
Observations on the Cooperative Movement

The Cooperative Idea

I

Cooperatives not a Method of World Reconstruction

In spite of their steady expansion and the growth of their turnover, the cooperatives as they exist and operate today are merely dim shadows of what they were designed to be in the ambitious schemes of their first promoters. Robert Owen, William King, and Ferdinand Lassalle planned a cooperative organization of industrial production as a "New System of Society." They wanted to eliminate the entrepreneurs and the capitalists altogether. Henceforth, associations of the workers themselves should operate the plants, "their" plants, without any interference on the part of the "useless exploiters."

The object of the movement was the abolition of the wages system and the organization of industry in the form of producers' cooperatives. Each worker should own an equal share in the plant, workshop or farm in which he was employed. He should share equally in the products or the earnings of this outfit. He should become his own employer, controlling its operations and retaining its proceeds.

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Nobody will deny that all attempts to realize these far-fetched plans failed lamentably. If there are any producers' cooperatives today, their number is so negligible that hardly anybody pays attention to them. Even most of the books dealing with the cooperative movement avoid reference to the schemes for cooperative producers' associations.

The farmers are producers. But the farmers' cooperatives do not organize the farmers in their capacity as agricultural producers; they organize the farmers only as buyers of various equipment and articles required for their production and as sellers of the products. The individual farmer remains an independent entrepreneur and is, as far as his production activities are concerned, not integrated into a cooperative production outfit.

The purchasing cooperatives have entered the field of production in many branches of business. But these plants are not producers' cooperatives. They are not owned by the people employed in them. They are owned by the various cooperatives or associations of cooperatives. The employees are hired hands like the wage earners hired by any other enterprise. They have no say in the conduct of the business. The proceeds go to the owners, i.e., the cooperatives or associations of cooperatives, not to the employees. There is no question of abolition of the wages system.

All that remains of the ambitious projects of the glorified pioneers of cooperation is three types of cooperative organizations: consumers' cooperatives, farmers' purchasing cooperatives, and farmers' marketing cooperatives. It is a rhapsodic overstatement to speak, in referring to these cooperatives, of the cooperative way as a method of world reconstruction.¹

II

Not the Cooperatives, but Private Profit-Seeking Business is the Harbinger of Economic Improvement

The capitalistic market economy, the system of private profit-seeking enterprise, is essentially social cooperation under the division of labor. The various specialized enterprises and branches of industry cooperate with one another. The objective of each of them is

¹J. P. Warbasse, *The Cooperative Way, a Method of World Reconstruction* (New York: Barnes and Noble, 1946).

collaboration for the production of all those goods and services which the consumers want to use. Within each enterprise, the various divisions and subdivisions cooperatively turn out products which are delivered to other enterprises which again use them for the production of more elaborate products. Finally, when all these cooperative processes come to an end, the finished product reaches the consumer. Seen from this point of view, the system of capitalism appears as a world-embracing cooperative organization in which each individual promotes his own well-being by serving his fellow men.

Now, the cooperatives have sequestered to themselves the exclusive use of the epithet "cooperative." It is implied that they alone are cooperative and all other business enterprises non-cooperative. It is indeed a poor semantic makeshift.

In the face of this pretentious attitude on the part of the various cooperative associations, there is a need to stress the fact that they have contributed nothing to the substantial improvement of the material conditions of the people. For many decades, they have been thriving very well under the benevolent assistance granted to them by the authorities. But there is no record of any important innovation which owes its introduction to the cooperatives. While private business, overburdened by taxes from which the cooperatives are exempt, improves, year by year, the quality and increases the quantity of products and fills the markets with new articles unheard of before, the cooperatives are sterile. Not the cooperatives, but the much abused profit-seekers, are the harbingers of economic progress. If we look into the home of an average American worker or farmer and at his family's daily life, we may learn about the enormous changes which were brought about by the operation of private enterprise. The cooperatives hardly played any role in this miraculous transformation. The "rise of the consumer"² was not an accomplishment of the cooperative movement. It was an achievement of the "production for profit" engineered by "rugged individualists" and "economic royalists."

III

The Marketing Cooperatives of the Farmers and the Consumers' Cooperatives

Within the cooperative movement of all countries, it is possible to distinguish two main groups: the farmers' cooperatives and the consumers' cooperatives of the non-farming population.

²H. M. Kallen, *The Decline and Rise of the Consumer* (Chicago: Packard, 1945).

The objectives of the farmers' cooperatives are the marketing of farm products on the one hand and the distribution of farm supplies and the consumers' goods which the farmers require on the other hand. Both objectives are in themselves perfectly legitimate and could, apart from the problem of tax and credit privileges, be approved by everybody.

However, it is impossible to look upon the farmers' cooperatives as an isolated phenomenon and not to notice that they are merely one device in a complex system of farm policies and political activities of the farmers' organizations. As a pressure group, the organized farmers aim at enhancing the prices of agricultural products. In the plans for the realization of this goal an important role is assigned to the marketing cooperatives. They are a cog in a political machine constructed for the raising of the price of food, an objective radically opposed to that of the consumers' cooperatives of the non-rural population.

It is not the task of a study concerning the cooperatives to bring into full relief all the aspects of this great antagonism between the political organizations of the food producers and those of the masses of the food consumers. What must be said, however, is that the aims of the farmers' cooperatives are irreconcilably opposed to the aims which the consumers' cooperatives pretend to seek. The consumers' cooperatives say that they want to cheapen the prices of the necessities of life. The farmers' cooperatives aim avowedly at raising the prices of food and of other articles like cotton, tobacco, and wool. It is therefore strange indeed that between these two classes of cooperatives there is amicable collaboration and friendship and that they are united in cooperative alliances.

The consumers' cooperatives make light of this contradiction by pointing out that both branches of the cooperative movement agree in their eagerness to eliminate superfluous middleman. Thus, it will be possible to raise the price the farmer receives for his product and at the same time to lower the price the consumer must expend for its purchase. The plea is lame. First, it is not true that the elimination of the private businessman, the "middleman," has reduced sales costs. It has, on the contrary, increased them. The proof is that the farmers' marketing cooperatives could not stand the competition of private business without the aid of tax exemptions and cheap credit. Second, the elimination of the middleman is only a minor issue in the comprehensive program of the pressure groups of farming. Their main goal is to raise the prices of foodstuffs and other agricultural products by various governmental measures.

The vast propaganda literature of the cooperatives deals much more with the consumers' cooperatives than with the two types of farmers' cooperatives. It passes over in silence the conflict between the interests of the urban consumers of agricultural products and the endeavors of the farmers' cooperatives to make the government resort to various restrictive measures with regard to these products. Most of the arguments advanced in favor of cooperativism refer exclusively to the cooperatives of urban consumers. This is especially paradoxical in the United States where the cooperatives of urban consumers play only an insignificant role when compared with the farmers' cooperatives.

IV

The Philosophy and Theology of Consumption

Capitalism needs neither propaganda nor apostles. Its achievements speak for themselves. Capitalism delivers the goods.

But the cooperatives cannot do without passionate propaganda. They call their promotional campaigning "cooperative education."

The end and sole purpose of production is consumption. All that profit-seeking business aims at is to serve the consumer in an unceasing effort to turn out more, better and cheaper goods. The businessman is fully aware of the fact that there is no means of increasing consumption other than by increasing production. Since consuming causes delight and is in itself pleasant, there is no need to expatiate copiously on its pleasurable nature. It is supererogatory to teach people how gratifying it is to consume more and better amenities. Even the untutored mind knows all about the sweetness of a higher standard of living.

But the toil and trouble required for production are painful. There are very few people who fail to take advantage of an opportunity to increase their own consumption. But there are many people who look with disdain upon work. The temptation of idleness is very great and a serious danger to society. This is why parents and educators since time immemorial have been intent upon teaching the rising generation the philosophy of travail. Young people must learn that the gratification of the good life must be paid for by exertion and hard work. They must realize that he who wants to consume must first produce. There cannot be any question of "a consumer economy."³ The economy must always be an economy of production for the sake of consumption.

³Ibid., pp. 196-97.

It is vain to speak of the "primacy of consumption."⁴ Production must invariably precede consumption. It is futile to propagate an alleged philosophy of consumption as opposed to the philosophy of production.

In their excessive zeal, the champions of cooperativism have also entered the field of theology. They would have us believe "that the social teachings of the Christian and Jewish religions naturally lead to the formation of cooperatives."⁵ They find "the beatitudes of Jesus" in "the practice and principles of the cooperatives."⁶ It seems appropriate to leave the examination of this dogmatical issue to the doctors of the various churches and to the rabbis.

V

The True Objectives of the Cooperative Movement

The avowed objective of consumers' cooperatives and of the farmers' purchasing cooperatives is to provide their members with commodities and services at lower prices than those which they would have to expend in the absence of these associations. This is a perfectly legitimate task. We shall have to examine whether and how cooperatives really attain this end.

To save money in making a purchase is certainly a good thing. We can understand the satisfaction a man derives from such a reduction in his expenses. We may heartily congratulate him on his success. But it is quite a different thing when the champions of the cooperatives deal with these mammonistic economies in high-flown language. The members of cooperatives are people who want to buy at the lowest possible price. The employees of the cooperatives are people who believe that the most remunerative job they can find is a job with their employer, a cooperative. In defending the tax privileges and other prerogatives granted to the cooperatives, these cooperators and cooperative employees fight for their own material interests. They want to improve their own standard of living; they are eager to consume more. It is not seemly for them to resort to phrases which are appropriate only in describing the self-denying work of devout monks and nuns nursing people affected with leprosy.

