

UNITED STATES DEPARTMENT OF LABOR

FRANCES PERKINS, Secretary

BUREAU OF LABOR STATISTICS

ISADOR LUBIN, Commissioner

BULLETIN OF THE UNITED STATES }
BUREAU OF LABOR STATISTICS } No. 598

COOPERATION SERIES

**ORGANIZATION AND MANAGEMENT
OF CONSUMERS' COOPERATIVE
ASSOCIATIONS AND CLUBS**

(WITH MODEL BYLAWS)



JULY 1934

UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1934

For sale by the Superintendent of Documents, Washington, D. C. - - - - Price 10 cents

LETTER OF TRANSMITTAL

UNITED STATES DEPARTMENT OF LABOR,
BUREAU OF LABOR STATISTICS,
Washington, May 3, 1934.

HON. FRANCES PERKINS,
Secretary of Labor.

MADAM SECRETARY: I have the honor to transmit herewith a report intended for the use of groups wishing to organize cooperative buying clubs or consumers' cooperative societies on the Rochdale plan. This bulletin has been prepared at the request of the Consumers' Advisory Board of the National Recovery Administration.

The contents of the present report are based upon many years' practical experience of the societies affiliated with The Cooperative League of the U.S.A., New York City. The Bureau takes this opportunity to acknowledge its indebtedness to the league, and especially to Dr. James P. Warbasse, its president, for the material furnished.

Respectfully submitted.

ISADOR LUBIN, *Commissioner.*

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ORGANIZATION AND MANAGEMENT OF CONSUMERS' COOPERATIVE ASSOCIATIONS AND CLUBS

Renewed and increased interest in cooperative effort is one of the results of the severe economic hardships of the past few years. This is not a new phenomenon. Years of general prosperity are usually lean years as regards the spread of the cooperative philosophy. That philosophy is primarily an economic one, making its appeal first to the financial self-interest of the individual, by the possibilities of savings that it offers. When times are good, when wages are high and money is plentiful, such small savings as the cooperative society offers make little appeal to the average wage earner in this country, especially considering the effort involved in obtaining these savings.

In hard times, on the other hand, with decreased employment and lessened income, the wage earner is forced to take stock of his position and look about for possible ways of improving it. It is under such conditions that consumers' cooperation makes its greatest appeal.

The average working man who thinks of joining a cooperative thinks only of saving for himself the retailer's small net profit. He does not take due account of the fact that retail cooperative societies unite to form wholesales, and that these wholesales go into manufacturing and the production of raw materials, and that the great cooperative movement of the world is moving on to put into the pockets of the consumers that vast fund known as the "profits of business." This is known to be a very concrete fact in those countries where a large part of the people supply their needs through their cooperative societies.

The distinguishing feature of the cooperative system is that it exists for the common good. All land, buildings, or goods acquired become the common property of all the members. Every economy in distribution or manufacture and every advance in efficiency made within the society benefits every member of it, instead of going to swell the profits of some one person.

In an association organized on a truly cooperative basis there is genuine democracy. Membership is voluntary and open to all. Shares are of low denomination and may usually be paid for in installments. At meetings each member has 1 vote and no more, regardless of the amount of stock held. In order to insure comparative equality in the financial status of members the number of shares that may be held by any one member is limited. Capital receives interest at no more than a legal rate, it being the cooperator's idea that the owner of capital should receive a fair price for the use of his money, but no more than a fair price. The possessor of a great deal of money therefore has no more power in the affairs of the society and no higher status than his poorer fellow members. In the cooperative movement all are on the same footing. It has been said that the motive power of the movement is the man and not his money, and this principle is logically extended to every part of the movement, federations as well as retail societies. No financial group can obtain a controlling interest in a retail cooperative society; and such a society can increase its power over the policy and operations of a cooperative wholesale society only by increasing its membership. On the other hand, all the economy which results from the combination of a large number of industrial operations under one management can be obtained under the cooperative system through the method of federating societies for the purposes of wholesale trading and manufacture.

If cooperative organizations are to be successful it is necessary that all of the above conditions obtain and that certain fundamental principles be followed in both organization and operation. This has been disclosed very clearly by studies made by the Bureau of Labor Statistics and by experience both in the United States and abroad. Given adherence to these basic principles and an enlightened and interested membership, cooperative organizations will succeed. Lacking these they fail entirely or become noncooperative organizations. This being so, it is desirable that proper guidance be available to wage earners wishing to better their economic condition through the pooling of their purchasing power along cooperative lines.

This bulletin is concerned with methods of organization for consumers' cooperative associations of all types, whether for the supply of goods or services. Model bylaws, together with explanations (where necessary) of the reasons why particular provisions are desirable or important are also given. As is pointed out, the consumers' cooperative law of the particular State should be studied before bylaws are finally adopted, as the various States set certain requirements which must be met by cooperative societies incorporating within their borders.

Part 2 of the report presents information and bylaws adaptable to the more elementary form of consumers' cooperative effort—the cooperative buying club. Under the club form there is no store or other establishment, the members merely pooling their orders, making the purchase from private merchants, and dividing up the goods when delivered. Clubs are excellent as training for eventual operation of a consumers' cooperative association and are often a preliminary step to that end.

Part 1.--Organization and Management of Consumers' Cooperative Associations

The Idea Behind the Cooperative

Cooperative business differs from profit business in spirit and purpose, as well as in method and structure. There is a distinction between the private dealer and the consumer who is seeking service. In the ordinary shop, the counter separates people with different economic interests; in the cooperative, the customer in front of the counter is the employer of the clerk or manager behind the counter.¹

Starting Right—First Steps in Organization

The most effective group with which to begin organizing a cooperative society is one in which the members have personal acquaintance with each other. It is best that members should be neighbors; or persons bound by some fraternal tie; or members of the same labor union, community center, farmers' fraternal or marketing or other organization, which already gives a sense of kinship.

Before launching a cooperative business the group should meet regularly for the purpose of studying and discussing the history, the methods, and the possibilities of cooperation. Literature on the subject should be distributed. Members of the group should individually secure as much information on the subject as possible. This preliminary education has been found by experience to be important.

The Preliminary Survey

An advance survey of the proposed field is essential for the following reasons:

(1) An association whose members are not familiar with the principles and methods of cooperation is not on a sound basis. It

¹ For a good exposition of the philosophy of cooperation and of the differences between cooperation and profit business see any of the following:

American Labor Monthly, July 1923, pp. 64-69: "The Place of the Cooperative Movement; the Consumers' Philosophy", by Cedric Long.

Harris, Emerson P.: *Cooperation, the Hope of Consumer*. New York, The Macmillan Co., 1918. 328 pp.

Warbasse, Dr. James P.: *Cooperative Democracy through Voluntary Association of the People as Consumers*. New York, The Macmillan Co., 1927. Second edition. 831 pp.

cannot succeed without real cooperators—men and women who understand the meaning of distribution for service instead of for private profit.

(2) There must be a genuine economic need for the cooperative venture; high ideals alone will not sustain it for any length of time. The preliminary survey must, therefore, establish the fact that a reasonable number of families need higher quality goods at better prices than are otherwise obtainable.

