some of the Finnish churches are also antagonistic to the cooperatives because of their radicalism.

The private competitors of the societies, naturally, have exercised their influence to identify consumers' cooperation exclusively with the Finns, and with the Communists, too, whenever possible. The principal daily newspapers in the region, with the exception of the labor paper in Duluth, are unlikely to publicize the growth of the movement. They are written and published by persons of a different social class and different social philosophy and their advertising income is derived to a large extent from competitors of the cooperatives.

The personal attachments of consumers to particular merchants operate everywhere to restrain cooperative expansion. A great deal of patronage, in addition, is determined by the principle of "local reciprocity", which was also observed in the Maynard study. Even Finns sympathetic to the local cooperative trade elsewhere "for business reasons." These considerations probably apply less to workers and farmers than to business and professional people.

Nevertheless, the future population of the region will be more homogeneous than that of the present and recent past. Probably it will also be more stable, as the farming sections become more generally settled, and the region's industries better

developed. Language barriers should be less serious in the future. In the cities especially the children of the members are learning to speak English instead of Finnish and they begin to mix with the children of other nationalities. Moreover, the cooperatives in the Lake Superior region have been more successful than in Maynard, Massachusetts, in capturing the interest of the younger generation. The increasing contact of the younger Finns with youth of other parentage may not be offset in this case by a slackening interest in the movement. This is one result of the educational program.

The educational work and the radical social philosophy on which it has been based, have played an important part in the growth of the Central Cooperative wholesale societies. It is, of course, impossible to tell whether education has had an influence comparable in importance to financial savings to consumers in building up the patronage of cooperative stores. It has undoubtedly developed the idealism of the members and the personnel, stimulated membership participation, and promoted efficiency of management.

Future growth of the movement would seem to depend as much on intangible social factors as on financial savings. In particular, any movement adopting a radical program is likely to find its support varying considerably with changes in the social attitudes of the population. The cooperative program aroused a great deal more interest in the period during and following the depression of 1929-33 than it had in the years preceding. Its future reception correspondingly depends on economic conditions. There are other factors which affect social attitudes. It is not impossible that further economic stress or the involvement in war will be accompanied by fascist attitudes and increasing fear of "subversive tendencies", which would prevent the growth of cooperative sympathies among the general public. The cooperatives, however, have made themselves a part of the progressive forces of the region, and they should prosper as long as these progressive forces have opportunity to expend themselves.

PART III
CONCLUSIONS

CHAPTER XX

COOPERATIVE CONTRIBUTIONS AND OPPORTUNITIES IN THE UNITED STATES

Two major questions have been considered in the conduct of the present study: (1) What contributions have cooperatives been able to make to the solution of certain socio-economic problems? (2) What are the prospects for further cooperative growth in the United States, judging from the experiences of existing cooperatives? The answers to be gleaned from the cases studied are summarized as follows:

Substantial economies in the costs of distribution have been made by the consumers' cooperatives studied as compared with private distributors in the United States. An estimate of the over-all economies in retail and wholesale trade achieved so far by cooperatives in the Lake Superior district show a saving to consumers in food distribution of about 5 per cent compared with the chains and 10 per cent compared with independent wholesalers and retailers. In retail distribution alone the saving on food amounted to around 5 per cent for the Lake Superior cooperatives, but somewhat less in Maynard, Massachusetts. In other lines of retailing such as gasoline, hardware, and appliances, the savings were greater.

Some of these savings have probably been shared by consumers at large as well as the cooperative membership in the respective communities. Competition by the cooperatives has sometimes resulted in a reduction in prices charged by private merchants, forcing them either to reduce their costs or to forego part of their customary profit.

ECONOMIC ACCOMPLISHMENTS

Cooperatives such as these can tap two principal sources of economy. They can return to consumers the equivalent of the net profits made by private firms; and they can effect reduc-

tions in the costs of doing business. While the net profits of private merchants far exceed the limited interest paid by cooperatives on their share capital, still, for retail and wholesale distribution alone their elimination is not a major source of saving. Such profits have averaged in recent years no more than 2 or 3 per cent of the prices paid by consumers.

Cooperatives, judging from the cases examined, can achieve actual economies in the distributive process, in addition to eliminating private profits. They can operate on a lower gross margin, because their operating expenses are less than those of their private competitors. This is made possible in the retail trade by a larger volume of business than is typical of private firms. Cooperative patronage sometimes becomes sufficiently wide to give the cooperative business an important fraction of the entire trade of the community, thereby leading to additional economies. Certain services are frequently rendered by private stores in order to secure or keep patrons, which are recognized by consumers themselves to be wasteful and unnecessary. When the consumers are running a business, such services can often be eliminated for the sake of economy and greater savings to consumers in other forms. The reduction in expenses achieved by the cooperatives studied amount to from 2 to 6 per cent of sales in food retailing, and considerably more on certain other commodities, in comparison with the expenses of comparable private distributors in the same lines, whether chain stores or independents.

In wholesaling the cooperatives of the Lake Superior region have achieved about the same improvements in distribution as have already been accomplished by chain stores and the more efficient retail-member wholesales. A substantial cut in selling-expenses, made possible by the cooperative form of organization, has reduced the costs of the Central Cooperative Wholesale 4 or 5 percentage points below those of typical "old-line" wholesalers.

Rapid turnover of stock, which characterizes the cooperative wholesale and to a lesser extent the operations of the retail

stores, is another factor contributing to greater economy of distribution. If smaller inventories can be carried in proportion to sales, then less store space, less capital, less labor will be required. Besides the saving in expenses, there may be a discount on price from the manufacturer which will not be revealed by operating ratios.

Larger orders concentrated on a particular line of merchandise and lower selling expense for the manufacturer have led to discounts for the cooperative wholesale. Such discounts result, in part, from the substitution of cooperative label goods for the variety of competing brands pushed by national advertising. Whether cooperatives have yet achieved larger savings in these lines than private distributors pushing their own brands of merchandise has not been determined. It is possible, nonetheless, that cooperatives through their direct contacts with consumers may be able to educate consumers to the advantages of this change where private firms have so far not succeeded.