A cooperative business enterprise aims at lowering the price of soap

⁴Ibid., p. 422.

⁵Cf. E. S. Bogardus, *Dictionary of Cooperation* (New York, and Chicago: Cooperative League of the U.S.A., 1943 and 1945), p. 54.

⁶Cf. Kallen, *The Decline and Rise of the Consumers*, p. 294.

and gasoline; it is not "a concrete expression of the brotherhood of man."⁷ In their purchases, cooperatives bargain with the purveyors; in hiring help, they bargain with employees. The mutual contractual relations between the cooperative association and its members are precisely determined by articles of incorporation, by-laws, and statutes carefully drafted by lawyers. To apply the term "brotherhood" to such purely mammonistic issues guided by the principle "do ut des" is an insult to the intelligence of the public. If this be brotherhood, then the operations of I. G. Farben, the world's biggest manufacturer of beneficial medicinal substances, were likewise manifestations of the brotherhood of man. The phraseology of the propaganda literature of the cooperative movement is disgusting. They speak of spiritual values,⁸ of culture, of liberty, and freedom,⁹ where the issue is to reduce the price of various things by a few cents.

In his *Utopia*, Plato refers to the ancient saying, "friends have all things in common."¹⁰ If this is true, the cooperators are badly mistaken in calling their associations friendly societies. They have no "things in common." They have a punctilious system of accounting and auditing. The rights and the duties of the members of the cooperatives are neatly defined.¹¹

The Principles and Methods of Cooperatives

I

The Origin of Cooperation

The world-embracing system of the social division of labor originated from occasional assistance mutually granted to one another by neighbors. John, more efficient in the processing of iron, manufactured

⁷Cf. Bogardus, *Dictionary of Cooperation*, p. 54.

⁸Cf. Kallen, *The Decline and Rise of the Consumers*, p. 294.

⁹*Ibid.*, p. 435.

¹⁰Plato, *The Laws*, bk 5, p. 739.

¹¹The most amazing product of cooperative propaganda is the already mentioned book by Professor Kallen. On pp. 436-59, Professor Kallen introduces a fictitious character, President Robert Adam Owen Smith, who, in the year 2044 addresses the "Cooperative Union of the World" and in this address narrates the history of the cooperative movement, viz., also for the years which separate our generation from the year 2044. This is what Mr. Smith says about the future history of the cooperative movement: "Big business ... used all its cunning and all its power to wreck it, resorting to arms as well as to financial oppression.... These endeavors having failed, armed gangs were employed to destroy cooperative establishments and murder cooperators" (p. 443). No comment is needed.

a plough-share for Paul who was less efficient in this art. On the other hand, Paul, more efficient in leather work, fabricated a pair of shoes for John who was less gifted in this kind of production. It was all friendship and neighborly fellow-feeling. Out of these modest beginnings developed the marvelous specialization of industry as it operates today.

It would be nonsense to refer to those remote sources of the division of labor in dealing with present-day industrial conditions. Nobody is so unreasonable as to base any claims and pretensions upon the fact that the exchange of commodities and services was originally a display of pure brotherly sympathies. No modern steel corporation asks for any privileges or subsidies on account of the fact that once, in the ages of primitive mankind, a mythical John offered his services voluntarily to his no less mythical neighbor, Paul.

In the treatment of the affairs of the cooperatives, however, such a procedure is quite common.

We may admit, for the sake of argument, that cooperation originated from friendly relations between neighbors. The villager John went to town to buy five pounds of coffee. His neighbor Paul asked him to buy five pounds for him too. When John came back and handed the five pounds of coffee over to Paul, Paul reimbursed John for what John had expended for them. Perhaps the two also shared the transportation costs incurred by John. On the other hand, if the purchase of ten pounds of coffee was done at a wholesale price, John passed the difference on to his friend, Paul, and the latter also enjoyed the advantages inherent in wholesale buying.

This all was certainly comradeship and amicable sodality. But it is an impermissible display of naivete to refer to these mythical characters, John and Paul, in matters of the cooperatives as they operate today. These cooperatives are big businesses with millions of members who never meet one another. Their turnover amounts to billions of dollars. They are organized in a complicated hierarchy of simple cooperatives, super-cooperatives, and super-super associations. They have established gigantic vertical organizations. They do business with the government and are active in international trade. They own factories, oil wells, and transportation facilities; they engage in financial operations and enter all divisions of commercial and industrial activities. Their affairs are so complicated that their handling requires the employment of hosts of directors, managers, clerks, accountants, and lawyers. There are special schools for the training of the personnel of the cooperatives. Many universities have

established chairs for the teaching of the cooperative methods of business management and accounting and of the laws of cooperatives.

It is ridiculous to conjure up the spectres of mythical John and Paul in dealing with these mammoth enterprises.

In the writings of those fighting for the preservation of cooperative privileges, the cooperatives are described as agents of the memberships. However, no matter how lawyers define the term "agent" from the point of view of the valid laws of the nation, which, after all, are liable to alteration on the part of the legislature, from the economic point of view it is obvious that the cooperatives cannot be considered in any other sense as agents or mandatories of their membership than any other enterprise operating under the division of labor. If the cooperative is called the member's agent because it passes the gasoline it acquires on to the members, the term also fits the activities of any other enterprise. Then the steel corporation is the agent of all those whose well-being depends on the use of steel. If there were no steel works, every individual would have to produce the steel he needs for himself. The operation of steel works relieves the individuals from the necessity of taking care of an important branch of production for themselves. The steel corporations do not turn out products for their own use, but for that of all. Without a radical change in their standard of living and their daily activities, people could do without the services rendered by cooperatives; but they would fall back into the conditions of primitive barbarism and penury if the specialized industries were to go out of business.

When a cooperative buys some commodities, it looks after the interests of its members who ask for these commodities. But the same is no less the case when the businessmen and farmers are intent upon producing all those things which the average man needs for his own consumption.

Decency would require that the champions of the cooperatives cease to boast of their own idealism and disinterestedness. All those whose work contributes to the business of the cooperatives make their living from this job. To establish this truth is not to disparage these men. They are no less honest and useful citizens than any businessman, farmer, or wage earner. But they cannot be called idealists in any other sense than that which would apply to every other man engaged in a gainful occupation. Civil society is not based upon mere idealism and unselfishness. Its driving force is the rightly understood selfishness of every reasonable man. Selfishness, rightly understood, urges everybody to integrate himself into the system of the social

division of labor. In rendering useful services to his fellow-men, he furthers his own vital concerns.

The reference to idealism, unselfishness, and similar high-sounding notions is especially inappropriate with regard to farmers' cooperatives. The farmers are businessmen and entrepreneurs of the type which the cooperative literature denounces as hard-boiled callous egoists. They do not till the soil for a heavenly reward, but for their own gain. They do not fill the markets with cereals to perform an act of charity for the consumers, but to make money and to buy the products of the processing trades. They use their political power and form pressure groups in order to attain special privileges enhancing their incomes. They are anxious to pay less taxes than the rest of the people, to receive subsidies out of the public funds, to be protected by import duties, and to enjoy a thousand other privileges and prerogatives. There is certainly no idealism involved in the anti-margarine laws.

The endeavors of the farmers' cooperatives to save the farmers some money are perfectly sound and legitimate insofar as they do not ask for special privileges at the expense of all the people. Farmers are manufacturers and it is all right for them to be concerned with keeping down costs of production. But it is quite another thing if they want to attain this aim by evading taxes and other burdensome obligations which must be borne by all other producing citizens.

II Producers and Consumers

The characteristic feature of the free society of competitive capitalism is the unlimited sovereignty of the consumers. The capitalists, the owners of land and the entrepreneurs are by the inescapable law of the market forced to employ their ingenuity and the material factors of production at their disposal in such a way as to fill the most urgent of the not yet satisfied wants of the consumers in the best possible and cheapest way. Businessmen are not irresponsible production tsars. They are unconditionally subject to the supremacy of the consumers. If they fail to obey the orders of the consuming public, they suffer losses. If they do not alter their conduct of affairs very soon in such a way as to adjust it to the demands of the public, they are forced to go out of business and forfeit their eminent position. The consumers, by their buying and abstention from buying, make poor people rich and rich people poor. They determine who should own the capital and the land and who should run the enterprises. They determine what should be produced, of what quality and in what

quantity. The market economy is a democracy of the consumers.

It is true that sinister elements are intent upon sapping the unhampered market economy and substituting a producers' supremacy for the consumers' supremacy. A general tendency prevails among present-day governments and political parties to shelter the less efficient producer against the competition of the more efficient producer. The very essence of government interference with business is to paralyze the operation of the unhampered market which invariably tends towards the attainment of that end which is today, not very appropriately, called "freedom from want." While flamboyantly advertising their alleged concern about the masses' material well-being, those in political office are firmly committed to restrictive practices which curtail the quantity of commodities available for consumption. They call their pernicious acts "social policy," "Sozialpolitik," "New Deal," "progressivism" and smear all opponents as "reactionaries" and "economic Bourbons."

The most enthusiastic supporters of restrictions are the organized pressure groups of the farmers and of the wage earners. Deluded by fallacious pseudo-economic doctrines, these pressure groups believe that they can improve their own material well-being by all kinds of restriction and feather bedding, by subsidies and other privileges.