(3) Certain classes of the population do not offer a promising field for cooperative effort. Thus, the economic status of the families in the community should be considered. The comfortable middle class does not generally make good material for cooperative organization; neither do the very poor, the casually employed, nor the shiftless form a substantial membership for the cooperative association. Those living at the poverty line, no matter how cooperative they may be in spirit, must seek immediate bargains; they cannot afford the luxury of present sacrifices for the sake of future benefits.

(4) It is essential to ascertain what men and women may be counted upon to help with the initial problems of organizing the business. The survey should find out where technical information of a financial or legal nature may be procured. It should note the nature of the competition that is to be met. It should provide the information required by the organizers and help to determine whether there is a chance to establish a successful store, or whether it may be better to begin with the more informal cooperative buying club which requires less capital, runs with lower expenses, and offers fewer technical difficulties.²

Number Necessary to Start

As few as 75 or 100 families may start a store if they are familiar with the methods of cooperation. If they stick together through the difficulties of the first year, giving it all their patronage and support, they may expect to succeed. In a city the number should be 200 or more members. In this connection, however, it is well to bear in mind that some of the early members may desert the organization and that a small membership does not create sufficient trade.

A store carrying a full line of general merchandise will require at least twice as much capital as one carrying only meat and groceries. The latter might get along with \$3,750³ if an inexpensive line of fixtures is to be installed and members are to pay cash for all goods purchased. These figures are for stores started in rented quarters. If a building is to be erected or bought, which is most inadvisable

² For directions for starting such a club and for model bylaws therefor, see pp. 59 and 67.

³ This is the figure set as a minimum by The Cooperative League (New York City) on the basis of the experience of its member societies.

at the early stage, the required amount of capital increases accordingly.

So important is constant patronage to the success of the society that the policy of not allowing nonpurchasing members any vote is worth considering, if the State laws permit such a policy. Every member should agree to trade at his store. Without such support the store cannot prosper.

Preliminary Organization Work

The essentials of a well-informed initial membership will not be met unless many preliminary meetings for discussion are held and house-to-house canvassing carried on. This requires volunteer work on the part of the first members, and some money for printing, hall rent, etc. The money for such organizing should not come out of share capital contributed by the members but should be raised through voluntary contributions by all who are interested, through a per capita organizing assessment, or through special social functions. It is often necessary to get direct contributions and then raise other money in addition. An organizing fee, say 50 cents for each member, may be collected.

Those who are to be the active organizers and canvassers should know what cooperation means. Great injury has been done to the cooperative movement by organizers who have not understood consumers' cooperation and who have therefore given a false impression to the members they enrolled. Organizers should not make exaggerated claims of the benefits of cooperation; they should not promise large rebates, cut rates, rapid expansion to other communities, nor extension of credit. Such promises encourage people to become members with false hopes, and when the promises are not fulfilled the reputation of the society is damaged.

Thus there should be careful instruction of the organizers. They should be familiar with cooperative history and theory. They should realize that only small benefits are likely to come to the cooperative membership during the first year. They should convey to others the ideal of a nonprofit business institution. If possible, some of the early members should attend training schools or the summer institutes conducted by central cooperative organizations.⁴ Failing this, they should subscribe to a correspondence course on cooperation.⁵

⁴ Such courses or institutes have been given by the Central States Cooperative League, 1410 North Main Street, Bloomington, Ill.; Northern States Cooperative League, 2100 Washington Avenue North, Minneapolis, Minn.; Eastern States Cooperative League, 112 East Nineteenth Street, New York City; and Central Cooperative Wholesale, 1700 Winter Street, Superior, Wis. Information as to which leagues are holding or planning such courses at any given time can be obtained from The Cooperative League of the U.S.A., 167 West Twelfth Street, New York City.

⁵ Such a course is given by The Cooperative League, 167 West Twelfth Street, New York City.

If organizers do their work without pay there will be no charges brought against them later that they were "out to make all they could get." However, it is often necessary to pay organizers enough to cover actual outlay and sometimes a small wage. If all possible publicity is given to such remuneration, there is no actual harm done. There must, however, be no impairment of capital to cover such organizing expenses.

As soon as enough intelligent interest has been created and a sufficient number of members enrolled, the organization of the cooperative society may begin. A preliminary committee should be appointed. Its duty should consist in securing all available information on the details of organization; such information can be obtained from the district cooperative league or from the national cooperative organization.⁶ The committee should consider the qualifications of its members with a view to making nominations for the board of directors and the necessary committees at the organization meeting. It is advisable also, during the preliminary period, for the committee to give thought to the selection of a manager for the store.

First Organization Meeting

When this preliminary work has been done, when sufficient capital and an adequate number of members pledged to trade at the store are assured, an organization meeting should be called, but not until then.

The business to be transacted at the meeting may include:

1. Explanation of the purposes of the meeting, and discussion.
2. Adoption of temporary bylaws.
3. Election of board of directors.
4. Election of committees.
 - (a) Committee on constitution, bylaws, and incorporation.
 - (b) Committee on membership.
 - (c) Committee on education.
 - (d) Committee on business.

The conveners of the meeting should come prepared to explain in detail the purposes of the meeting and the reason for organizing a cooperative association, and they should invite all the discussion possible. If those present do not seem sufficiently interested in the idea, committees may be appointed for further canvassing or a more complete survey, but no actual organization should be attempted. However, if those present are enthusiastically in favor of proceeding with organization, regular committees should be appointed as

⁶ These leagues are as follows:

The Cooperative League of the U.S.A., 167 West Twelfth Street, New York City.

Eastern States Cooperative League, 112 East Nineteenth Street, New York City.

Central States Cooperative League, 1410 North Main Street, Bloomington, Ill.

Northern States Cooperative League, 2100 Washington Avenue North, Minneapolis, Minn.

outlined above. Tentative rules or bylaws should also be presented at this meeting so that those present may know how a cooperative association is organized. The committee then elected to take care of bylaws and incorporation will modify and enlarge the rules already approved and will take up the question of incorporation under the laws of the State. This committee should write to the secretary of state and to the nearest district cooperative league for information, and again for approval of the bylaws when completed. These precautions insure their legal correctness and their adherence to cooperative principles and practices.

The committee on membership will seek new members. The committee on education will plan further meetings of the present members, with adequate educational programs. (For a typical blank for membership application, see p. 58.)

The business committee will look into the matter of location for the store, fixtures, stock of goods, manager, bookkeeping set-up, etc.

The meeting should not close until everyone present has had a chance to raise any other questions that seem important. Much better results will come from such a meeting if a group of women is appointed ahead of time to prepare some simple refreshments, or if some other entertainment or social diversion is planned.

Constitution and Bylaws

Before the society begins business it should draw up its articles of incorporation and adopt a set of bylaws. (For model bylaws, see p. 39.) This may serve as a basis, but should be modified to fit the specific local needs and the State law.