Inefficient management, supposedly a weakness of consumers' cooperatives, has not characterized the cases studied except in the first few years of their operation as isolated societies. In the Lake Superior district the Central Cooperative Wholesale has succeeded in setting up a fairly effective system for training cooperative personnel within the cooperative organizations, conducting a training school and encouraging the exchange of managers and other employees throughout the region. Even though the compensation of cooperative executives is less than that in private business, standards of management have if anything been superior to those in private companies of corresponding size.

It must not be overlooked that the most successful cooperatives have had fairly active supervision of the management of the business by boards of directors representing the membership. The directors in the cases studied apparently took their responsibilities seriously, met regularly, and familiarized themselves with the financial details of the business. In consequence, when changes in personnel or management were necessary, the

boards were able to form independent judgments as to the ability of the men employed. The services provided the local cooperatives in the Lake Superior region by their central organization, especially through the wholesale's auditing department, have been of great aid to the cooperative members and directors in maintaining good management.

COOPERATIVE ADVANTAGES OVER PRIVATE BUSINESS

Active interest and participation in the cooperative by the membership at large has also been an important factor in the economic success of the cooperatives studied. The confidence of the members makes possible certain of the economies mentioned such as elimination of wasteful services. It also assures the cooperative business of a substantial volume of patronage without the need of any advertising or special selling expense.

A large proportion of the expenses of a retail establishment may be described as overhead expenses. Rent, taxes, electricity bills, and even a minimum amount of salaries and wages, continue whether the volume of sales is large or small. Once these expenses have been met, a store can generally handle increasing sales without appreciable increases in its outlays. The ratio of expense for these overhead items to sales decreases as sales increase, thus reducing the total costs of the business and increasing profits. Such is the nature of private competition, that in order to get these profits, each firm is willing to incur special expenses if they promise to increase the volume of its business. Moreover, if one firm incurs these expenses, its competitors must do the same in order to hold their volume. What starts as a special expense for one retailer, in consequence ends by becoming one additional overhead expense which must be met by the income of the business.¹

1 Such is the nature of retail costs that a private merchant would be willing to offer a group of consumers a discount in prices if he could be assured of so much additional patronage. His ratio of expense would be lower, and even with the discount he might still make a larger percentage of profit than he would have at higher prices with less sales. When the consumers own and patronize their own business, it is a margin similar to this discount which

A cooperative can assure itself sufficient volume through the number of its members and their loyalty to the business, and thereby lower the ratio of its overhead costs without special expenses. When a cooperative is organized, the participation of a minimum number of families is generally secured—a number which is dictated by the need to raise sufficient capital as well as by the patronage required. Each member thus secured has a double stake in the business, his ownership of stock and his right to refunds on his purchases out of earnings. Not less important are the social philosophy of members and the feeling of fellowship or social solidarity of the group which constitutes the membership. It is these factors which assure patronage to a well-organized cooperative.

Dependence on members for patronage and their participation in the actual direction of the business leads in a similar manner to entrance into new lines of business on a more economical basis than is possible for a private enterprise which must make outlays to build up its custom.

Chain stores, in order to secure sufficient volume, generally expend substantial amounts for rent and advertising. Cooperatives, with volume assured, have saved 2 or 3 per cent of sales on these items alone. Their patronage has been sufficient to bring about larger sales per employee than in independents or in chain stores.

The expenses of retail distribution cannot be broken down statistically into those for the performance of services—such as handling, information, holding inventories, delivery—on the one hand, and those for attracting or persuading purchasers, on the other. There can be no doubt, however, that the second element is present for most retail establishments in addition to the first. In some lines of trade such as drugs and patent medicines, the sale of new automobiles, household appliances and other kinds of machines, and perhaps gasoline and oil, the "selling" job (including advertising) is very expensive, they save and which makes their expenses lower than those of typical private retailers.

amounting to 10 or 20 per cent of the retail price. Even in food stores it is present to some degree. It is this kind of expense which the consumers' cooperatives with a well-organized membership can hope to eliminate. The same reduction can be accomplished by company commissaries or by government monopolies. Consumers' cooperation seems to be the only method by which it can be achieved without compulsion. To be realized on a voluntary basis, to be sure, it is essential that the membership feel a definite interest in the business. It is for that reason that effective educational work is deemed so important by cooperatives. An association without spontaneous member-support will find itself incurring the same "selling" expenses as private merchants.

What might be called "quasi-monopoly" or "monopoly by consent" can also achieve reductions in the costs of rendering the necessary retail services, especially that of delivery, when consumer-support of the cooperative includes a large proportion of all consumers. This source of economy is not difficult of attainment in rural communities or very small towns. In cities of any size, on the other hand, it becomes almost impossible to organize into cooperative membership any considerable proportion of the population as a whole. It is possible on a neighborhood basis, but only given a neighborhood solidarity that is exceptional in American cities.

The considerations discussed in connection with the economies of cooperative retailing also apply in varying degree to wholesale distribution and to the distributing costs of producers. "Selling" expense in these cases can be more easily distinguished from the actual costs of performing services. "Selling" expense can and has been reduced by compulsory cooperation in chain store organizations, and by voluntary cooperation in retail-member wholesales and in the Central Cooperative Wholesale.³ The selling costs of the producer can

³ In chain store corporations wholesale "selling" expense seems to have been eliminated only by adding certain other costs for administration and store supervision, which are not incurred by cooperatives or independent stores.

be largely eliminated by contractual relations with distributors or by production, under the ownership of the distributor. The handling of private brand merchandise has already been noted.

BENEFITS OF COOPERATIVE ENTERPRISE

One of the effects of the development of consumers' cooperation, then, has been a modest enlargement in the standards of living of all consumers who shared its benefits. Apart from this limited effect, it cannot be said that cooperatives have lessened the pervasive insecurity of their members. Cooperative business has at least been free from the effects of private speculation for profit, and cooperative employees have been relatively secure, but the membership in general has continued to be dependent on the fluctuating movements of private business.