Now, it is true that a privilege granted to a special group of producers improves in *the short run* the material conditions of those favored by this privilege at the expense of the rest of the population. Within a society based on the social division of labor, each specialized group is only a minority. If a privilege is granted to such a minority group, the result is certainly an improvement of its members' conditions. But it is quite hopeless for such a minority to remain lastingly in the exclusive possession of a privileged position. However gullible the rest of the people may be, they will finally discover that they are suckers who must foot the bill for the privileges granted to a comparatively small group. They will not tolerate the preservation of such a state of affairs. They will either abolish the privileges granted to other people or they will secure for themselves similar privileges.

Unfortunately, what prevails in our day is the second alternative. Faced with the problem of privilege, those not privileged do not ask for the abolition of all privileges. They ask for privileges for themselves too. They are too dull to comprehend that this system, when carried to its ultimate logical consequences, is the acme of the nonsense. What a man may gain qua producer by a privilege granted to his branch of production, he loses qua consumer in buying the products of

the other equally privileged branches. What remains is merely a deterioration in the material well-being of all people on account of the general drop in the productivity of labor.

It seems to be a very good thing for the milk farmers to outlaw margarine and for the musicians to outlaw recorded music. But if in every other branch of production, progress is likewise stopped, nobody gains and all people are hurt. The milk farmers' and the musicians' incomes are raised, but the prices of all the goods they want to buy are raised concomitantly. What remains is that all people miss all those advantages they could derive from technological progress.

This nonsensical and self-defeating policy of privilege parades today under the misleading label of "producers' policy." The worst sin of capitalism, contend the champions of the producers' privileges, is that it assigns the primacy of the "idle" consumer and not to the "industrious" producer. They fail to realize that producers and consumers are the same people. It is only the thinking of economic analysis that distinguishes between man as a producer and man as a consumer. In life and reality these two aspects of each individual are inextricably linked together. You cannot favor man in his producer quality without hurting him in his consumer quality. The primacy of consumption as manifested in the unhampered operation of the capitalistic market economy is the consummation of the fact that consumption is the sole end and purpose of production.

If the cooperative movement were to attack the errors of this alleged "pro-producer" policy, it would render a very valuable service to the promotion of welfare. However, in spite of the lip service they pay to what they call the primacy of the consumer, the consumers' cooperatives are far from raising any objections to the restrictive practices of our day. They are, on the contrary, among the most zealous supporters of these disastrous methods. Many of their members are precisely those people who most obtrusively ask for such producers' policies: farmers and labor union members.

All this bombastic talk about the alleged blessings of cooperation is vain, as the cooperatives acquiesce in the existence of vast producers' privileges. The farmer may save pennies as a member of a cooperative, but he loses dollars on account of feather bedding and hostility to technological improvement as displayed by labor unions. The wage earner may at best save pennies when buying in a cooperative store, but the pro-farmer privileges cost him dollars.

There is only one really efficient way to further the interests of the consuming masses, namely the way of free private enterprise. Not

to hinder the more efficient producer to outdo the less efficient rival, is a much better method to have the farmer and the urban consumer supplied more amply and at lower costs than anything else. In diverting the public's attention from the main economic evil, viz., the policy of restriction and producers' privileges, and in concentrating upon the trifling issue of saving pennies where dollars are at stake, the cooperative movement does more harm than good.

The cooperators have certainly no claim to glorify themselves as the champions of the consumers. Their achievements are meager indeed when compared with those of the businessmen who succeed in turning out more, better, and cheaper products.

III

The Place of the Cooperatives within the Frame of the Competitive System

Economic liberalism, today disparaged as Manchesterism, maintains that the government should not place any obstacles in the way of people who want to serve their fellow citizens. As the liberals interpret the principle of consumers' sovereignty, the consumers alone should decide whether a business unit is good or bad. This is what the much abused slogan "*laissez faire*" means: let the consumers choose for themselves and not a *Führer* for them.

The market economy gives everybody a chance. What a man needs to become a captain of industry is merely good ideas and the ability to make these ideas work. No inherited wealth and no capital is required in order to succeed. The capitalists, driven by their own selfish interests and eager to find the most profitable investment for their funds, are always in search of ingenious men to whom they can entrust their funds.

The harbingers of totalitarian government omnipotence would have us believe that under present conditions, in the era of what they call "mature" capitalism, this is no longer true. Today, they say, conditions are rigid. There is no longer any opportunity for a penniless newcomer to challenge the vested interests of the old firms and big corporations. The poor are doomed to remain poor forever, and the rich are getting richer from day to day.

This fable distorts the actual state of affairs no less than all the other Marxian and Keynesian fables. It is, of course, correct that today all branches of government cooperate in the effort to prevent technological progress and the emergence of new enterprises and new millionaires. But in spite of all these handicaps there is still room left

for the success of self-made men. The greater part of the present-day leaders of business are not sons and still fewer grandsons of the millionaires of days gone by. As far as a family succeeds in preserving its place on the top of the social ladder for several generations, it owes its eminence to the ability and zeal of its younger generations. There is nothing in the operation of the unhampered market economy that could, in the long run, afford to vested interests a safe protection against the competition of improved methods of production, new products, better quality and cheaper prices. It is precisely because such protection is absent in the unhampered market that those, who by indulgence in routine, lack of inventiveness, incompetence, laziness, and negligence endanger their own prosperity, are asking for protection on the part of the government.

The principle of not interfering with market conditions and giving a chance to everybody applies no less to new methods of business organization. The corporative form of business enterprise owes its present role not to any assistance offered on the part of the laws and the administrative officers. On the contrary. From its early beginnings it had to meet the hostility of those in power. This hostility developed in the last decades into undisguised persecution. The authorities discriminate in many respects, first of all in the field of taxation, against the corporations. The corporations are singled out for much more burdensome taxation than non-corporate business. But the enormous efficiency of the corporate form of business has victoriously withstood the onslaughts of the power to destroy.

The cooperatives entered the scene of business with passionate diatribes against the merchants and especially against the retailers. It would have been comprehensible if the retailers had asked the authorities to suppress these new competitors who seemed to expect less from serving their members than from smearing the established firms. A demand of retail business for outlawing the cooperatives and suppressing their activities altogether would not have been more perverse than are the endeavors of the farmers to outlaw margarine and to cut down the importation of meat and cereals. But apart from the angry utterances of a few hotspurs, no such demands were ever raised. The fairness of the much calumniated merchants and their full endorsement of the principle of free competition manifested themselves in the attitude these men showed in dealing with the cooperatives. They did not ask the police to silence these insidious slanderers and defamers. All they asked was that they not be coddled with privileges and prerogatives. Fully committed to the fundamental maxim of free enterprise and free competition, all that private

businessmen are aiming at is equality in the treatment of all forms of business enterprise. They ask for neither privileges for themselves nor hostile discrimination against any group of rivals. All they ask is that the government stay neutral. Neither privileges nor discrimination. The freedom of the public to choose between the multiplicity of competing sellers and to prefer the shop that best serves them should not be curtailed by virtual subsidies granted to less efficient enterprises. For the sake of consumers' sovereignty and for the benefit of the whole people, there should be equality in the treatment of all kinds and varieties of business enterprise.

IV The Character of the Cooperatives' Profits

There are three different elements included in the conception of profit as popularly employed in mundane language and in statistics: interest on invested capital, compensation for the entrepreneur's own labor expended in the conduct of the business and finally, profit proper. In the case of corporations and cooperatives, the second of these elements is absent as the owners of the enterprise are legally distinguished from those performing any labor in the conduct of business even if these latter own stock in the corporation or are members of the cooperative.

Profit proper is the surplus an enterprise earns from selling at prices exceeding the total amount of costs expended. There is no need to enter into an examination of the conditions required for the emergence of profits proper, their economic significance and the role they play in the operation of all economic affairs. Such an analysis is the task of treatises dealing with economic theory.

The cooperatives contend that the objective of their conduct of business is not profit making and that the surplus they are passing on to their customers in proportion to the purchases each of them made is not a dividend, but a "patronage refund"; that it is not profit, but savings resulting from the conduct of the business. Upon this doctrine the cooperatives base their vast claims to a privileged position and especially to tax exemption.

It is possible to imagine a method of conducting a cooperative's business in such a way that no such surplus emerges at all. The cooperative could sell every article at a price which merely includes the costs the cooperative itself incurred in acquiring it plus full compensation for the costs incurred in the manipulation of this article. Actually no cooperative has adopted this procedure. The

cooperatives sell above costs. At the end of a definite period, there remains, provided the conduct of operations was successful, a net profit, i.e., a surplus of sales proceeds over costs.

Mrs. Beatrice Potter Webb (Lady Passfield), that adamant apologist of the worst excesses of Bolshevism, tried to explain why the cooperatives do not realize "the Owenite ideal of eliminating profit in the transaction of business," why they do not sell "their commodities at cost price plus the expenses of management." As Mrs. Webb saw it, the blame must be put upon the imperfection of monetary institutions. The sale of small quantities at cost price, she contended, "involves the use of fractions not represented in current coin."¹² Yet the fact that the divisibility of coins is not unlimited has never prevented business from nicely adjusting prices to each height required by the structure of the market. In the retailing of fruit and other necessities of daily life, such prices as "five pieces for seven cents" and "three pieces for eleven cents" are quite common. There is no reason why the cooperatives should not adopt the same procedure. Actually they do adopt it, as it is indispensable. But when they adopt it, their aim is not the elimination of profit, but rather the necessity of competing with their rivals.