The form for the constitution or the articles of incorporation is usually established by the laws of the State and must be closely followed, although the details are determined by the local society to meet its own particular needs.⁷ It is often necessary that most of the provisions contained in the articles of incorporation be repeated in the bylaws, unless both documents are to be published together and put into the hands of all members.

Rochdale principles and methods should be incorporated in the bylaws and adhered to in the administration of the society. To depart from these is to invite failure.

Rochdale Principles

1. One vote only for each member, regardless of number of shares held. No voting by proxy. Democratic control. Business conducted to supply the members as consumers with commodities or services for their own use.

⁷An analysis of the various State cooperative laws can be obtained from the U.S. Bureau of Labor Statistics, Washington, D.C., on request.

2. Capital to receive interest (if any is declared) at not more than the current legal rate in the territory where the association is located.

3. Net surplus savings ("profits") to be returned as savings returns, or patronage refunds ("dividends"), in proportion to the patronage of each member, or to remain in the society's treasury as share or loan capital credited to the members' accounts, or to be used collectively for the general social good of the members, or to remain temporarily undivided.

Rochdale Methods

1. Unlimited membership.
2. Business to be done for cash.
3. Appropriation, out of net savings, of a substantial sum to be placed in the reserve fund.
4. Goods to be sold at current market price—not at cost.
5. Education in the history and methods of cooperation to be carried on.
6. Efficient bookkeeping and accounting, outside audits, and regular reports to members to be required.
7. Manager, treasurer, or anyone else handling large amounts of money to be bonded.
8. Affiliation as soon as possible with the nearest district cooperative organization and the nearest cooperative wholesale.

Articles of Incorporation

Associations should write to the secretary of state at the State capitol for a copy of the law governing cooperative associations. Even though in many States the law under which societies must incorporate is weak from the cooperative standpoint, incorporation is advised because it protects the individual members from extra liability for the debts of the society and gives certain other legal advantages.

The number of incorporators required varies from State to State, but usually the application must bear the signatures of 3, 5, or 7 persons. Such information as the following is also required:

- Proposed name for the association.
- Purpose for which it is formed.
- Whether it is to be a stock or a nonstock corporation.
- The amount of capital stock (if a stock corporation).
- The par value of a share and the number of shares to be issued.
- Limitation of interest on share capital.
- Limitation on number of shares to be owned by one person.
- The minimum amount of stock with which the association begins business.
- Limitations of voting power.

Methods of distributing surplus savings.

Time and place of annual meeting.

The name of the city or town, and county in which the head offices are located.

The length of time the association is to remain in business.

The number of its directors, with their names and addresses.

The names and addresses of the incorporators, with number of shares for which each has subscribed.*

The State usually charges a filing fee.

A seal should be designed and ordered.

Bylaws

Whereas the articles of incorporation establish the legal status of the society, the bylaws are the common rules governing the relations of the members, their officers, and their employees; they bind these members together in a voluntary association. The chief points to be covered in the bylaws are the following:

Name.—This should always include the word “cooperative.” The word “society” or “association” is better than “company.”

Purpose.

Membership.—Limitations, duties, and responsibilities.

Capital.—Total amount authorized, interest to be paid, value of the share, how subscribed and paid, etc.

Meetings.—Date, how called and conducted, quorum, special meetings, etc.

Directors and officers.—Number, how elected, duties, disqualifications of, vacancies, meetings, etc.

Voting.

Surplus savings.—Distribution to interest, reserves, education, savings returns.

Management.

Committees.—Designation of, and duties.

Bookkeeping and auditing.

Miscellaneous provisions, such as bonding, fiscal year defined, cash sales or limitations upon credit, complaints, amendments.

Certain States⁹ permit the incorporation of consumers' cooperative societies as membership or nonstock associations. There are some advantages in such a form of incorporation, but a central cooperative organization should be consulted before positive decision is made.

Membership

Cooperative associations are benefited by increase of membership. New members (and more shares) not only add prosperity to the group, but keep the association from being an exclusive and closed corporation run in the interest of a few.

* Advice on incorporation may also be procured from the various district cooperative leagues. See note 6, p. 8.

⁹Alabama, California, Nevada, New York, Oregon, Washington, and Wisconsin.

Some associations exclude from membership all individuals who are engaged in a business competing with that of the cooperative or who directly benefit from such competing business. This rule is contrary to strict Rochdale methods and should be adopted only where there is real danger of injury to the association or interference with its development.

The store may sell to nonmembers. While the law in some States provides for the payment of patronage rebates to nonmembers, this is not found to be good practice. Cooperative associations make profit from nonmembers, and profit is not the purpose of cooperation. However, every inducement should be offered nonmember purchasers to become members. The growth of the ideal of cooperation depends on the policy of membership open to all, irrespective of creed, race, sex, or station.

The best cooperatives provide for means of buying back the stock of inactive members and reselling it to active patrons who have not yet become members. This eliminates the "dead wood" within the association and insures an active membership. In a consumers' cooperative association the body of patrons and the body of shareholders should be as nearly identical as possible.

Capital

Share Capital

The price of a share in a store association should range from not less than \$10 to not more than \$50. If the State law sets the value of a share at \$5¹⁰ or at some other small sum, each member should be required to subscribe for several shares. The shares may be paid for in installments. A part of the amount subscribed should be paid in at the time the organization of the store is being planned, and at least three quarters (but preferably all) the subscribed capital of each member should be paid up before the store is opened for business. Cash refunds and interest on stock (and in some instances voting privileges) are usually withheld until the shares are fully paid for.

It is a fundamental of consumers' cooperation that shares shall never be given a value above their par or original value.

No eligible person should be refused admission because he has not the money to buy the required shares of stock. Such a person should be permitted to join upon the payment of \$1, or whatever amount he can pay. The surplus savings due him from his patronage should be applied to the payment of his stock. He becomes a member with full privileges when the necessary amount of stock has been paid for.

One hundred and fifty members, each subscribing \$25, would give an initial capital of \$3,750. There is, however, a decided advantage

¹⁰ As in New York.

in beginning with at least 200 members, each subscribing \$50, which provides a capital of \$10,000. A store with such a capital can buy to better advantage than one with a smaller capital, and in many other ways will work more effectively. Members should be encouraged to subscribe for more than the minimum number of shares required by the rules.

If the capital cannot be raised at the outset it is wiser to postpone starting until it can. To fail to raise capital is better than to fail later for the want of it. However, many stores start on a few hundred dollars only, especially in small villages. With extreme economy of expenses and by maintaining a small inventory, such stores may become successful, provided there is the proper cooperative spirit among the members.

Loan Capital

Additional capital may be secured later if the members allow their savings returns and interest to remain on deposit with the association in the form of share or loan capital. Loan capital may also be borrowed from members and nonmembers.

Interest is paid on such loans at the current rate.

Amount of Single Holding

The amount of share capital that any person may hold should be limited to \$1,000; but the loan capital may be extended above that amount indefinitely, provided no large loans of any character are negotiated or accepted by the manager without the knowledge of the board.

The number of shares is unlimited and they never go above par. This prevents speculative traffic in shares, for they cannot be held at a premium.