Cooperative business, so far as it has extended, has eliminated one source of economic inequality. The net margins from the distributive process, a part of which ordinarily goes to private stock and bond-holders, corporation executives, and other well-to-do business men, have been returned by the cooperatives to consumers. Concentration of economic control with its opportunities for "financial" profits has also been avoided.

Such intangible results as the strengthening of democratic practices and of the democratic philosophy of the people are difficult to appraise. In the larger retail societies the majority of the members have either taken no interest in the direction or contented themselves with the right to a voice in case of need. Viewing these cooperatives as a group, however, it can be remarked that a large part of the membership has participated in the direction of cooperative business enterprises on a democratic basis.

The wholesale organization set up by the cooperatives in the Lake Superior region has been directed both in theory and in practice by the representatives of the local cooperative societies. It is worthy of note in the face of current world events

that business enterprises with sales of a million dollars in the case of the Cloquet society, and three million in that of the wholesale, are directed by hundreds of members or delegates, and are at the same time as efficient as any one of their private competitors, in which control is held in a few hands.

The educational program of the Central Cooperative Wholesale has encouraged the discussion of social problems and stimulated active participation in cooperative undertakings. Both the objectives of the movement and the methods employed have emphasized voluntary participation. It is possible that a special study of this phase of the subject would show an appreciable increase in the respective communities of the number of available leaders with the ability to promote community action of all sorts.

The fact that consumers have been united by a common interest in the cooperative enterprises has, perhaps, tended to strengthen the social bonds of the population, at least to the extent of augmenting the solidarity of the groups among which the associations were organized. Membership within the same organizations and attack on the same problems has given to the industrial workers and farmers in the cooperatives a community of interest which has usually been absent.

WHY DID THESE COOPERATIVES DEVELOP SUCCESSFULLY?

Will other cooperatives grow in the United States?

Before this question can be discussed intelligently, it is necessary to seek the answer to another: Why have certain cooperatives already developed successfully in this country? What generalizations can be made on the basis of the present study as to the reasons for successful growth?

An underlying cause for the organization of consumers' cooperative societies has been the inability of large groups of people to attain or to continue the standards of living which they desire.³ A considerable proportion of wage-earners in the

³ So far as psychological attitudes are concerned, improvements in standards of living as compared with previous generations do not counteract

United States have secured annual earnings which were relatively low in comparison with the amounts they believed to be attainable—in conjunction with which came frequent losses of income which made the earnings seem all the more strained. Farmers have faced recurring changes in the prices they received for the sale of their crops and livestock; many have found it hard to achieve a satisfactory livelihood. Both city-workers and farmers have been affected by fluctuations in the prices they must pay for goods, making them consumer-conscious. Both have sometimes found it difficult to secure even the bare means of subsistence.

For large sections of the farming and laboring population opportunities for economic advancement have seemed severely limited as compared with the chances of members of the business and professional classes. Most workers and farmers have been at a disadvantage in education, in social background, and in the ability to change occupations or travel in search of greater opportunities. This has been particularly true of immigrants from continental European countries. These people have had the added handicap of a foreign language. Dependence, in contrast to independence, has been increased by the growth of machine methods and mass production with its coincident control by large corporations.

Limitation of opportunity to secure increased incomes has made the problem of buying goods on favorable terms seem more important. Yet prices have risen sharply at certain times, and even over a period of years the prices of goods as compared with their costs of production have tended to increase. Costs of distribution, in other words, have been growing, and consumers have felt that they were paying higher prices than were necessary. They have also thought themselves exploited by retail merchants in respect to the quality of the merchandise they received and the credit system by which goods were sold.

occasional declines in living standards. Nor do such improvements counteract the fact that for some groups standards have been low in relation to those of other people.

In rural sections unsatisfactory marketing by private merchants has been another incentive to cooperation.

Such have been the economic incentives. Successful cooperatives have not always been organized, however, in response to these incentives. Such cooperatives have been organized when there existed in a community a group of people in fairly frequent contact with one another, with common economic interests, and a well-developed social philosophy. People of one neighborhood have associated together; this, of course, has been the case in small towns and rural communities. There have been sizable homogeneous groups within the community; such groups have been found in Finnish immigrant settlements, whose solidarity was undoubtedly enhanced by their immigrant status. Radical leadership and a common social philosophy have been important elements in the initiation of these cooperatives. In the cases studied the leadership and the ideology were usually supplied by Socialists.

A deep-seated dissatisfaction with private enterprise and belief in a different economic system has been, in addition, a strong factor in cooperative success. Cooperatives have frequently been unable to return any financial savings to their members for several years. Members had to be sufficiently idealistic—or perhaps prejudiced against private stores—to sacrifice immediate gains in order to assure needed capital and reserves to their business. Political factions within the membership, on the other hand, have been a handicap. Where the cooperative leadership became identified with an organized political group, splits sometimes occurred which reduced consumer support.

Successful growth has been promoted by federation among the cooperatives. The central organization in the Lake Superior district has given a social cohesiveness to the group of local societies, making them each a part of one widespread movement with common social objectives. The leadership of the wholesale has brought about a successful educational program, which has strengthened the philosophy of the individual members

and has increased their interest and participation in the activities of their cooperatives.

The cooperative wholesale has made a significant contribution to the financial and business success of the societies. It has given new cooperative groups much-needed information, such as the number of members and the amount of capital required for economical operation. Auditors from the wholesale have kept a check on the finances of each society and advised the management. Cooperatively-trained managers have been sent to their assistance in emergencies. The availability of cooperative label goods has simplified their merchandising problems. Training programs have raised the quality of the personnel from which cooperatives could draw. The wholesale program has been so successful that practically no failures have occurred in recent years among societies supporting the federation.

These, then, seem to have been the major factors in the success of the cooperatives studied. They should be borne in mind in considering a corollary question: Why have cooperatives not developed successfully in other American communities?

WHY NOT COOPERATIVES IN OTHER COMMUNITIES?

It may be noted, in the first place, that for many other Americans economic need has been less pressing. Many groups in the population have seen living standards rising fairly steadily. They have been conscious of greater material wealth and security than was enjoyed by other people. To many, opportunities have been open to realize marked increases in income by advancing in the economic scale, by moving to better fields, or simply by speculation. Private distribution has been more adequate in many parts of the country than it was in the Lake Superior region, for example, and it has been generally more efficient in recent years than it was thirty years ago.