Mr. Jacob Baker explains these procedures of the cooperatives in a different way. In his opinion, it would take too much bookkeeping to calculate the wholesale cost and proportional share of operating expenses on each dozen of eggs and each pound of butter.¹³ However, a businessman who would not figure out neatly what his own costs are and would grope about in the dark, is a clumsy bungler and headed for bankruptcy. Competition enjoins upon every seller—whether profit-seeking merchant or allegedly altruistic cooperative store or oil station—the necessity of not asking more than the market price. But every seller must know whether each of his transactions involves a profit or a loss. If he were to ignore this and to sell below his own costs, he would very soon forfeit his position in the framework of the social division of labor. If economic calculation shows a businessman that he cannot carry a definite article without losing money, he must as a rule discontinue this branch of activity. In exceptional cases, he may go on deliberately carrying this article for special considerations such as

¹²Cf. B. Potter Webb, *The Cooperative Movement in Great Britain*, 10th ed (London: G. Allen, 1920), p. 65.

¹³Cf. J. Baker, *Inquiry on Cooperative Enterprise* (Washington, D.C.: U. S. Government Printing Office, 1937), p. 7.

not making his customers stop patronizing his shop or similar matters. But even then, he must be fully aware of the import of his conduct. In the operation of commerce, there is no room left for ignorance and carelessness. Computing costs as correctly as possible is the backbone of trade.

Actually, the immense majority of well-run cooperatives have fully adopted the well-tried accounting methods as developed by many generations of businessmen. They even boast of their achievements in the field of bookkeeping and financial statements.¹⁴

The method of selling above costs must certainly not be excused by referring to the alleged fact that cooperatives do not know what their own costs are.

The true reasons for these methods are very different from those advanced by these apologetic doctrines.

A surplus of sales proceeds over costs appears only if the transaction was successful. Even the most ingenious businessman cannot always avoid losses. He may sometimes misjudge the trend of prices and expend more in the acquisition of an article than later actual developments would have justified. Business is always speculative as it is based upon the anticipation of the future from which business profits and losses stem. In a world without change in which the tomorrow does not differ from the today, there would be neither profit nor loss. Our actual world is fortunately not stagnate. There is continuous change in conditions and—at least still in this country—a continuous trend toward improvement. Under such a state of affairs, prices are in ceaseless fluctuation. He who buys in order to sell can only reap a profit if he has bought at a price which is lower than the price at which he sells minus total sales costs.

Cooperative enterprise is no exception. It too is subject to the law of the market. If a cooperative buys 10,000 pounds of an article at \$2,000 and its operating sales costs are five cents per pound if there is to be no loss. But if in the time lag between the purchase and the sale, the retail price drops to 18 cents, it is forced to sell at a loss of seven cents per pound and total loss of \$700. Of course, a cooperative that would engage exclusively in such unwise deals would very soon go to the dogs. With a prosperous cooperative, over a definite period of time, the total amount of profits must at least equal the total amount of losses. But in every business enterprise, whether cooperative or other, the various individual deals contribute in different

¹⁴Cf. *Learning the Language of Study and Action* (Cooperative League of U. S. A.: Pamphlet no. 43).

ways to the final result of business transacted over a definite period of time. Some of these individual deals are more profitable, others either less profitable or producing losses of various amounts.

It is these hard facts that make it peremptory for the cooperatives not to sell each article precisely at the proportional shares of their own total costs (wholesale price expended plus operating or sales costs). If they were to try this, they could not sell at all that part of their stock which was bought at prices which appear unreasonable when seen from the angle of the present structure of retail prices.

Cognizance of the state of affairs explodes entirely the cooperative doctrine concerning patronage refunds or patronage dividends. These refunds have nothing at all to do with the purchases of the individual members. They are not adjusted to the margin above costs at which the concrete purchases were billed to the individual members. They are distribution of the total profit earned by the cooperative over a definite period of time. They have no relation whatever to the individual's purchases. A member who bought only articles in the sale of which the cooperative suffered losses is no less entitled to a refund in proportion to the total amount of his purchases than any other member.

If the cooperative were merely an agent of the members, the members would have the obligation of absorbing their share of the cooperative's purchases and to make good all the costs incurred by the cooperative no matter whether or not this is advantageous for them. They would have the obligation of buying even if this would mean for them buying above the price they would have to expend in buying elsewhere. This is the inference to be drawn from the much talked about fable of John and Paul. If John asks Paul to buy a necktie for him in New York, he must take the necktie and reimburse Paul for what he has expended in the purchase. It is immaterial whether or not John discovers that he could have bought an equivalent necktie in his own place of residence at a much lower price. He has given to Paul the discretionary power to act as his agent in the purchase of a necktie and must bear the consequences.

It is therefore obvious that the doctrine of the cooperators according to which a private store *sells* articles *to* its customers while a cooperative store *buys* them *for* its members,¹⁵ is moonshine. The

¹⁵C.f. Baker, *Inquiry on Cooperative Enterprise*, p. 6.

cooperative sells no less than a private store and it must induce its own members to patronize the cooperative store by the same methods to which private retailers resort, namely by asking lower prices than its competition. The cooperative's purchases are not more closely tied up with its sales than are the purchases and sales of every private retailing business. Membership in a cooperative does not enjoin upon any member the obligation to buy any commodities in the cooperative store or oil station, still less the obligation to reimburse the cooperative, in the purchase of any commodity he may buy, for all it has expended in acquiring this concrete article plus operating expenses. The individual cooperator has the right to buy in the cooperative store in the same way in which every man—cooperator and non-cooperator alike—has the right to buy in every private shop. The phrase "the cooperative buys for its members" is not a more correct description of the actual state of affairs than the phrase, "the private retailer buys for his customers."

The essential fact is that the surplus of total sales proceeds over total costs which the cooperative distributes among its customers does not stem from the various concrete purchases of the individual members, but from the successful conduct of the cooperative's aggregate business over a definite period of time. Such a surplus appears only if the managers of the cooperative were skillful enough to buy at such low prices that the later sale can be made in a remunerative way.

The economic character of a cooperative does not differ from that of a private store. Success or failure result with a cooperative from the same sources from which they result with a private retail shop. Success nets profits, failure losses.

V

The Disposition of the Cooperatives' Profits

If a cooperative's conduct of business was successful over a definite period of time and consequently the balance sheet shows a net surplus, i.e., a profit, this profit is handled in the same way in which every private business handles its profits. The profit is either distributed or ploughed back into the business as an addition to its working capital, or it is partly distributed and partly ploughed back.

It is immaterial what legal forms are resorted to in this accumulation of undistributed profits and how this increment to the working capital is called in the book entries. What alone counts is that the whole amount of profit earned or a part of it is withheld from

distribution and added to the capital stock. By not distributing profits, the cooperatives accumulate additional capital in the same way as all other types of business enterprises. Capital accumulation is always the result of not consuming the total amount of profits earned.

The evolution of cooperatives from simple independent stores into big businesses has brought about a very complicated variety of membership rights. There are active voting members who own regular membership shares corresponding to the common stock of corporations. There are shares of non-active members who have no right to vote and therefore do not share in the control of the cooperative. There are fully-paid shares and part-paid shares. Thus it is possible to choose sometimes for the accumulation of additional capital methods which seemingly appear as a payment of a dividend. If the dividend is paid in shares, the result is actually an increase in the capital ploughed back into the cooperative. It does not affect the value of the members' equity whether the profit is simply retained by the cooperative or whether it is retained by giving an additional share to each member. In both cases, the individual member's portion of the total amount of the cooperative's total net assets is the same.

Cooperatives employ their capital funds only partially in the conduct of their own affairs. They have founded large-size wholesale enterprises and production outfits. They have organized these enterprises in a hierarchy of super-cooperatives, super-super cooperatives and super-super-super cooperatives. Each of these associations earns its own profits and either retains them as undistributed profits or distributes them among its members, the cooperative associations of a lower rank.

VI Is the Cooperative Movement Economically Sound?

The vast propaganda literature of the cooperatives boasts in extreme language of the achievements of the cooperative movement. From modest beginnings, the cooperatives developed into big business with an ample supply of capital. They have millions of members, many thousands of organizations, over a hundred mills, factories, oil wells, refineries and pipelines. Their yearly turnover is enormous. This thriving condition is not limited to this country. It is a world phenomenon. The International Cooperative Alliance had at the outbreak of the Second World War affiliates with a membership of

more than 70 million in thirty-eight different countries. What a marvelous success!

At closer examination, however, one discovers some flaws in this fascinating picture. First of all, there is the fact that cooperation is much stronger abroad than it is in the United States. Before the war, the consumers' cooperatives of Finland handled about 30 per cent of the country's retail trade; in Sweden the figure was 12 per cent; in Great Britain, France, and Denmark, 10 per cent. But in the United States, it was only a fraction of one per cent.¹⁶

This is an amazing fact. Precisely in that country in which the common man's standard of living is highest, the role played by the cooperatives in the field of retailing is very modest when compared both with conditions abroad and with the total turnover of domestic retailing. The United States is foremost in the world with regard to the material well-being of the masses, but rather backward with regard to the development of consumers' cooperatives. Hence, it is obvious that the prosperity of the average citizens does not depend on the flowering of cooperatives but on other factors.

The second idea which comes to the mind of an impartial observer is that the cooperatives were denied the opportunity to test their efficiency under equal competitive conditions as against other types of enterprise. In all countries of the world, they were pampered in a lavish way by privileges, especially by tax exemptions and cheap credit. They did not stand the competition of the private or corporate retailer and the private or corporate manufacturer by their own means and by their own accomplishments. The virtual subsidies they received at the expense of the public revenue were considerable enough to make them flourish even in spite of lamentable inefficiency and wasteful and inept management. The experience of the long history of the cooperative movement cannot prove anything in favor of cooperative methods. It merely proves that tax privileges in this age of confiscatory taxation are very valuable and make those privileged prosper. The ardor with which the spokesmen of the cooperatives are fighting for the preservation of these privileges and their reiterated assertions that the abolition of these privileges would doom the cooperative movement suggest that they themselves have very little confidence in the power of the cooperatives to hold their own against the competition of private business.