Withdrawals

Withdrawal of share capital should not be allowed unless it can be done without injury to the society. The board of directors may allow a member leaving the community, or one in distress, to transfer his shares to another member or to a person satisfactory to the association; or where the law does not expressly forbid, the board may purchase such shares out of the surplus funds of the association. Unless there is a rule against unrestricted withdrawals, anyone may furnish a pretext for withdrawing. This permits enemies or dissatisfied members to spread false or discouraging reports and start a run on the association, possibly wrecking it by rapid withdrawal of capital.

Loan capital should be withdrawable in small sums on 7 days' notice, but in large sums only on 60 or 90 days' notice; otherwise there is a danger of a run on the loan fund in time of strike or other unem-

ployment or hard times. Preferred capital stock may be issued. This cannot be withdrawn on such short notice; therefore it is a safer form of capital for the association to raise than the loan capital. On the other hand, members are not so ready to subscribe for stock which they cannot dispose of in an emergency.

None of these forms of supplementary capital should be allowed to become large; the chief reliance should be placed upon the ordinary share capital of the members.

Interest on Capital

At the time of starting the association, the maximum rate of interest on capital stock should be decided upon. It should never vary with the surplus savings, though it may vary as the association itself needs more or less capital and thus increases or decreases this form of encouragement of investment by the members. The most that is paid is the legal rate; but if, as in some parts of Canada, the legal rate is 10 percent or upward, then the cooperative limit should not be more than 6 percent or 8 percent. In the absence of any legal requirement on this point, the association may decide to pay no interest on amounts less than \$100, or even to pay no interest at all.

Before any decision is made regarding the interest rate, the cooperative law should be consulted, as some States set specific rates to be paid on capital stock.¹¹

Meetings

It is customary to hold general meetings of the stockholders quarterly. It is better to hold them monthly if material for interesting discussion is available.

The annual meeting is the most important of all, for here the elections take place and the annual financial report, manager's report for the year, and other important matters come up for review.

The business transacted at all meetings usually consists of reports of officers, committees, and manager; discussion of reports; disposal of net surplus savings for the period in review, elections, other new business. Notice of meetings should be sent out at least 10 days in advance. The date for the annual and semiannual meeting should be set late enough to allow the auditor time to prepare his report before the meeting.

¹¹ Thus, the rate is set at not to exceed 5 percent in Massachusetts; at 5 percent on ordinary and 6 percent on permanent stock in Pennsylvania; at not to exceed 6 percent in New York, North Carolina, and Vermont; at not to exceed 7 percent in Michigan; at 8 percent in Montana and not to exceed 8 percent in Alaska, Minnesota, Nebraska, North Dakota, Oregon, Washington, and Wisconsin; and at not to exceed 10 percent in Iowa, Missouri, and South Dakota. In the other States this point is left to the discretion of the membership.

The number of members constituting a quorum should be set by the bylaws. In small associations it may be 30 percent or 40 percent of the membership; in large ones it may be as low as 10 percent. In some States the minimum is established by law. Associations too large for a members' meeting should be divided into district sections, each having local autonomy and delegate representation in the central society's meetings.

Special meetings may be called from time to time, but only such business may be taken up as is specified in the call sent to the membership.

The privileges of the membership meeting should be clearly understood. While the meeting has the right to hire or discharge employees, interfere with management, or dictate the policies of the board of directors, such action on the part of the membership is unwise. Selection of the manager should be left to the board. The membership should only review the broad policies of the board and management, discuss them, and express approval or disapproval. If it disapproves, it should not attempt to dictate specific acts to either directors or manager, but it may in extreme cases recall the entire board of directors and elect a new one.

Discussion of political, religious, or other questions upon which the members of the association may be divided should not be permitted; such discussions cause internal strife and may do much harm to the organization. Cooperative associations should be neutral in these matters.

Meetings should be called by one or more of the officers. Special meetings may be called by the directors or by petition of a specified number of members.

Good speakers should be invited to address the meeting when such are available.

Following the business meeting it is always good policy to have an educational session. Let the members feel that this is their social center. Occasional entertainments, following the business meeting, with music, dancing, movies, and refreshments may wisely be provided.

Directors

The board of directors generally consists of from 5 to 11 members,¹² elected by ballot on nominations from the floor or by a

¹² But many State laws set a minimum number which must be observed. Thus, the directors must number not less than 3 in Kentucky, Minnesota, Montana, Vermont, Washington (stock), and Wyoming; not less than 5 in Alabama (stock), Alaska, Arkansas, Connecticut, Illinois, Iowa, Kansas, Michigan, Missouri, New Jersey, New York (stock), North Carolina, North Dakota, Oklahoma, Oregon, South Dakota, and Wisconsin; not less than 5 nor more than 9 in South Carolina; and not less than 7 nor more than 9 in Alabama (nonstock); and 6, 8, or 10 in Pennsylvania. In the remaining States the matter is left, either specifically or by implication, for the membership to determine.

nominating committee. It is advisable for them to be chosen at the first election to serve for different periods: One third of the directors for 1 year, one third for 2 years, and one third for 3 years, and at all subsequent regular elections, one third of the board for a full 3-year term. A small board of 3 or 5 elected for short but continuous service can often act more quickly and to better advantage, but the larger board serves to hold the interest of more members.

The board should meet once a week for the first few months, and once or twice a month thereafter. The directors should always bear in mind that they are acting for the association and are responsible to the members for the loyal performance of the following duties:

1. To engage a staff to undertake the work of the association, with suitable heads of departments, or a manager over all, and to determine the duties and salaries of each.

2. To provide suitable accommodations, machinery, and plant to conduct the association's business.

3. To insure that the business is carried on in accordance with the bylaws.

4. To control all investments, whether in shares and loans or in land, property, and fixtures.

5. To administer the distribution of savings such as for interest, reserve patronage refunds, and educational funds.

6. To consider and defray the administrative expenses, such as wages, rent, repairs, telephone, light, heat, delivery, insurance, taxes, etc., or to see that the manager takes care of these items.

7. To provide the best conditions and wages for labor in the association's employ; to demand and secure equivalent results in superior service, faithfulness, and diligence.

8. To call meetings of the membership regularly and to render all necessary reports thereto.

9. To maintain a direct and vital connection with other cooperative organizations both in this country and abroad.

10. To foster a spirit of enthusiasm for cooperative work both in the staff and in the members of the association, and to identify themselves with every good feature of cooperative activities.

Much thought should be given to the election of these directors, on whom rests heavy responsibility. They should be people of thought, level headed, and shrewd, with administrative ability, who understand that the best happiness consists in advancing one's self by advancing the welfare of one's fellow men.

It should be definitely established that no individual on the board of directors is himself engaged directly or indirectly in the making of profit from any business running in competition with that of the cooperative society. Each director should be expected to give loyal patronage to the cooperative store and his resignation should be asked for when he is no longer loyal. He should expect no pay for attendance at meetings or for other services in behalf of the association. Some associations pay a nominal amount to directors for attendance at meetings so as to insure the presence of the full

board, but the amount should not be large enough to tempt even the poorest members to seek the office for the sake of its financial rewards; \$1 or \$1.50 per meeting is enough. No director should be connected with any business which makes profit by any commerce or other transactions with the cooperative association, if such commerce or transactions are to the personal advantage of the director.