Large groups of people, therefore, have on the whole been satisfied with their economic condition. Or, if they have not been satisfied, they have perceived much more fruitful oppor-

tunities to enlarge their incomes than merely to secure more through their purchases. These conditions have applied especially to skilled workers, to the business and professional classes, and to the more prosperous and better educated farmers.

Even though the economic incentive has prevailed at times for a major part of the population, the social basis for cooperative organization was usually lacking. The American population, as compared with that of European countries, has been extremely heterogeneous. Though the economic interests of many groups might be similar, the social backgrounds of the individuals were likely to be quite dissimilar. Marked inequalities in income and widespread tenancy, moreover, made material interests conflicting. Economic conditions have on the whole encouraged individualistic attitudes rather than neighborliness and cooperation. No strong social philosophies have been held in common.

It is true that well-developed social groups have been present where large numbers of immigrants from a single country gathered. It must be remembered, nevertheless, that only one-third of the population has been of foreign birth or foreign parentage even in recent decades. Differences of language and other social barriers have restrained the spread of cooperative membership from immigrant groups to native Americans or even to groups of immigrants of other nationalities. Prejudice against "foreign" institutions has discouraged American adoption of the cooperative method.

Even for immigrant groups aptitude for cooperation has been uneven. Immigrants from some countries have become assimilated more easily and have lost their natural community of interests. Others, who remained isolated in separate language-groups, have been less prepared by experience or philosophy to practice the cooperative method than have the Finns. It may be wondered whether the Finns do not have a greater natural inclination or ability to work together and a greater readiness to assert their rights than other national groups.

It must also be noticed that the cooperatives studied have developed in small towns or rural communities. Yet the United States has become increasingly urban; nearly one-half the population of the country has become congregated in cities larger than those in which the largest cooperatives studied were situated. People in any one neighborhood of the characteristic American city do not work in the same places. Their contacts are frequently as much with people in other sections of the city as with their neighbors; social bonds are weaker. These factors make it difficult to find a cohesive social group within a small enough area to patronize one cooperative store.

The mobility of the population has accentuated the lack of community within urban areas. People frequently move from one house to another in a different part of the city and from one city to another. Half of American families are tenants. They do not have sufficiently permanent contact with any one group to share its long-time interests, nor are they dependent on any locality. In other words, many persons never become identified with any one social group. Therefore, they have no economic interest in or loyalty to a neighborhood enterprise which can succeed only over a period of years.

For some of the same reasons, other types of social organization, particularly labor unions, have been slow to develop in this country. There has thus been less basis in terms of existing organizations and experienced leadership for consumers' cooperation.

It is also possible that the physical size of the nation has proved a hindrance. Certainly, it has increased the difficulties of developing cooperative wholesale organizations to serve any large proportion of the local cooperatives. Until recently, the great majority of consumers' cooperatives initiated in this country had to struggle along in relative isolation.

A radical social philosophy has been observed in the cases of the Finnish cooperatives to have been an important element in their growth. Most of the American population has been either conservative or opportunistic in its philosophy. Socialist

doctrines, especially since the World War, have had a relatively small following. Of the Socialist groups which did exist in this country, a large proportion were immigrants from central and eastern Europe. The labor movement has been confined mainly to skilled workers organized on craft lines, whose policy was to improve the terms of employment for themselves rather than to call for changes in the business system. Only among the farmers of the Middle West have progressive movements other than socialism had any extensive support.

The material savings achieved by those cooperative societies which have been started have not been large enough to be as important an attraction to consumers as were the savings in Great Britain, for example. Even in the Lake Superior district where the societies have the benefit of many years experience and a strong wholesale federation, the patronage refunds paid by many cooperatives have been no more than 2 or 3 per cent. In Great Britain 10 per cent of sales was commonly refunded to members. Savings in the Lake Superior district were probably larger in the early years when private distributors in such newly-developed regions were less numerous and less efficient than they are today. In other sections of the country chain stores appeared much earlier and have rendered private competition relatively economical.

Of the various conditions cited, the heterogeneous, individualistic nature of the population and the growth of a mobile, urban civilization have probably been most important. These constitute obvious points of difference between the cases studied and the situation prevailing throughout a large part of American culture.

THE EFFECTS OF PRESENT SOCIAL TRENDS

In some respects there may be more basis for cooperative development in the future social structure of the United States than there has been in the past. For one thing, the population will be more homogeneous. With the continued restriction of immigration, separate nationality groups will gradually disap-

pear from the scene. The children and grandchildren of the foreign-born of the last generation will be more Americans than Europeans, and they will mix with the children of other stock without important language or social barriers. Further development of large-scale business will place a large section of the population in common dependence upon their industrial employers. Unions and other socio-economic groups will probably develop much more rapidly, laying the basis for cooperative organization.

It is possible that economic stress will be greater rather than less in the future. The last major depression severely affected living standards and was followed by a wave of interest in consumers' cooperation. The next one is likely to have similar results. There is no longer the same opportunity for enterprising persons to overcome economic adversity and realize their ambitions by improving their economic status. The frontier is gone. Large-scale production with its huge corporations and thousands of employees has closed to the small enterpriser the fields of transportation, public utilities, communications, heavy industry, and a number of other industries. The speculator's cards are no longer stacked by a rapidly growing population and a gradually rising price-level. Land and security values no longer rise so consistently. All of which should lead to a greater consciousness of a social lot in which one's fellows share, and to an interest in social methods for improving that lot.

Whether Americans will develop a more radical social philosophy is an important consideration. The trend of economic conditions would seem to point in that direction. Political developments since 1932 have shown more progressive sentiment than had been suspected in the 1920's, at least.

Cooperatives started by immigrant groups, nevertheless, are likely to face greater conservatism and lessened social solidarity among these groups. The generation born in this country has not shared the social philosophy of its parents. It has instead for the most part acquired both the opportunism and defeatism of Americans. This process has been observed by cooperative

leaders both in Maynard and in the Lake Superior district; possibly the educational program they have developed to capture the interest of the younger people will prove successful in building a core of support for the cooperative philosophy among the younger generation of that region.