¹⁶Cf. M. L. Steward, *Cooperatives in the U.S.—a Balance Sheet*. (Public Affairs Pamphlets no.32, 1944), p. 6.

The very fact that the private retailer is able to stand the rivalry of a cooperative store bears witness to the economic superiority of profit-seeking free enterprise. The cooperative enjoys ample tax privileges; it is backed by an organization whose capital by far exceeds that of the average retailer and it enjoys many other privileges. Private business is in every institutional and political respect handicapped in its competitive effort. It owes its flowering exclusively to its superior efficiency and to the fact that it serves the customer best.

The pro-cooperative propaganda overflows with arguments purporting to show why profit-seeking retail trade must necessarily be wasteful and costly and why the cooperatives are more economical and can sell at cheaper prices. If these statements were right, the cooperatives would long since—even without the ample subsidies they enjoy in the shape of tax privileges—have superseded private retailing. But the fact remains that the cooperatives are not able to outdo the private distributor either in regard to the height of prices (i.e., the net charge to the buyer) or in regard to the other services they render to their patrons. The fact that the overwhelming majority of the American housewives patronize the private retailers and that by and large only less than one cent of each dollar spent by the consumers goes into the cooperative stores amounts to a striking expression of the nation's acknowledgment of the private storekeeper's superiority. There is no need to unmask the fallacies implied in all these sophisticated demonstrations of the alleged shortcomings of private business. The housewife, passing by the cooperative store and walking into the private distributor's shop, explodes them more convincingly than any theorist could.

The cooperative doctrine's fundamental error is the misconception of the role played by the distributors and retailers. As the champions of the cooperative doctrine see it, retailing is sterile because it does not add anything to the physical and chemical properties of the merchandise. The merchant is merely a superfluous middleman whose interposition enhances the price without improving the quality of the product or rendering any valuable services. One could easily dispose of this drone and of his undeserved gain.

If the cooperatives had not enjoyed their ample tax privileges, they would have very soon learned from experience that this seemingly plausible argument is utterly wrong. The retailer is not just a dispensable intermediary. Retailing is a necessary function within

the operation of the market economy. It is one of the devices daily adjusting production anew to the changing demands of the consumers. Although as a rule, the retailer does not alter the physical and chemical properties of the merchandise, he adds to its value by keeping it ready for use precisely at those places and at that time in which it is most urgently asked for. The services that the retailer renders to the public are not overpaid, as competition—always very acute in the field of distribution—keeps their prices within the most narrow margin possible. In dealing with the consumers' cooperatives one cannot often enough stress the point that the cooperatives, in spite of their tax prerogatives, are not in a position to supplant the private merchant. It is this fact that demolishes all the verbose disquisitions of the cooperative literature.

VII The Political Element in the Cooperative Movement

From its very beginnings, the cooperative movement was primarily a political movement. It was, in the plans of its initiators, not so much an instrument for improving the conditions of its members as a weapon to be used for the destruction of the "bourgeoisie" and the "bourgeois or capitalistic mode of production." Because they appreciated the cooperatives from this point of view, the socialist parties always sympathized with the cooperative movement. Apart from the farmers' cooperatives, a great many of the members of consumers' cooperatives are socialists. In the imagination of these socialist cooperators, the socialist paradise of the future will be organized as an association of the associations of consumers' cooperatives. The foundation of a new cooperative store and the expansion and improvement of already operating cooperatives are steps forward on the road that leads to mankind's social salvation.

Now, all this is utterly confused and contradictory talk. Within the frame of a socialist system of production there cannot be any question of cooperatives. Socialism is the very antithesis of any freedom and discretion granted to the consumers. It abolishes the market, market exchange and all the rights of the buyers. Under socialism, the individual must be content with what the authority deigns to give him. Socialism is the supremacy of the production tsar.

It is, of course, possible for a socialist commonwealth to retain the name "cooperative" and to call its distribution shops "cooperatives." The communists in Soviet Russia, as well as the Nazis in Hitler Germany, resorted to this trick. But nobody can be fooled by such a

terminological makeshift.

One of the characteristic features of the capitalist system (which the Marxians dub the system of "wage-slavery" where "labor is a commodity") is that the wage earner is free to spend his earnings as he likes. The consumer's buying and abstention from buying ultimately determines what should be produced and in what quantity and quality. This supremacy of the consumer is warranted by the competitive order of industrial production which all producers, however different their products may be, compete with one another for the greatest possible share in the buyer's dollar. If there is only one producing agency, viz., the government, this competition ceases; then the housewife must take in the shop what the agent of the government is prepared to give her. Under capitalism, the shopkeeper, whether he is a private merchant or the employee of a cooperative, is anxious to serve the patrons; once the deal is finished, he thanks the customer for having patronized his shop and asks him to patronize it in the future too. Under socialism, the shopkeeper is eager to please the government, his superiors; he dispenses the merchandise as a favor and admonishes the recipient to be grateful to the sublime donor, the great dictator.

Those people who associate with the word socialism the image of clean cooperative stores, amply stocked with merchandise, in which courteous salesmen attend on the customers are badly mistaken. The cooperative stores are clean, amply stocked with goods and staffed with obliging clerks because they must compete with private profit-seeking retailing. The stores of a socialist system will be very different.

VIII

Monopolistic and Totalitarian Tendencies in the Cooperative Movement

The managers of the cooperatives are fully aware of the fact that the cooperatives would not be able to stand the competition of private business if they had to vie with them under equal conditions. It is this insight which on the one hand makes them passionately defend their precious privileges and on the other hand, pushes them toward monopolistic and totalitarian ventures.

The writings and the speeches of the cooperative propaganda never tried to conceal their monopolistic ambitions. They disparage competition as such and exuberantly praise the blessings of what they call unity. In each country, the local cooperatives tend to unite to form

a national organization. The national societies of the world are federated in the International Cooperative Alliance. It is the avowed ideal of the champions of cooperativism to abolish every kind of competition by eliminating not only private free enterprise but also state owned and operated outfits. They dream of a world embracing "Cooperative Union of the World" into which virtually supreme power will be vested in the coming "Consumers' Cooperative Era."¹⁷ This "Union," supreme and unrivalled in both production and distribution, is to enjoy a monopolistic position in every field of economic activities. It will have precisely the same exclusive totalitarian power the Nazis assigned to their *Reichswirtschaftsministerium* and the Bolsheviks to their *Gosplan*.

In this imperfect world, however, the cooperatives are forced to moderate their pretensions. They are anxious to combine and to conspire for the elimination of competition and for the restraint of trade. Their activities provide the classical example both of horizontal and vertical combination. They tend to ramify into all fields even in such as are only loosely associated with their main activities. In these efforts, they are greatly encouraged by the direct and indirect support various departments of the federal and the state governments accord to them. But the inherent inferiority of the cooperative way of business offsets all these privileges and favors. The progress which the consumers' cooperatives have made on the way toward their final goal, the monopolistic control of the retail markets, is comparatively slow because it is not easy to fool the housewife. The fact that in the United States the consumers' cooperatives are but small and insignificant when compared with those of many European countries is the proof of the American consumers' greater shrewdness and greater capacity to distinguish between better and poorer merchandise.

IX

Are the Cooperatives Democratic?

The more manifest the weakness of the economic arguments advanced in favor of cooperativism becomes, the more its protagonists lay stress upon its alleged democratic character. As they see it, cooperativism is democratic while profit-seeking business is reactionary; the establishment of political democracy demands the establishment of economic democracy, viz., supremacy of the cooperatives.

¹⁷Cf. Kallen, *The Decline and Rise of the Consumers*, p. 436.

The truth is that the market economy is the full and only possible realization of the principle of economic democracy. The market process is a daily repeated voting in which every penny gives a right to vote. The buyers, by preferring those commodities which in regard to price and quality are best fitted to satisfy their needs, make and conduct of each enterprise profitable or unprofitable, make small-size business big and penniless beginners rich. On the market, nothing ultimately counts but the buyer's dollars. It is true, these ballot papers are not equally distributed among the public. The rich put more of them into the ballot-box than their less prosperous fellow-citizens. But to be rich is in itself the outcome of a vote taken, as in the market economy not only the acquisition but no less the preservation of wealth requires continuous success in best supplying the consumers. The capitalist who does not invest his funds in those lines in which they serve the satisfaction of the most urgent wants of the public is penalized by losses and loses his wealth entirely if he does not alter his conduct in time.

Political democracy as embodied in representative government is the corollary of the economic democracy of the market. From the point of view of a consistent application of Marxian dialectic materialism, one must describe parliamentarism, government by the people and all the freedoms granted by the bills of rights as the "ideological and political superstructure of the capitalistic system of private enterprise." At any rate, the Marxians were consistent enough to deprecate and to disparage democracy as "pluto-democracy" and parliamentarism as a "bourgeois bogus." Never were there more adamant foes of any kind of democratic institutions than the Bolsheviks. Only when the menace of the Nazis made them beseech the aid of the capitalistic nations of the West, did they begin to arrogate to themselves the appellation democratic. Only then did the communists and their allies in Western Europe and America discover that the cooperatives are democratic institutions, even the very paragon of economic democracy.