The board should be so selected that every large element within the membership is represented by at least one director. It is also well if these directors supplement one another; thus at least one should be efficient in bookkeeping, another in merchandising, another in educational and propaganda work, another in legal problems. The entire board should not be devoted purely to the theoretical and educational activities of the organization. All the directors should have a good knowledge of cooperative history, principles, and practical affairs. They should be selected for their good judgment, knowledge, and ability, and not for their capacity to talk.

They should supervise the manager but they should not dictate to him in matters of merchandise to be bought, prices to be paid, clerks to be hired or fired, or fixtures to be procured or rearranged. These are matters for the manager.

Directors should not be so engrossed in the commercial aspect of cooperation that they have no time nor interest to create a cooperative atmosphere within their immediate circle. They have an opportunity to develop interest and enthusiasm in the subject of cooperation, not only among the members but also among the employees.

The directors may elect an executive committee for certain special functions or to act in their stead in emergencies. Some associations create such a committee as supplementary to the directors.

Officers

Up to the time of the final organization the meetings should be informal and run by a temporary chairman and secretary elected from the floor.

All officers should be elected from and by the board of directors rather than by the membership at large. The former are better qualified than the latter to know who will fill the various positions most efficiently.

The president should be chosen, not because of his popularity or eloquence, but because of sound judgment, executive ability, honesty, knowledge of cooperation, and devotion to its cause. He should not be autocratic. He should preside at all meetings, carry out the will of the members, and zealously watch over all affairs of the association.

The vice president takes over the responsibilities of the president in the latter's absence.

The secretary may also be treasurer in the early years of an association.¹³ He is usually elected by the members and his services are gratuitous. He serves as secretary both at the meetings of the directors and at members' meetings. In small associations his duties are to keep the minutes and records, attend to all correspondence, and keep watch over the bookkeeping and accounts. He should also be the custodian of the seal, the stock certificates, and the membership records. The election to these offices of men who, though honest, are deficient in knowledge of accounts and business procedure, is unwise.

The accounts should be correctly balanced by the treasurer, who may pay all bills. The treasurer should also render periodic reports to the membership. In many associations the manager pays all bills and signs checks, thus fulfilling this function of the treasurer. The checks should be countersigned by the president or other countersigning officers. The directors should fully inform themselves from week to week how the association stands in its finances.

Voting Power

Equal representation must be insured by limiting each member to one vote irrespective of his ownership of share capital. This prevents privilege, insures democracy, and provides that membership shall forever remain open to newcomers on equal terms with the founders of the society.

All subscribers to the capital stock who have paid in full for their shares should be entitled to vote, except as any member may have been deprived of this privilege by action of the board of directors for some heavy indebtedness to the store, which practically destroys the value of his share capital investment. In some States full voting power must be granted when shares are subscribed for; and the subscriber immediately has full membership privileges. Unless the law specifically grants such privileges, however, it is well to withhold them until most of the subscribed capital has been paid in. Voting should be by show of hands or by "aye" and "no" voice, except in the case of election of directors or other matters on which there is a demand for a secret ballot.

Store Location and Premises

The location of the store should be given careful consideration. Generally it should be placed within easy reach of the majority of the members, otherwise the shoppers will save labor and go else-

¹³ Except in Montana, New Jersey, New York (nonstock), and Washington (stock), where the law makes no provision for combining the two offices.

where after their first cooperative enthusiasm has waned. It is not wise to place the new cooperative in a high-priced location with the purpose of catching transient trade and thus building up a large volume of sales with nonmembers. The cooperative is first of all a membership organization, and nonmembers should be sought only with the idea of making them members, not with the idea of making money from them.

The new cooperative society should not buy or build a store; it should rent its quarters and thus be in a position to move if the location does not prove desirable. Only in the very small country community where there is no danger of a mistake in location is it advisable to purchase or build. Sometimes an established grocer may be bought out with his line of goods and fixtures, but always it is better to fit up a store with new equipment and stock of goods. The old supply of groceries inevitably includes much that is deteriorated and otherwise unmarketable, and the fixtures may be out of date. Furthermore, the established old-line business has a reputation for being a profit-making concern and this reputation will carry along with the old equipment, regardless of the fact that the members know it has been bought out by the cooperative. The non-profit service idea is new in the community and should be built into a store that is as new and different from the others as possible.

Injury should never be done to an existing business if such injury can be avoided. If there is but one merchant in a town and the establishment of a cooperative store threatens to destroy his business, every consideration should be given to purchasing his business at a fair price and making him manager of the cooperative store at a fair salary. This latter is naturally predicated upon the possibility of his genuine sympathy with the cooperative method.

Beginning of Operations

The association having been organized, the future possibilities of the town or neighborhood and the chances for expansion of the association must be considered. Two important factors of success must be discussed and determined in advance:

(1) The average amount of monthly sales as a whole, and to each member, and the kind of merchandise to be handled; and (2) the cost of operating the business.

In a large city the general merchandise store will be found impracticable and the society will begin with groceries only, or with meat, fresh produce, and groceries, or perhaps only with meat and fresh produce (the two items in which there is the least severe competition from the chain grocery stores). In the country community or mining town the sale of general merchandise, work clothes and

shoes, work tools, perhaps some stationery, piece goods, and children's clothing, will often be advisable. The number of commodities carried will be determined by the demands of the members, the amount of capital available for investment in stocks, the size of the store, and the nature of the local competition.

The grocery store should have monthly sales of at least \$3,000. A larger figure is much safer. The most loyal member with a family of four or five should spend in this store at least \$40 per month; the average for all the members will be lower than this, though it should not be, if they are fully employed. The store carrying a full line of general merchandise may have sales running anywhere from \$3,000 and upward per month, depending upon the size of the buying membership; but it can barely afford to get along with any less than that, for a much larger amount of money is tied up in inventories. The best patrons should spend nearer \$75 than \$40 a month in such a store.

The following generalizations apply at present to general merchandising stores running independently outside the large cities. Stores that are affiliated with a cooperative wholesale may be run on a more economical basis. With \$10,000 capital, \$8,000 may be used for merchandise and working funds, and not more than \$2,000 for equipment. This amount will equip and run an average independent modern grocery with the best goods and up-to-date labor-saving devices, cash register, electric mill, etc.

For a grocery store, the monthly sales should exceed the capital invested in merchandise—that is, a society with an average inventory of \$4,000 should do a business of at least \$4,000 a month. A membership of 200 should guarantee an average trade of at least \$20 a month per member. No society, however small, should run a grocery business on a turn-over of less than 12 times a year. The savings made by the society are dependent on the rapidity with which the stock is turned over as well as on the efficiency of the administration. Some chain stores and some successful cooperative stores have a yearly turn-over 40 times their inventory. That is, with a stock of \$8,000 worth of goods they have a sale of goods whose wholesale value is \$320,000—about \$400,000 at retail. In the store carrying a more general line of merchandise the turn-over is usually below 8 times per year.