Although these developments in American life may, on the whole, seem promising for the cooperatives, there are other trends—possibly more pervasive—which work in the opposite direction. Most important is the concentration of the majority of the population in cities. A larger proportion of the people in the United States are now in large cities than at any time in the period during which the existing cooperatives have developed. There is as yet no definite evidence that this trend will be reversed. It is true that metropolitan populations are moving outward into suburban areas, but even small suburbs lack the social contact which is characteristic of small towns where the inhabitants associate together as well as live in the same neighborhood.

The means of transportation which make the suburbs practical do not restore social organization on a neighborhood basis. People who live together in the same suburban community work in different sections of the city and travel to the center of the city or to other parts of the metropolitan area for their recreation. The automobile, the weakened influence of the family, more widespread education, modern communication facilities, and the other forces tending to knit the country together, all encourage the movement of people from one point to another with a further weakening of community interests. The automobile in particular has widened retail trading areas. Cooperative organization by consumers has not shown itself so far to be adapted to this sort of social environment.*

* This study, of course, did not include cases in any large cities. It did not include them for the reason that hardly any strong cooperatives had developed in large American cities until the last few years. At least two or three hundred cooperative stores and gas stations have been organized in urban communities since 1933. It thus becomes important to observe the

These considerations indicate that cooperative development in the United States will be confined principally to the smaller cities and the rural areas.

ECONOMIC OPPORTUNITIES FOR COOPERATIVES

Will the economic opportunities be any greater in the future than they have been in the past?

While chain store development, in particular, has made private distribution in present-day America more efficient than that which cooperatives found in Great Britain, still retail distribution remains one of the most inefficient segments in the business system. The last hunting ground for the small business man, it continues to be plagued with duplication of facilities, wasteful services, numerous competitive brands of the same articles, and other by-products of excessive competition.

Chain stores, though they developed rapidly throughout the 1920's, have not grown appreciably in more recent years. Independent business men are determined to keep "big business" out of this field. Punitive taxes on chain stores are now in effect in most of the forty-eight states. Other forms of legislation, notably the price-fixing laws known as "fair trade acts" have been secured to restrain the price-competition of the chains. These laws which lead the manufacturer to set one price at which his product shall be sold at all stores, will also handicap individual retailers selling through super-markets and self-service stores, the chief appeal of which is low-cost distribution.

Price-fixing legislation, if it is extended, will prove an advantage to consumers' cooperatives. While they must sell at the prices required of other retailers, they will be able to pass on the savings of efficient operation plus the margin of net profit through patronage refunds. Private competitors, on the other hand, will be prevented from lowering prices to meet their competition.

progress of these new associations, to see whether the conclusions from the present study are correct.

There are certain lines of distribution into which cooperatives have not yet ventured to any extent, in which savings may be more substantial than in food distribution. One of these is gasoline, in which both wholesaling and retailing are often said to be highly wasteful. Larger savings were realized in their gasoline departments than in most others by both the Maynard cooperative and that at Cloquet, Minnesota. The regional oil associations in the Lake Superior district have secured large net earnings in the bulk end of the business. Reports from cooperatives elsewhere, both among farmers and in urban areas provide evidence of a similar nature. Gas station cooperatives are also more adapted to the urban environment than cooperative grocery stores, for the reason that centrally-located stations can serve a group whose members are scattered over many parts of the city.

Hardware and electrical appliances, automobiles, and farm machinery also offer opportunities for larger economies than does the grocery business. In each of these lines gross margins are large in comparison with the actual expense of performing the essential retail functions—or, in other words, "selling" constitutes a large part of the average retailer's expenses. Coal, fuel oil, and milk are other commodities which cooperatives have been able to distribute much more cheaply than private business. In the case of milk, in particular, the major economies can be achieved only if the cooperative enterprise has the patronage of a substantial part of the total population of the neighborhood which it is serving.

One reason that cooperatives have not developed in these fields hitherto is that each field represents a much smaller place in the budget of the ordinary family than food. In consequence, to secure the volume of sales necessary to support an economical business, it is necessary to organize a much larger group of consumers than in the case of a grocery store. Yet such a business is less vital to consumers. It is characterized by fewer contacts among members and between member and store. Where existing cooperatives have already become established

in the grocery business, on the other hand, and have a numerous membership, it is possible for them to expand into these lines. Such development has occurred at Maynard and Cloquet, in particular, and may occur with increasing frequency as existing cooperatives grow to the requisite size.

The growth of successful cooperative societies in one branch of economic activity frequently facilitates the application of the cooperative method to other branches. It is therefore worth calling attention to cooperative development in certain lines which have not been covered in this study. Rural electrification associations among farmers and credit unions—for the most part among city people—have grown rapidly in the last decade. They have created some organized basis for the initiation of grocery or gas and oil cooperatives and have brought about a more favorable attitude among the members towards cooperation. Cooperative medical service may also be mentioned.

Doctors' bills do not constitute a major item in the annual budget of most families. Nevertheless, medical service is a subject in which people are vitally interested. Private organization of medical service has proved so unsatisfactory to most of the population that they will be interested in plans for its improvement. Cooperative medical groups already organized are said to have achieved better service for members together with substantial reductions in costs for many of the members. If large groups of people do become organized into medical cooperatives, interest in other forms of cooperation will undoubtedly be enhanced.

SUMMARY

This study has shown that successful cooperatives developed in certain parts of the United States have realized many of the benefits claimed for them. They have achieved economies in the process of distribution greater than those achieved by most private enterprises. Because they have not had the same need to "sell the consumer," their costs have been lower. Their operations have not tended to produce the same inequality in

economic status as have the operations of private business. They have demonstrated that democracy can be introduced into the control of enterprises without apparent sacrifices in efficiency.

These cooperatives developed because of the pressure on certain groups in the community to improve their standards of living, and because, in certain cases at least, private agencies for distribution were not satisfactory. They flourished where there existed an adequate social basis in terms of neighborhood contacts and common social philosophy. Federation among cooperatives proved a major aid to success.