In resorting to this semantic innovation, the pro-cooperative agitators adopted a terminology which owes its origin to Mrs. Beatrice Potter Webb (Lady Passfield). It was Mrs. Webb who camouflaged the labor union movement as "industrial democracy" and described the cooperative movement as one aspect of industrial democracy.¹⁸ There is no need to enter into an examination of these claims. What Mr. and Mrs. Sidney Webb call democracy and freedom is the very opposite of

¹⁸In 1891. Cf. Webb, *The Cooperative Movement in Great Britain*, p. xxiii.

both. In their eyes, the Soviet dictatorship is true democracy and the ruthless extermination of all those who do not fully agree with the rulers is genuine freedom.

The cooperative as a type of business organization is neither democratic nor anti-democratic. It is one of the legal patterns for group ownership. In a free society, cooperatives are allowed to function in the same way in which other types of the business corporation are allowed. If the cooperatives were not to enjoy any government favors, one would be right in declaring that they owe the role they play and the rise of their turnover to the voluntary support of their patrons as manifested in the democratic process of the market. But this is precisely not the case. The cooperatives are amply subsidized by government favoritism. What makes their membership rolls swell is neither their own achievements nor the services they render to the patrons but the cumulation of government favors. In joining the cooperative, the consumer does not approve of the cooperative idea; what he aims at is to share in the benefits which the government bestows upon the cooperators.

The cooperative propaganda lays great stress upon the fact that the cooperatives are voluntary associations. Such statements entirely distort the true state of affairs.

First, the government interferes in a momentous way with the final decision of an individual on the point of choosing between joining or not joining a cooperative. The cooperative is privileged to the disadvantage of all taxpayers who are not enlisted members. If from two competing bus lines, the red line and the blue line, the tickets of the former are subject to a tax while those of the latter are exempt, it would be misleading to say that a passenger who prefers the blue line made his choice voluntarily. He acted under duress as, due to the government's interference, the choice of the red line is penalized.

Second, it is a sad fact that in many communities the cooperators resort to social pressure and to more or less open threats in order to increase enrollment. It is true that these abuses are less frequent in the United States than in the European countries. But this is not a proof that the American cooperators are more democratically minded and have due respect for the rights and freedoms of their fellow citizens. It merely shows that the United States is still a country in which laws and legality are enforced.

The cooperatives are neither more nor less democratic than any other business organization to which the democratic market economy

offers the opportunity to show what they are able to achieve. However, the cooperatives do not dare to risk the trial of such an examination and are looking for the shelter of favoritism.

The Privileges, Prerogatives and Immunities of the Cooperatives

I

The Governments' Bias in Favor of the Cooperatives

No human being can free himself from partiality and particular bias in favor of or against persons, institutions, or things. A government is always composed of mortal men and is therefore never aloof from the strife of peoples, parties, and ideologies. Only state idolatry describes the rulers as unaffected arbiters and directors of earthly affairs. Realistic observers know how different the real officeholders and administrators are.

What is wrong with contemporary governments is not merely that they are excessive in their predilections and prepossessions, but still more that they are guided by blind prejudices. The result is that their best intentions are frustrated and that they invariable spread havoc.

The whole fabric of modern economic developments is built upon the functioning of two main types of business organization: individual and proprietorship and partnership on the one hand and the corporation on the other hand. All the unprecedented achievements of modern industrialism that have procured a continually improving standard of living for an ever-increasing population were effected by these two types of business organization. It was exclusively profit-seeking business that transformed the world of horses, sailing ships, and wind mills into the world of steam power, electricity, and mass production for the needs of the masses. It was profit-seeking private business that accumulated the capital, i.e., the tools and machines, which alone have the power to raise the productivity of labor and thereby wage rates. Even the most bigoted partisans of cooperativism cannot dare to claim any of these merits for the cooperatives. The best that could be said to the praise of the cooperatives is that—of course, taking advantage of the lavish privileges accorded to them—they more or less aptly copied some of the well-tried technical methods of profit-seeking business. It would be impossible to write the history of our age without assigning the first place to the efforts of private

business that daily supplies the household of the average with new, better, and cheaper products. But the historian would omit nothing noteworthy if he did not mention the fact that some of these products are distributed or marketed through cooperatives and that some of the more simple processes of manufacturing are also executed in plants owned by cooperative associations. There is no American whose daily life would not be less comfortable if private business had been prevented from accomplishing all that it has brought about in the last hundred years. But the great majority of the nation would not be in any respect worse off if there had never been cooperatives.

Nonetheless the governments behave as if private business were an objectionable thing and as if the salvation of mankind were to depend on the cooperatives. They openly and avowedly discriminate against private business in subjecting its surpluses to a burdensome taxation from which a surplus made by a cooperative is exempt. They discriminate especially against the corporations in taxing corporate incomes both on the corporation and on the shareholders who receive dividends. Confiscatory rates of personal-income taxation curtail the amount of venture capital available for the conduct of private business while the cooperatives are allowed to accumulate capital either without being taxed at all or without being taxed to the extent private business is taxed.

In all countries of the world, the cooperatives enjoy ample privileges.

In the United States, both state and federal laws provide that the ordinary activities of the cooperative associations are not to be deemed violations of anti-trust laws. The Department of Agriculture makes available to farmers' cooperatives free legal, statistical, and technical advisory service. Government agencies supply the cooperatives with loans at low rates of interest.

The most valuable privileges are those granted in the field of taxation. Some of these exemptions do not count very much, e.g., the exemption from the annual franchise taxes. But the exemptions in the matter of income taxation are of primordial importance.

From its very beginnings, the federal income tax legislation exempted cooperatives. These exemptions were widened and enlarged in the later Acts. On the other hand, they became the more helpful and profitable as the tax rates increased to confiscatory levels. With the present tax rates, they are tantamount to lavish subsidies at the expense of all taxpayers and the whole nation.

II

The Essential Problems Concerning the Tax Privilege

In defending and justifying their tax privileges, the cooperatives purposely dwell upon trifling technicalities and legalistic syllogisms in order to divert the public's attention from the essential issue.

As has been pointed out already, from the beginning of the federal income tax legislation it was the intention to exempt the cooperatives. The political constellation in the nation and in Congress was such that no law could be passed without the votes of certain senators and representatives from whom these tax exemptions were of paramount importance. Hence, all the definitions and provisions of the tax laws were so formulated as to leave the cooperatives unmolested. When the practical experience of the laws' application and the rulings of the courts demonstrated that these privileges were not so broad as the cooperatives wanted them to be and when, with the tax burden continually becoming heavier, the cooperatives' appetite for exemptions increased, these formulations were again and again redrafted. Although some congressmen tried to make the fundamental constitutional principle of equality under the law prevail, the cooperatives' prerogatives were virtually always enlarged by such redrafting.

Under this state of affairs, it is easy to understand why the cooperators are eager to make the discussion turn around the problem whether or not the cooperatives make profits in the technical sense that the income tax laws attribute to this term. This present legal definition of income was influenced by the intention of making the cooperatives exempt. It is no wonder that it can be interpreted by the cooperatives in their own favor.

Of course, these interpretations are contradictory and indefensible. No dialectical artifices can bring about a tenable definition of income that would include the surplus earned by a corporation and exclude that earned by a cooperative. But the exemption of the cooperatives does not depend on the definition of income as written into the law. The cooperatives are specifically exempt both by the federal and by the state laws.

A discussion concerning what the law should be must radically differ from the interpretation of the existing law. While the latter problem is strictly limited to the letter and the spirit of the law, the former knows only one yardstick, viz., public welfare and economic expediency.

Taxes are levied in order to raise the funds needed for the conduct of government affairs. To contribute one's share to these funds is a civic duty. It is not a penalty. The government does not penalize its citizens for owning a home, smoking cigarettes, or travelling on the railroad. It taxes them according to the standards provided by these conditions.

The same holds true for the income tax. It is not a penalty for having earned profits. Its idea is that people whose income is higher have a greater faculty or ability-to-pay than those with smaller incomes. (There is no need to investigate whether this ability principle of taxation is sound and whether it is not already at the point of showing its own absurdity.) But the cooperators, entangled in their prepossession that private profits earned by businessmen are an evil that must be eradicated, consider the income tax as a fine imposed upon the "profiteers." In their opinion the income tax is the legal vehicle to brush away profit-seeking business and to give to the cooperatives that role that the most ambitious cooperators are aiming at, namely, the exclusive monopoly in supplying the consumers with all commodities and services they are asking for and the control of the plants turning out these commodities.

At the bottom of the cooperatives' argument lies the idea that selling a commodity at a price exceeding costs incurred is unfair and should be penalized by confiscation of at least a part of the surplus. But if this were true, it would apply no less to the surpluses earned by the cooperatives than to those earned by corporations.

Let us review in detail the arguments advanced by the cooperatives in favor of their tax privileges.

1. The transaction between a cooperative and its members is not a sale and a purchase. The process, says an eminent spokesman of the cooperatives, Mr. James Peter Warbasse, President Emeritus of the Cooperative League of the U.S.A., is "simple. A group of people pool a certain amount of money with which they buy goods to put on the shelves of their retail store. They own the goods and so cannot sell them to themselves. When a member wants some of the goods, he goes to the store and takes away, for example, a can of peas. The peas are already his—he has already paid for them."¹⁹ Now, this description is from the beginning to the end inappropriate and misleading.