The percentage of operating expenses to sales varies according to localities and according to the volume of business. As the amount of business increases the percentage of expenses should be automatically reduced. It should be considered in advance and made to conform as nearly as possible to the following, which is figured

on a basis of \$8,000 monthly business in a store handling groceries only and giving neither credit nor delivery service:

	<i>Percent of turn-over</i>	
Salaries-----	5- 6, or	\$400- \$480
Rent (in cities and large towns)-----	2- 3, or	\$160- \$240
Fixed charges, such as heat, light, telephone, wrapping, interest, taxes, insurance, repairs, depreciation, leak- age -----	3- 4, or	\$240- \$320
	<hr/>	
	10-13, or	\$800-\$1, 040

Rents in small country towns should not be more than 1 percent, possibly even less than 1 percent, of turn-over.

If delivery is undertaken, its cost must be figured additionally, ranging from 2 to 4 percent of the business done. Granting credit to customers may increase the expenses another 2 or 3 percent.

The sales made by each clerk should average at least \$55 per day on poor days, about \$1,500 a month, \$18,000 a year.

Average sales per employee in small grocery stores a few years ago were \$15,800 a year. The highest figure recorded was \$43,000 per person. The chain-store average was nearly \$30,000. A store doing a cash-and-carry business of \$8,000 a month, therefore, should not have more than four employees on its working force, preferably fewer. A general store will find its clerks doing nearer \$1,600 per month, \$19,200 per year; and if delivery orders must be put up and credit accounts kept, the average volume of sales per clerk may be reduced 50 percent by the extra labor involved. A high volume of sales per employee is obtained by economical arrangement of goods, good layout of the store, elimination of delivery and credit service, and by other labor-saving policies.¹⁴

Net Savings

A cooperative store should accumulate its surplus savings. In a noncooperative store this surplus goes to the private tradesmen or investors as profit. In a cooperative store this surplus cannot properly be called "profits." It is the money that accumulates from the difference between the buying and distributing price of the articles. The members, instead of buying at cost, advance the amount of this difference to the whole society to form a collective fund. It is essentially a loan.

This collective surplus or saving is the essence of cooperative business. It is of extraordinary power and has produced most significant economic and social results. The use of this surplus marks

¹⁴ The amounts given in this section are those arrived at by The Cooperative League on the basis of the experience of its member societies.

the difference between the cooperative and the profit systems of business.

Reserve Fund

The permanent reserve fund is an extra sum added to the capital to insure the future safety of the business. A great many State laws require that cooperatives shall establish such a reserve fund. Usually from 5 to 25 percent of the year's net savings must be added to the fund until the latter amounts to from 20 to 50 percent of the paid-in capital. Many associations prefer to exceed the minimum, however, and may accumulate a reserve fund considerably in excess of their share capital. Members should be encouraged to be generous to their reserve fund and the future security of their association and not be too anxious to divide among themselves at the end of the year every penny available.

The educational fund is also important, though the cost of educational work may be paid out of current operating expenses, in which case a special fund established out of surplus is not necessary.¹⁵ The important thing is that such work be done and adequately financed.

Savings Returns or Purchase Refunds

After the interest on capital, the addition to the permanent reserve and the educational funds have been deducted, the balance of the surplus savings may be paid to the members as savings returns or refunds ("dividends on purchases" as they are called in Europe), according to the Rochdale method. They are usually paid semi-annually or annually and are based on the amount of purchases (not on the amount invested, as in profit-making business).

The balance to be returned to patrons may be paid back in cash, or in credit toward purchases at the store, or in credit toward purchase of additional shares, or as loan capital certificates. The first method is usual where the association already has sufficient capital for current needs; the last where more capital is needed. However, the membership meeting itself must make the decision as to how the distribution is to be made; the directors should only make recommendations. Earnings on sales to nonmembers should not be paid to members, but should be placed in the reserve fund if they are not to be returned to the nonmembers themselves. The bylaws should specify that the association has a lien on the surplus savings of members for any amounts owing to the store, so that such refunds may be withheld if the member is in debt to the association.

¹⁵ But some State laws (i.e., those of Alaska, Iowa, Massachusetts, Minnesota, Montana, New York (stock), North Carolina, North Dakota, Oklahoma, Pennsylvania, South Carolina, South Dakota, Virginia, and Wisconsin) require regular additions to a special fund for this purpose.

There are three methods of treating nonmember purchasers: (1) No returns to such patrons until they have purchased at least a small amount of stock; (2) refunds at the same rate as to members; and (3) refunds at half the rate at which members are paid. Several of the State laws have definite provisions on this point which must be met.¹⁶ In the absence of a specific requirement in the cooperative law, however, one or the other of the last two methods named is recommended. Refunds to a nonmember should not be paid in cash, but should be credited to his account for the purchase of shares so that he may become a member.

Other Uses for Net Savings

There are many associations which either distribute no savings returns to members or distribute only a very small proportion of the actual funds available. These cooperatives believe in what is popularly known as the "Belgian plan", which is the use of savings for the social benefit of the entire membership and even of the whole community. With these savings there may be established insurance funds, vacation homes for the women and children, medical or dental clinics for the members, community halls, libraries, art centers, the free distribution of papers or other literature, Christmas gifts, the employment of special lecturers, or free scholarships in cooperative schools. The number of such benefits is limited only by the amount of funds available. The objection to this system is that those who enjoy the most of the benefits may not be the members whose patronage creates the most of the funds.

Record of Purchases

The practice of giving savings returns on purchases necessitates the introduction of some system whereby the association may determine the trade done by each member at the close of each quarter in order to apportion to him his savings.

Most associations require that the purchaser shall keep records of his purchases. He saves his cash-register slips or other evidences of purchase until the end of the accounting period and then turns them all in at the store to be counted for refunds. Some associations themselves keep the records of purchases by their members, believing that although this entails extra bookkeeping expense, it guar-

¹⁶ Thus, the laws of Alaska, Illinois, Massachusetts, Minnesota, Missouri, Montana, New York (stock), North Carolina, North Dakota, Oklahoma, Oregon, Pennsylvania, South Carolina, South Dakota, Vermont, Virginia, Washington (stock), and Wisconsin require the distribution of patronage dividends (impliedly to nonmembers as well as members), but of these Massachusetts, Montana, New York (stock), North Carolina, Pennsylvania, Virginia, Washington (stock), and Wisconsin specifically allow payment at half the members' rate.

antees a more equitable distribution of savings. The most satisfactory method is the use of a cash register which issues slips in duplicate or triplicate, each slip showing the member's number, date, and amount of purchase.