It seems that cooperatives have not grown elsewhere in the past because for most Americans there have been other avenues to economic betterment, and because the necessary social basis has more often been absent. Current trends indicate that both economic incentives and the growing homogeneity of the population will be increasingly favorable to cooperatives in the future. The prevalence of an urban culture in the United States, judging by past experience, is not favorable. Cooperative growth, it seems likely, will occur principally in the smaller cities and the rural areas of the country.

Important changes have taken place in the field of distribution in recent decades. Other changes, the effect of which on cooperatives it is impossible to predict, will certainly follow. Present trends in this field do not seem unfavorable to consumers' cooperation. The distributive process remains relatively inefficient. There are still conspicuous opportunities for improvement of which cooperative enterprises may take advantage. Whether or not they will do so will depend as much on the capacity of consumers for social organization as on more strictly economic considerations.

APPENDIX I

HOW MAYNARD PRICES COMPARE WITH NEIGHBORING TOWNS COAL AND FUEL OIL

August 4-7, 1939

	1 Ton Nut Coal		1 Ton Buckwheat Coal		1 Gallon Fuel Oil #2 Grade	
	Credit	Cash	Credit	Cash	Credit	Cash
<i>Maynard (Pop.-7,156)</i>						
United Co-op. Society	\$12.50	\$12.00 ¹	Not in stock		6c	5½c ¹
Dealer #1	12.00	11.64	\$ 9.75	\$ 9.46	—	—
" 2	13.00	12.00	40.75	9.75	—	—
" 3	—	—	—	—	5½ ²	5½ ²
<i>Marlboro (Pop.-15,587)</i>						
Dealer #1	—	13.00	—	10.50	—	—
" 2	14.00	13.00	11.50	10.50	5½	5½
" 3	—	13.00	—	10.50	—	—
<i>Clinton (Pop.-14,180)</i>						
Dealer #1	—	13.00	—	10.00	—	5½
" 2	14.00	13.00	11.00	10.00	—	5½
" 3	—	13.00	—	10.00	—	—
<i>Framingham (Pop.-19,368)</i>						
Dealer #1	—	12.50	—	9.75	—	5½
" 2	13.50	12.50	10.75	9.75	—	—
" 3	13.50	12.50 ¹	10.75	9.75 ¹	5½	—
<i>Billerica (Pop.-5,880)</i>						
Dealer #1	14.00	13.50	11.25	10.75	—	5½
<i>Concord (Pop.-4,977)</i>						
Dealer #1	13.00	12.50	10.25	9.75	—	—
" 2	13.00	12.50	10.25	9.75	5½	—
<i>Norwood (Pop.-15,049)</i>						
Dealer #1	13.60	13.10	10.60	10.10	5½	—

¹ Payment in 10 days.

² Grade not specified.

Explanation of Price Inquiry:

This inquiry was made by mail. Letters were mailed on or about August 4, 1939, to twenty-three fuel dealers in the towns listed and the town of Hudson, from which no replies were re-

ceived. The towns were selected as the nearest towns to Maynard which were comparable in size.

The text of the inquiry which was sent to each of these dealers was as follows:

Dear Sir:

I expect to move to Hudson during August and I should like to find out what I will have to pay for coal, or what I shall pay for fuel oil if I take a place with an oil-burner.

Would you mind quoting me your prices for coal and fuel oil, showing what I shall have to pay if I lay in a supply in August. If you will just write them down on the enclosed card and mail it to me, I shall appreciate it very much.

Very truly yours,

The text of the card which was inclosed with the letter of inquiry is shown below:

	Price
Anthracite coal—good quality (Would buy in 4-ton lot)	
Buckwheat	
Nut	
Discount for cash on delivery?	
Fuel oil—# 2 grade	
Discount for cash on delivery?	

APPENDIX II

LIST OF THE COUNTIES INCLUDED WITHIN THE CENTRAL
COOPERATIVE WHOLESALE AREA AS DEFINED
ON PAGE 150, FOOTNOTE 2

Minnesota:

Aitkin	Isanti	Norman
Becker	Itasca	Otter Tail
Beltrami	Kanabec	Pennington
Carlton	Koochiching	Pine
Cass	Lake	Polk
Clearwater	Lake of the Woods	Red Lake
Cook	Mahnomen	Roseau
Crow Wing	Marshall	St. Louis
Hubbard	Mille Lacs	Wadena

Wisconsin:

Ashland	Florence	Price
Bayfield	Forest	Rush
Burnett	Iron	Sawyer
Barron	Marinette	Vilas
Douglas	Oneida	Washburn
	Polk	

Michigan:

Alger	Gogebic	Mackinac
Baraga	Houghton	Marquette
Chippewa	Iron	Menominee
Delta	Keweenaw	Ontonagon
Dickinson	Luce	Schoolcraft

APPENDIX III

TABLE A

PRICE COMPARISON OF COOPERATIVE WITH PRIVATE STORES, CLOQUET, MINNESOTA

(Meats and Groceries, Sept. 5, 1936)

	National ¹ Tea Co.	Community ² Market	Co-op. Store #1	Kolseth ³ & Co.
Potatoes, 10 lbs.				
Minnesota	\$.39	\$.45	\$.30	\$.34
Other	—	.45	.46	.45
Bananas, lb.	3/23	4/20	3/20	.09
Oranges, size 216				
Dozen .....	.35	—	.33	.35
Cabbage, lb. ....	.07	.09	.06	.06
Porterhouse steak, per lb. ....	.25 & .32	.23	.16, .18, 25	No meats
Sirloin steak, lb. ....	.22 & .30	.23	.16, .18, 25	No meats
Round steak, lb. ....	.22 & .30	.23	.16, .18, 25	No meats
Bread, white, 1½-lb. loaf .....	.11	.10	.14	.14
Butter, lb. ....	.39 Arrowhead		.37 Arrowhead	
Various kinds .....	.40 Cloquet	.35 Own Brand	.36 Mahtowa #1	.39 Cloquet
Coffee, paper bag				
Cheapest .....	.18	.18	.25	.27
Best .....	.21	.25	.25	.30
Coffee, vacuum-pack .....	.29 Arco	.29 Arco	.30 Co-op.	.33 Table King