The group of people of whom Mr. Warbasse is speaking do not merely pool a certain amount of money. They establish an association

¹⁹Cf. Warbasse, *The Cooperative Way, a Method of World Reconstruction*, p. 115.

organized under the provisions of a specific statute of their state. They act in this way purposely and with full consideration of the law because they desire that this association should be recognized by the laws and the courts as a legal entity which can sue and be sued only in the corporate name and that the individual associates should not be liable for the debts of the association. Consequently it is not true that the members "own the goods and cannot sell them to themselves." The goods are owned by the association and not by the individual members. If a member wants to acquire them in a legally correct way—and not through theft or embezzlement—he must buy them from the association. He must not "take them away from the shelves." In this respect, there is not the slightest difference between a corporation and a cooperative. The member of a cooperative has no better title to take away a can of peas from the shelves of the cooperative store than has the shareholder of a department store with regard to the cans on the shelves of the department store.

This is not merely a legal technicality. It is the life blood of the cooperative that it is regarded by the laws as a person whose assets and liabilities are distinct from the assets and liabilities of its members. The whole system of cooperative business would immediately collapse if this principle were to be abandoned.

2. Even if one were to accept the vicious argument that the cooperatives in selling to members do not really *sell*, it would not fit all those frequent instances in which cooperatives sell to non-members. It is paradoxical that associations engaged in all kinds of wholesale and retail transactions, in export trade and in government contracts, resort to such a lame excuse.

3. The employment of the total gross surplus of sales proceeds over all costs expended is to be classified into three groups:

- a. One portion is laid aside in a depreciation fund to replace the equipment worn out.
- b. One portion is ploughed back into the business as an enlargement of the capital invested either in the existing outfit itself or in its affiliates.
- c. One portion is withdrawn from the business and goes to those entitled: the owner of the private firm, the shareholders of the corporation, and the members of the cooperative.

The portions *b* and *c* together are also from the legal point of view net income. The advocates of the cooperatives in contending that the patronage refunds are not profits refer only to the portion *c*. However, the portion *b* is no less important; it is even more important as the

main social and historical function of profit-making is the accumulation of additional capital. The enormous role that the ploughing back of profits and the investment of profits in new enterprises play in the evolution of cooperative business is well known. Almost all equity capital operating in the super-cooperatives and especially in their production and transportation enterprises was provided by such profits.

4. An examination of the principles and methods according to which the cooperatives conduct their business operations and of the rules they employ in bookkeeping and accounting clearly reveals that they are—like all other types of business enterprise—guided by the urge to make a surplus or profit and to avoid losses. Their reluctance to allow the use of the term “profit” with regard to their affairs is pure verbalism without any substantial foundation.

Let us look at an official document of the Cooperative League of the United States, published under the title *Learning the Language*.²⁰ Here the authors freely admit that “we,” i.e., the cooperatives, “are in business *to make money*.” Hence, they say, many cooperators ask the same question the private businessman does, namely the question: “Have we made a profit or loss?” The private businessman calls the statement which gives us the answer a “profit and loss statement.” But the authors of the booklet do not like this appellation. Cooperative accountants and cooperative members, they say, should avoid the use of the term “profit and loss statement,” preferring either “income and expense statement” or “operating statement.”²¹

This is a purely semantic manipulation. The authors do not even venture to demonstrate that these ominous “earnings,” which they want to withdraw from taxation, are not income or profit. All they do is to give them another name. If it were enough to avoid income taxes by changing the name of the “profit and loss statement” to “operating statement,” all private firms and corporations could do so.

The same verbalism manifests itself in the Cooperative League’s suggestion to substitute the term “savings return” for “rebate,” “patronage dividend,” or “purchase refund.”²²

5. The cooperatives deny that they enjoy tax exemption and are thus privileged as against profit business. Their tax exemption, they say, is not a privilege as the private businessman could easily enjoy the same freedom. Let him give back to his customers the difference

²⁰Cooperative League of U. S. A., Pamphlet no. 43.

²¹Ibid., p. 18.

²²Cf. W. E. Regli, *A Primer of Bookkeeping for Cooperatives*, 2nd ed. (1937), p. 5.

between the cost price and the selling price, as the cooperatives do, and the problem is solved.²³ It is obvious that this reasoning does not apply to the tax exemption granted to that part of a cooperative's profits which is not distributed but reinvested. Neither does it apply to that part which stems from selling to non-members and from previous investment in affiliates. Setting aside these minor points, it must be observed that the concept of cost price is different with regard to cooperatives and with regard to the private owner of a store or a filling station. With the cooperative, it includes the salaries and other payments made to the officers and managers of the cooperative business. With the private grocer, it does not include a remuneration for the grocer's own labor performed. If the private grocer or owner of a filling station were to "give back" to the customers the difference between the cost price and the selling price, he would not have any income at all; he would work for a heavenly reward while only the staff of the cooperatives receives its pay.

III How Capital and Labor are Wasted by the Cooperatives

The eminence of the competitive market economy consists primarily in the fact that it ceaselessly tends to convey the means of production into the hands of those people who employ them in the most economical way for the best possible satisfaction of the needs of the consumers. It tends to eliminate the less efficient producers and to give control of production management to the most efficient. To comprehend the meaning of this function of the market, it is necessary to realize that everybody's material well-being is harmed if material factors of production or human labor are anywhere employed in such a way as not to yield the highest output they could yield when more properly managed. As against more economical methods of operation, less economical methods result in a restriction of total output. They make the nation as a whole and all its members poorer.

In the absence of government interference with business an enterprise which requires a higher amount of capital and labor than is necessary under the given conditions cannot survive. As its costs of operation are higher, it is finally forced by more efficient competitors to go out of business. Only the most efficient outfits remain.

²³Warbasse, *The Cooperative Way, a Method of World Reconstruction*, p. 158.

But as soon as the government interferes by subsidies, cheap credit, or tax exemptions, the state of affairs can be altered entirely. If the inefficient grocer *A* is exempt from a tax which his more efficient competitor *B* is forced to pay, the power of *A* to stand the competition of *B* is strengthened. *A*'s operating costs proper (i.e., operating costs exclusive of taxes) are still higher than those of *B*. But against this difference in the operating costs proper must be held the advantage which *A* derives from tax exemption. Although *A*'s conduct of affairs is wasteful, although it absorbs an amount of capital and labor which, without curtailment of the services received by the public, could be made available for the satisfaction of other wants which cannot be satisfied precisely on account of *A*'s wastefulness, his shop can continue in business. The government shelters *A* against the consequences of his own inefficiency.

A's tax exemption is therefore not merely a matter that would concern exclusively him and *B* and would not affect the interests of all other people. What the government achieves by taxing *B* alone instead of distributing this tax equally between *A* and *B*, is not merely a disarrangement of the mutual competitive position between *A* and *B*. The main social and economic effect is the preservation of a high cost unit at the expense of a low cost unit, the preservation of a quite useless and obviously pernicious squandering of scarce factors of production.

This inefficient *A* whom the government pampers in order to make it possible for him to compete with *B*, is the cooperative in its capacity as a beneficiary of tax exemption and other government favors. It is of no avail how the friends of cooperativism try to justify these tax privileges in resorting to metaphysical arguments. The simple truth is: the government interferes in order to make it possible for the cooperatives to stand the competition of private business which they admittedly could not stand when unaided.

The fathers of the cooperative idea and the founders of the first cooperatives were committed to the erroneous belief that the cooperatives could serve the public at lower costs than private business. However, a century of cooperative experience has exploded this assumption as utterly delusive. The cooperatives did not stand the test. Where they thrive and as far as they thrive, they owe their existence to various government privileges, especially to tax exemptions and cheap government credit.

These privileges become the more valuable for the cooperatives and the more detrimental for the nation's whole industrial effort and

economic well-being, the more the cooperatives engage in production activities.

In the unhampered market economy there prevails a tendency to invest capital available for the execution of new projects only in those enterprises which offer the best expectations that they will avoid waste and inefficiency. However, favoritism shown to the cooperatives counteracts these tendencies. As the government on the one hand taxes private business heavily and taxes the corporations twice and on the other hand leaves the cooperatives free, it gives to inefficient cooperative factories the delusive appearance of efficiency and the opportunity to amass a surplus. The champions of cooperativism are boasting that today in the United States owners of factories approach cooperatives and offer to sell their plants and that the banks come to the cooperatives and tell them where there is a factory that can be bought cheaply and offer to lend the money to buy it.²⁴ Such offers are, however, not as the cooperative champions assume, the proof of the superiority of the cooperative mode of production. They merely show that factories which on account of the fact that they are producing at too high a cost are doomed on the free market, can quietly survive as soon as the ample privileges of the cooperatives are granted to them.

While the tax system both of the federal government and of the states considerably checks the accumulation of capital on the part of corporations, private firms, and individuals, it encourages capital accumulation on the part of the cooperatives. The cooperatives are fully aware of the tremendous potentiality of this state of affairs. They have coined the slogan "*Factories Are Free*."²⁵ Their most eminent spokesman, in reporting a definite transaction of a consumers' cooperative, says: "It was good business for the members of the cooperative, for without sacrifice on their part they made themselves the owners of a manufacturing business."²⁶ Now, there are no such things as can be acquired without sacrifice. It is true that the members of the cooperative acquired the manufacturing business in question "without sacrifice on *their* part." But this was only the case because the government forced other people to make a sacrifice for the benefit of the members of the cooperative. It forced these other people to pay higher taxes in order to free the cooperative from the burden of taxes. The cooperative acquired the

²⁴Ibid., p. 45-46.

²⁵Ibid., p. 46.

²⁶Ibid., pp. 46-47.

factory by a subsidy which it received in the shape of tax exemption.

The cooperatives in dealing with their expansion pass over their privileges in silence. They ascribe their success exclusively to the fact that they "do not have to make any profit."²⁷ It is not necessary to enter anew into an examination of all the problems implied in this profit issue. Let us look at the matter from a purely pragmatic point of view.