Store Manager

The ideal store manager is one who combines knowledge of co-operation with technical skill in storekeeping, in the buying and selling of goods, and in the keeping of store records and accounts. The experienced groceryman trained in profit business may be efficient in many ways, but he may ruin the cooperative spirit of the store by practicing methods which are contrary to cooperative principles. On the other hand, the idealistic cooperator, directly from the ranks of the wage earners or farmers, may make serious business mistakes which may plunge the association into bankruptcy before he acquires the technical knowledge of his position. This combination of cooperative understanding with administrative ability is rare but it is being developed among many of the younger people working in cooperative stores and studying in the cooperative training schools.¹⁷

The character and cooperative qualifications are the most essential, and after them in importance come the business qualifications. The manager must be able to delegate responsibility to those under him so that he does not carry the entire load of duties on his own shoulders. He must have financial and business judgment and tact. He must win and hold the respect of customers, employees, and business houses with which he deals.

Duties of Manager

In the small store the manager must be a jack-of-all-trades; he must know something of buying, selling, banking, investing, supervising others' work, bookkeeping, presiding at meetings, driving a truck, and advising members in financial or domestic trouble. He must meet and deal tactfully with complaints from all directions, exact discipline and at the same time inculcate cooperative enthusiasm in his employees, watch carefully the many places where leaks and losses to the business occur, and understand the value of publicity and advertising whether in the store windows or in the local press. He must plan the store for the economic handling of goods and must plan storage space so that each kind of merchandise shall be kept where it is easily reached and not suffer from dampness, vermin, excessive heat or cold. He should render regular reports to the

¹⁷ See note 4, p. 7.

directors and meet patiently their many criticisms. He should regularly hold meetings with his staff of employees for discussion of both business problems and cooperative principles. He must cultivate the best of relations with the membership and the general public, and give the utmost possible support to the central educational league and cooperative wholesale of his district.

It is important that the manager should not become obligated to the salesmen of any particular private wholesale house. A manager who accepts gifts from such tradesmen should be promptly dismissed.

Other Employees

Clerks and deliverymen are the most important individuals in the store from the point of view of contact with the membership and the general public. The spirit of the cooperative store will be interpreted by the purchasers in accordance with their opinion of these employees; they will judge of its efficiency almost entirely in terms of their efficiency. Finally, there can be no adequate means of educating the buying public to the meaning of cooperation unless these workers are taken into the confidence of the educational committee and made partners in the educational program. This one principle must always be borne in mind: No store is truly cooperative until its clerks habitually learn to think of themselves not as salesmen trying to dispose of goods to the public but as partners of the public in the common effort to obtain quality goods at fair prices and to build a united cooperative movement. They must learn to conduct themselves not as sellers, but as buyers for their fellow members. They should have the interest of the members as their chief concern.

Policies, Wages, Hours, Unions

The wise manager will not employ any member of his own family nor let himself be bullied into the employment of any favorite of any of the directors; if he succumbs to these temptations he greatly weakens the spirit and morale of the store, for, no matter how good his motives, there will be many to say he is showing favors. He must expect to work longer hours than his clerks.

Managers' salaries should not be below the standard set by profit business. A good man deserves good pay and a poor one should not be employed at all. Other employees should receive wages equal to or better than those established by the labor union. If there is no union in the neighborhood, wages should, whenever possible, be slightly higher than those of employees of the profit business firms for the same kind of work. Affiliation with the union should be

encouraged, provided the union itself is an honest one and is friendly to the cooperative. Straight wages without any bonus or commission on sales should be the policy adopted by the directors for both manager and other employees.¹⁸

Committees

There are several special committees required by every efficient cooperative society. Among them are the committees on education, auditing and inventory, finance, business or management, relations with other cooperatives, etc. Some of these committees may be combined; others will have several subcommittees for specialized work.

It is customary to have the directors appoint committees whose work is with the business of the store, and to elect from the membership those which are to devote themselves to the broader questions of the membership at large or to check the work of the directors. Thus the membership meetings may elect the educational, the membership, and the audit committees, while the board may appoint or elect from among its own membership the other committees enumerated above.

Committee on education.—The success of the committee on education depends upon efficiency and loyalty. Loyalty depends on members who understand cooperation. Thus the perpetual duty of this committee is to keep on educating itself. The committee may be large and divided into subcommittees as follows:

The membership committee should bring in new members and hold and educate the old. It must work among nonpurchasing members who have grievances against the store, among patrons who have not yet become members, among fraternal, religious, labor, or farmer groups from whom new members may be recruited; it must use the papers, the movies, the radio, and the lecture platform.

The program and entertainment committee should arrange the program for the members' meetings, provide for debates, entertainments, speakers, picnics, suppers, and other social pleasures, as well as conduct more serious study courses for members and employees.

The junior committee should develop interest and loyalty among children and young people. Literature and books suitable for them should be read aloud and discussed. Outings, entertainments, and other young people's parties and educational meetings should be

¹⁸ The laws of Iowa, Montana, New York (stock), North Carolina, North Dakota, Pennsylvania, South Carolina, Virginia, Washington (stock), and Wisconsin require the distribution of part of the surplus savings as bonuses on wages to employees; the Bureau of Labor Statistics knows of only one society, however, the Soo Cooperative Mercantile Association, at Sault Ste. Marie, Mich., which actually pays such bonuses.

arranged. Athletic teams, dramatic groups, and musical organizations should be fostered.

The women's committee or women's guild has the dual responsibility of stimulating greater loyalty to the store on the part of its present members and of interesting other women throughout the community. Since it is the wives and mothers who spend more than 80 percent of the funds that go to the stores of the country, their devotion to and thorough understanding of the cooperative is essential. In England and in other countries of Europe, it is the ambition of the foremost cooperators to enroll in the associations the wives, mothers, and sisters of every man who holds stock in the cooperative associations. The guild is a more effective and permanent organization than the committee and is to be more highly recommended wherever it can be formed. It is a semi-independent and self-perpetuating body, while the committee is elected from time to time by the membership meeting.

The library and literature committee should keep on hand in a suitable place, preferably close to the store, up-to-date magazines, literature, and books for distribution. This committee should conduct a library and reading room. It should see that every member subscribes to or regularly receives a magazine or some current periodical bringing to each home the news and ideals of the cooperative movement.

The whole educational committee should strive to keep the association closely related to the organized cooperative movement, not only in the State but throughout the Nation and the world.

Committee on audit and inventory.—As soon as possible the committee on audit and inventory should see to it that the association makes use regularly of a qualified public accountant, preferably a cooperative accountant if one is available. Such outside audits by a public accountant should be quarterly for the first year or two; later they may be at intervals of 6 or 12 months.

Business management committee.—The business management committee is usually elected from and by the directors, if the board of directors is a large one. The committee may consist of the two or three directors most conversant with business problems. It meets with the manager at frequent stated intervals for the consideration of the various problems of finance, merchandising, insurance, employment of help, relations with wholesale houses, enlargement of the business premises, etc. This is the committee which assists the manager in carrying out the general policies set by the entire board of directors.

In the association which has a small board of directors, meeting frequently, the entire board may perform the duties of this special committee.

Bookkeeping

As the store grows larger it is advisable to employ a bookkeeper. The practice of putting the responsibility for bookkeeping entirely in the hands of the manager, secretary, or treasurer, even though it is sometimes advocated, is not a wise one.