TABLE A—(Continued)

	National ¹ Tea Co.	Community ² Market	Co-op. Store #1	Kolseth ³ & Co.
Flour, 40-lb. sack				
Cheapest	1.69	1.79	1.95	2.10
"Gold Medal"	2.25	2.05	(2.10 Co-op. Best)	2.30
Sugar, 10-lb. sack .....	.49 beet	.53 cane	.49 beet	.60 cane
Baking Powder, "Calumet" 1 lb. ....	.23	.25	.25	.25
Shredded Wheat .....	.13	.14	.12	.14
Rolled Oats, 48-oz. Various kinds .....	.15 Ft. Dearborn	.24	.20 Co-op. Red	.21 Fairway .23 Quaker
Soup, Campbell's	3/29	.10	.10	.10
Tomatoes, #2 can				
Cheapest	3/29	.11	.10	.10
Best	3/25	.11	.13	.13
Laundry Soap				
"P & G" medium .....		.03	10/30	
Giant size			5/19	6/25
Toilet Soap .....			.05 Co-op. ⁴	
"Palmolive"	4/19	.06	.06	.06
Eggs, Minnesota #1	(.29 #B-1)	.31	.29	(.32 Medium)

¹ One of a large chain operating in several states—centrally located on main street—cash and carry.

² Branch of a large grocery business in Duluth—also centrally located—cash with limited delivery.

³ Large, independent grocery store, Finnish-owned—near end of main street—credit and delivery.

⁴ Soap manufactured under "CO-OP" label to duplicate "Palmolive".

NOTE: Co-op. store off main street—credit and delivery.

TABLE B
PRICE COMPARISON OF COOPERATIVE WITH PRIVATE STORES, SUPERIOR, WISCONSIN
(Meats and Groceries, Aug. 29, 1930)

	National Tea Co.	7th St. Market	Cronstrom's	Co-op. Store #1	Berthiaume's
Potatoes, 10 lbs., new, good-sized .	\$.39	\$.35	\$.39	\$.35	\$.37
Bananas, 3 lbs.			(green)		
Ripe .....	.19	.19 (small)	4 for .18	.19	.19
Oranges, doz., (med-sized) .....	.29 (small)	.32	.33 (large)	.32	.35
Cabbage, per lb. ....	.08	.04	.06	.07	.07 ¹
Porterhouse steak, per lb. ....	.30	.28 ²	.35	.30	.50 ³
Sirloin steak, per lb. ....	.28 ²	.28 ²	.28	.28	.38 ³
Round steak, per lb. ....	.28 ²	.28 ²	.28	.28	.33 ³
Bread, white, 1½-lb. loaf .....	.11	.10	.12	2 for .25	2 for .25
Butter, 1 lb., "Cloverbloom"	—	.37	.37	.37	.38
"Sunrise" .....	.40	.39	.39	.39	.37
Coffee, paper bag, cheapest .....	.17	.15	.25	.19	.29
best .....	.21	.24	.25	.25	.29
Vacuum packed "Arco" .....	.30	.29	.29	.29	.29
Flour, 49-lb. sack				"Co-op."	
Cheapest	1.69	1.53	1.69	1.85 Blue	1.95
"Gold Medal"	2.25	1.95	2.13	2.10 Red	2.25

TABLE B—(Continued)

	National Tea Co.	7th St. Market	Cronstrom's	Co-op. Store #1	Berthiaume's
Sugar, 10-lb. sack, beet .....	.55	.53	.57	.53	—
Baking Powder, "KC," 25 oz. ....	.24	.23	.23	.25	—
"Calumet," 1-lb. .	.23	.22	.23	.25	.22
Crisco, 1-lb. can .....	.23	.21	.23	.23	—
3-lb. can .....	.63	.53	.59	.63	.57
Junket Tablets, "Junket Folks" .....	.14	—	—	.15	2 for .25
Shredded Wheat, Package .....	.13	2 for 25 or .14	2 for .25	.15	.15
Rolled Oats, 48 oz., Varying quality	Ft. .15 Dearborn	.18 Banner .22 Quaker	.21 Fairway	Co-op. .20 Red	.22
Heinz Soups, Large size	2 for .27	.14	.15	2/.27 or .15	3 for .43
Tomatoes, #2 can, cheapest	3/.29	3/.23	2/.19	3/.25	—
best	2/.25	.15	.15	.15	---
Laundry Soap, Varying size, etc.	C. W. Giant 5/.17	P & G Giant 5/.18	P & G Giant 10/.37	CO-OP. Large 6/.25	P & G Giant 6/.28
Toilet Soap, Mostly Palmolive	4/.19	3/.16	.05	3/.17 .05 Co-op.	3/.17

¹ Manager said .05, marked in window .07.

² Also offered a lower grade at a much lower price.

³ Said by manager to be cut from "top steers", much better quality.

Description of stores

Store #1—National Tea Co. chain store, a good-sized store in a good location on the main street. Outside appearance fair, inside the display was good, but there was an atmosphere of crowding, and things were a little dirty and disorderly. Manager in his thirties—not much personality. Store does cash and carry business.

Store #2.—7th St. Market, cheap, competitive type of independent, on main street near poorer residential section. Outside appearance fair. A good-sized store inside, crowded with both customers and clerks, dirty and disorderly, and noisy. Gives delivery service and manager said he had several hundred charge accounts.

Store #3—Cronstrom's, a cash independent on main street through residential section, about four blocks from main business street. A medium-sized store. Outside appearance very good—modern front with black vitrolite glass. Inside also modern and pleasing, but somewhat disorderly. Store gives limited delivery service, charging 5c on order of less than \$3. Has own bakery and ice cream plant.

Store #4—The Cooperative Store, a good-sized store on main residential street around corner from better end of main business street. Outside appearance 'fair—store-front old-fashioned and show windows not particularly attractive. Inside arrangement of goods satisfactory, but lighting was poor, fixtures cheap, and white tile floor looked dirty. On the walls near the ceiling were large signs bearing statements about cooperative advantages, and cooperative principles. Store gives full delivery service, and credit to about $\frac{1}{3}$ its customers (in spite of sign proclaiming cash business under cooperation).