The essential point in the reasoning of the fathers and pioneers of cooperativism was this: the retailers and distributors, these quite useless middlemen, enhance the price of the commodities because they are anxious to make profits. The cooperators will eliminate profit and thereby be in a position to sell the goods to their members at lower prices than those charged by private profit-seeking business. As everybody is eager to buy in the cheapest market, the evolution of the cooperatives will very soon supersede the private retailer.

History has entirely refuted this doctrine. The cooperatives are not in a position to stand the competition of private profit-seeking business. They would have long since completely disappeared if they were not to enjoy ample privileges on the part of the government.

The very fact that in spite of these privileges they have not made greater inroads into the field of retailing is a proof of their inherent inefficiency.

By splitting hairs and indulging in subtle syllogisms concerning the concepts of profits, savings, earnings, surplus, costs, and so on, the cooperators evade the discussion of the main issue. In a free country, such as the United States, the immense majority of the buying public prefers to patronize private business and not the cooperatives. The cooperatives always insist upon the fact that they give back to their customers the difference between the cost price and the selling price in the shape of the patronage dividend while private business, as they say, retains this difference as profit. But the intelligent customer in choosing between private business and cooperative business takes into account all the terms of the contract, the quality of the merchandise as well as its price and the value of all the further services rendered by the seller; in considering a purchase with a cooperative, he also takes duly into account the patronage dividend to be expected. It is a fact that in the United States, this comparison between the private store and the cooperative store in the immense majority of cases decides in favor of private business. The conduct of the American people in buying bears witness to the fact that one buys

²⁷Ibid., p. 46.

cheaper or better or both cheaper and better in the private store notwithstanding the patronage rebate. Hence it is proved that the private businessman's profit is not due to overcharging the customer. It is earned by an enterprise that in the majority of cases serves the consumer better and cheaper than the "altruistic" cooperative. The cooperatives have no reason whatever to boast of the patronage dividends. The private retailer is giving the customer more, either in the shape of better merchandise or of a lower price or of other services.

IV

Cooperative Operation of Manufacturing and other Production Enterprises

The spectacular expansion of manufacturing and other production and transportation activities of the cooperatives and of the various associations of cooperatives was, as has been already mentioned above, a consequence of the fact that the tax privileges of the cooperatives became the more valuable the more the taxes for the groups of business not tax-exempt were made increasingly burdensome.

The differences between a production plant owned and operated by a cooperative or an association of cooperatives and such a plant owned and operated by a corporation or a private profit-seeking firm are two-fold:

1. The former's management is less efficient than the latter's.
2. The former enjoys privileges in the field of taxation and credit procurement which are denied to the latter.

Those who would be prepared to question the first of these statements are at a loss to explain why the competition of these privileged enterprises does not completely crush their non-privileged competitors. An eminent expert, Mr. A. G. Black, former governor of the Farm Credit Administration, declared prior to the Second World War that "when taxes are absorbing a large part of the earnings of private business, the cooperative form of business really provides an enormous advantage."²⁸ This enormous advantage is entirely swallowed by the cooperative bureaucracy to offset the inefficiency of their conduct of affairs. No part of it is passed on to the consumers as the consumers, due regard being had to the

²⁸As quoted in *Tax-Free Manufacturing Cooperative Associations* (prepared by the National Tax Equality Association., 1945), p. 2.

quality of the products or services rendered, are not supplied by the cooperatives at lower net prices (that means: prices minus patronage dividends) than those of the private firms which are not tax-free. Neither do the workers employed in the cooperatives' plants receive higher pay than other workers.

The nation's treasury, in granting these tax privileges to the production activities of the cooperatives, renounces revenues which it would pocket if these plants were owned by corporations or if no privileges were granted to the cooperatives. Public expenditure must be curtailed correspondingly. Some benefits which a budgetary allowance could make must be foregone. Who profits from all this? The answer is: nobody. The equivalent of the drop in revenue is squandered by ineptitude, negligence, and clumsiness.

If this were not true, the cooperatives could either, selling at the same prices as other firms, reap enormous profits or, at lower prices, ruin all their rivals. In either case, they would have long since already reached what they consider as the ultimate goal of their movement, namely a state of affairs under which the cooperatives produce in their own factories everything that their members require. The mere fact that their success was much more modest proves that there is in cooperativism itself a factor that checks its progress in spite of the enormous support they receive from the government. We cannot help calling this factor economic inferiority.

V

How Favoritism Harms the Cooperatives

Favoritism harms those favored no less than those at whose expense the favors are granted. It corrupts and enfeebles the protégé.

Placing their trust in political tutelage, the cooperatives have often neglected to appoint as officers, managers, and staff members men efficient in the conduct of business and have given preference to people versed in political affairs, propaganda and lobbying and popular with politicians and bureaucrats. In the continental countries of Europe whose cooperative activities the American cooperators praise lavishly and set up as a pattern for their own activities, the cooperatives are in complete dependence on the various political parties. Each of the most important parties—especially the Social Democrats, the Catholic Socialists, the non-Catholic Christian Parties, the various nationalist parties—has established its

own system of cooperatives which closely collaborates with the political leadership.

Private business is eager to succeed by improving the quality of its products and services and by lowering their prices. It resorts to advertising in order to make the public familiar with the commodities it offers for sale. A profit-seeking merchant's advertisement sets into relief the advertiser's own achievements and the advantages which the prospective customers could derive from them. It never smears the competitors. The propaganda of the cooperatives is at a loss to find enough praiseworthy in the cooperatives' own accomplishments. Its leitmotif is the vilification of private enterprise and the insinuation that its profits are earned by cheating the customers.

When the private merchant is dissatisfied with the yield of his store, he tries to improve his conduct of affairs. When a cooperative works unsatisfactorily, the first thought of the responsible officers and managers is not the recourse to an appropriate reform of the operations. It is easier for them to ask for more tax exemption and for more and cheaper public credit.

The authors of the innumerable books, pamphlets, and periodicals published by the cooperative propaganda are so much preoccupied with the political aspects of cooperativism that they never raise the question which cannot be answered without entirely exploding the essential dogmas of the cooperative movement. They never ask: Were the fathers of cooperativism right in assuming that the elimination of profit will make it possible to supply the consumer more cheaply than he is supplied by profit-seeking business? If the answer to this question were to be given in the positive, it would be impossible to explain how private business—even apart from all the privileges granted to the cooperatives—could compete with the cooperatives. The spectacular failure of the consumers' cooperatives in the urban agglomerations of the United States, that is the only problem to be dealt with by a serious and honest book on cooperativism. How could this failure happen in spite of all taxes charged to private business and of all the ample privileges accorded to the cooperatives?

The champions of cooperativism think that they have sufficiently excused themselves from answering this question by heaping invective and insulting terms on all those who disagree with them. The foul language the pro-cooperative literature employs in its polemics is utterly disgusting. But the very fact that they resort

to such abusive words proves that they are fully aware of their inability to refute the objections raised by the economists.

Neither is it of any use to throw dust in people's eyes by expatiating upon the success of cooperativism in other parts of the world. The fact that Iceland is in proportion to its population the "most highly cooperatized country in the world"²⁹ does not outweigh the fact that the United States, the country with the highest standard of living, is—as far as consumers' cooperatives are concerned—the least cooperatized one. The expansion of cooperativism in those countries of Eastern Europe which never experienced liberal institutions will certainly not count very much in the eyes of the citizens of free countries.

The cooperative literature lacks entirely the spirit of self-criticism and realistic appreciation of facts. It is full of conceit, vainglory, and self-adulation. It repeats again and again old fallacies, a hundred times refuted, and never gives a serious thought to any new idea. It thus faithfully mirrors the intellectual sterility of a movement which owes its development exclusively to the benevolent partisanship of the politicians.

Conclusion

The cooperative movement is entirely based on the every popular but utterly fallacious idea that profit is an unfair toll which the businessman levies on his patrons and on the contention that, by rights, the businessman should not ask more than what the merchandise cost him. The cooperatives were designed as devices for the general abolition of the vicious practice of selling above costs.

Experience of a hundred years of cooperative association has clearly proved that cooperatives are not able to take their chances on a free market. They cannot maintain themselves by their own efforts. At least it cannot be denied that there is no record of cooperatives which did stand the competition of private business without government favoritism. In all countries of the world, the cooperative movement owes its development and its present expansion, whatever they may be, to tax exemptions, cheap government credit and other privileges. In passionately asserting that the abolition of these privileges would amount to a suppression of the cooperatives, the spokesmen of the cooperatives confess that they themselves consider these privileges as

²⁹Cf. Warbasse, *The Cooperative Way, a Method of World Reconstruction*, p. 126.

indispensable for the survival of cooperativism.

Business is not an end in itself. It exists and operates for the benefit of the public. The only justification of the conduct of a business lies in the patronage voluntarily given to it by a sufficient number of people. If people do not patronize a shop of their own accord, it is certainly not the task of government to favor it at the expense of the public revenue and thereby to bring to it as members people who are eager to share in the enjoyment of these favors. A business outfit that owes its survival to political pressure and not to the voluntary support of the buying public is parasitic. Its preservation results in the squandering of labor and material factors of production, it curtails the total amount of goods available for consumption, it is pernicious from the point of view of public welfare.

The cooperative type of business organization can justify its existence only by renouncing the privileges which it enjoys today. Only as far as the cooperatives are able to hold their own without the support of tax exemptions, cheap government credit and other favors can cooperativism be considered as a legitimate method of doing business in a free society.