Store #5—Berthiaume's—a very large independent store in an excellent location on the main street. Outside appearance very good, inside the same. Gives credit and delivery service, features good quality merchandise, large selection, and good service. Has own bakery. Co-managers affable, good-looking, and polite.

TABLE C

SUMMARY OF PRICE INQUIRY BY COMMITTEE OF PEOPLE'S COOPERATIVE
SOCIETY, SUPERIOR, WISCONSIN (SUMMER, 1934)

Store	Sum of Prices for 80 Items	Relationship to Cooperative Prices
National Tea Co. (chain store)	\$15.07	0.4% lower
7th St. Market ("competitive independent")	14.68	3.0% lower
Berthiaume's ("quality independent")	16.13	6.6% higher
Lindbergh-Thompson ("intermediate independent")	16.38	8.3% higher
The Cooperative Store	15.13	

Explanatory notes

". . . In making inquiries, the women on the committee were each given a list of from 10 to 15 items and were asked in the case of some items to make outright purchases. The comparison was conducted on a Wednesday, when the stores visited all featured so-called 'Midweek specials' . . .

"In making the price comparison, we did not deem it necessary to include a so-called voluntary chain store, since we have no examples in the city of a real active IGA or Red and White set-up.

"In making the comparison, Co-op goods were used in all instances where such existed. There were on hand in the People's Co-op. several items priced lower than Co-op merchandise. In no case were these taken into consideration in preparing the comparison."

TABLE D

PRICE COMPARISON OF COOPERATIVE WITH PRIVATE STORES, ELY, MINNESOTA
(Meats and Groceries, Sept. 10, 1936)

	Gershgol's	Cooperative	Rikhus
Potatoes, 10 lbs., Utah ...	\$.40	\$.40	\$.42 or .43
Bananas, 3 lbs. ....	.20	.22	.25
Porterhouse steak, lb. ¹ ...	.30	.35	.50
Sirloin steak, lb. ¹ ....	.30	.30	.35
Round steak, lb. ¹ ....	.30	.30	.30
Bread, white, 1½ lb. ....	.15	.13	.15
Butter, lb., Cloverbloom ..	.37	.38 ("Land o'Lakes") .37 ("Co-op.")	.40
Coffee, lb., vacuum pckd. .	.31 ("Arco")	.33 ("Co-op.")	.32 ("Arco")
Flour, 40-lb. sack "Dakota Maid"	2.23	2.35	2.35
Sugar, 10 lbs., beet ....	.57	.62	.60
Crisco, 1-lb. can ....	.22	.25	.25
3-lb. can ....	.58	.72	.70
Rolled Oats, 48 oz. ....	.19	.23 ("Co-op.")	.25 ("Quaker")
Corn flakes, 13 oz.	2/23 (Kellogg)	2/25 (Kellogg)	.15 & 2/25 (Kellogg)
Soup, Campbell's Vegetable	3/29	.10	.11
Laundry soap, Fels-Naptha	10/49	.06	.07 & 10/55
Toilet soap, Palmolive ...	4/23	.06	3/20

¹ The butcher at the cooperative stated that he bought Swift Premium beef, whole sides, at 16c a lb. plus ¼c freight, and said he did not believe the Gershgol's market handled as high a quality meat. In conversation with the butcher at Gershgol's the writer learned that they paid 11c a lb. for their beef.

Description of Stores

Gershgol's Economy Market was the closest approach to a chain store in town and the only cash and carry grocery store. It was a branch of a Duluth company, and had been opened only recently. It was a good-sized store in a good location on the main street. It was orderly, clean and well-arranged.

The cooperative store was on a corner a block away from the main shopping street, but still in the business section. The premises were of moderate size, considering that they carried items besides groceries, such as automobile accessories, some clothing, and a little hardware. The store was attractive from outside, but not particularly clean or orderly inside. It had charge accounts and gave delivery service.

Rikhus' store was a large one—the largest in town—on a desirable corner location in the middle of the main street. It was a very attractive and well-arranged store, and gave full credit and delivery service.

APPENDIX IV

SOURCES OF STATISTICS

Cooperatives

Statistics for individual cooperative societies studied were drawn from annual or semi-annual financial statements. For Maynard see especially United Cooperative Society, "58th Report and Balance Sheet for the Half-Year Ending December 31, 1935", which contains a compilation of statistics for previous years. The more general sources are as follows:

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- Schmalz, Carl N. *Expenses and Profits of Foods Chains in 1934*. Boston: Harvard University, Graduate School of Business Administration, Bureau of Business Research, Bulletin No. 99, 1936.
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Special tabulations were secured from the Census on Maynard, namely: "Foreign-born White by Country of Birth, and Native White of Foreign or Mixed Parentage, by Country of Birth of Parents, 1930"; and "Retail Sales—Food Group and Filling Stations, 1935: Stores, Sales, Active Proprietors and Firm Members, Employees (full-time and part-time), Payroll."

APPENDIX V

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VITA

THE author, Howard Haines Turner, was born in Brooklyn, New York, on the 12th day of April, 1909. He attended Swarthmore College, at Swarthmore, Pennsylvania, where he was graduated with the degree of Bachelor of Arts, with a major in Political Science, in 1930. The following year he studied at the London School of Economics and Political Science under Professors Lionel Robbins and Harold Laski, and subsequently, pursued graduate studies in Economics at Columbia University. In 1934-35 he served as Research Economist in the Federal Government, first with the Economic Adviser to the Executive Council, and later with the Central Statistical Board. He was Executive Secretary of the District of Columbia Cooperative League and editor of the *District of Columbia Co-op Journal* during 1937-38. For the next two years he served as instructor in Economics and Statistics at the University of Texas, and is now instructor in Industry in the Wharton School of Finance and Commerce, University of Pennsylvania.

Mr. Turner was the author of articles on "A New Index of Variety Store Sales" and "An Index of Rural Sales", appearing in the *Survey of Current Business*, March and December, 1934, respectively.

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