The books and records are of such importance that an expert should be put in charge of them at the earliest possible time. Bookkeeping is for keeping records of what has transpired; even more important, it is a chart of future progress, the rudder by which the cooperative is steered into new waters.

The accounting system must record all cash and credit transactions, and protect the association from fraud on the part of employees or outsiders and from mistakes of judgment on the part of the manager. It must be serviceable and economical to handle. It should give complete information for each department of the store (meat, grocery, dry goods, etc.), so that the directors may know which departments are profitable and which are unprofitable.

If there is no good bookkeeper available, the association should select an intelligent and cooperative young man or woman and see that he or she is given the proper training, either by attending cooperative training courses, by subscribing for correspondence courses, or by getting direct personal instruction from the nearest cooperative accountant.¹⁹

Audit

The regular cooperative accountant, or a public accountant if the former is not available, should be engaged to audit the accounts of the association.¹⁹ His report, when completed, should be printed and be given to each member. With frequent and searching audits it is difficult for associations to go wrong.

Each year more associations are adopting the practice of having audited not only the books and records but the membership and store as well. A regular check is made of the number of members (both of men and of women), their holdings in shares, their loans to the association, their purchases, the length of time they have been members, their occupations, etc.

¹⁹ The following central organizations provide auditing service, and assistance in this matter can be obtained from them:

Illinois.—Central States Cooperative League, 1410 North Main Street, Bloomington.

Minnesota.—Midland Cooperative Oil Association, Broadway and Johnson Street NE, Minneapolis; Northern States Cooperative League, 2100 Washington Avenue North, Minneapolis.

New York.—Eastern States Cooperative League, 112 East Nineteenth Street, New York; The Cooperative League of the U.S.A., 167 West Twelfth Street, New York.

Washington.—Grange Cooperative Wholesale, Kullen Building, Seattle.

Wisconsin.—Central Cooperative Wholesale, 1700 Winter Street, Superior.

Such membership audits are the regular practice in most cooperative associations of Europe. A store audit means a regular check-up of the store by an outside expert, to establish its cleanliness, its neatness of appearance, the economical lay-out of its fixtures, counters, and shelves, the reduction of hazards from fire or freezing or exposure to heat and damp, etc.

A competent auditor, even though his official work is only that of auditing the books, will not neglect these other matters but will look into them at least superficially and then meet with the directors and discuss with them the various problems that he feels are of importance. He will be a business adviser to the association as well as its auditor. This should be the function of the accountants of the national central organization. The central cooperative accounting bureau should be employed by all associations.

Inventory and Depreciation

An inventory should be taken at least semiannually by both the manager and the auditing committee. The inventory should be figured at billed cost, with a deduction for any decline in market prices after goods are purchased. Overvaluation of stock should be avoided.

Depreciation should be figured in the inventory. Depreciation on fixtures should be figured at 10 percent; on automobiles, at 20 to 40 percent; on stocks of goods, at anywhere from 2 to 10 percent, depending upon their condition, their marketability, etc. The public accountant will set this last figure.

Cash or Credit?

All business of the society, both buying and selling, should be strictly for cash.

In times of distress societies may allow members credit to the amount of half their paid-in share capital, with the proviso that such members must pay up the account before the end of the current quarter. Any member failing to do so should have the amount which has been extended in credit deducted from his share capital and should not receive directly any purchase rebates until his shares are again fully paid for. But credit is bad, whether granted by the store to the members or demanded by the manager from wholesale supply houses.

The following are some of the reasons most often advanced for permitting credit to customers:

Competitors grant credit; we must do the same, competition compels it.

Our people are habituated to credit; we must meet the demand; it is their store.

Unemployment or other hard times force us to give credit; many members have no money, and the cooperative cannot turn them away.

This store has always given credit; it is impossible to change the habit now.

On the other hand, the following arguments may be advanced in opposition to credit trading:

The extra expenses involved require charging higher prices for goods.

More capital is required by the credit stores. Credit is a banking function and we cannot run both a grocery and a banking business on capital which is sufficient for only a store, nor on technical training which knows nothing of banking practices.

Credit in large quantities quickly dissipates the capital of the society, for a considerable proportion of the accounts will not be collected and ultimately will be written off as bad debts.

Credit to customers usually means that bills to wholesalers cannot be paid promptly and therefore higher prices must be paid for goods.

Credit encourages extravagance on the part of weak-willed patrons; they will go in for luxuries that do not have to be paid for at once, whereas they will do without them if cash is required on the spot.

The credit system is undemocratic. If credit is given to one member of a cooperative it must be given to all, and to the same amount. Yet such equality of credit is impossible for it would bankrupt the store; thus credit involves extending to some favors that others are denied.

Credit puts the debtor in bondage to his society. Many workers have lived most of their lives in such bondage; the cooperative should help to free them, not add to their chains.

Credit, if taken advantage of by all, will destroy the store.

It is evident that credit is expensive financially and morally and that it should be eliminated by all cooperative societies. For many years it was supposed that it could not be eliminated. Now we know that this was a mistake. It is not necessary that the store should adopt a policy to meet the demands of the weakest or poorest members; it may form its policies to conform to the standards of the strongest and the more secure and thus raise all its members up to those standards. It must level upward rather than downward.

There are several methods of eliminating credit trading from the cooperative. Obviously, the directors cannot merely issue an edict and expect the membership to accept it meekly. The latter must be educated to see its dangers and must then, in membership meeting, vote to end it. As an alternative for those who still need credit, a credit union or small saving and loan association may be organized and needy members may borrow from this, as all members may learn to deposit special loan capital with their society during good times and draw against this when times are bad.

In order to avoid credit trading in connection with delivery, members should be required to deposit sums approximately equal to their week's purchases in advance; or they may arrange to have the money ready when delivery is made. If some credit of this kind seems

absolutely unavoidable, the driver should be made to assume direct responsibility for the larger part of it; this will stimulate him to greater caution in granting credit where it is unnecessary.

Credit procured by the society from wholesale supply houses is equally bad; it means loss of the special discounts offered by the latter for prompt payment of bills, and such discounts mount up in the course of the year to many hundreds, sometimes thousands of dollars. It necessitates charging correspondingly higher prices to patrons. It is better to borrow extra loan capital from members and pay good interest for it than to lose discounts from wholesalers and also lose the confidence which the latter should have in the business integrity of the cooperative society.

Credit selling and credit buying have been among the most frequent causes of cooperative failure in America.

The members should positively set themselves against credit trading and accept no compromise.

Fidelity Bonds or Security Guaranties

All persons handling the funds of the association should be bonded to the full amount of money or property handled. A security company bond, which is superior to a personal bond, costs from \$4 to \$10 per \$1,000. The central cooperative organization should provide bonds for officers or employees of its affiliated associations at a lower rate, provided their books are being audited by its accountants or other reliable auditors.

Buying of Merchandise

Details of buying merchandise cannot be discussed here. It should, however, be a fundamental rule of every cooperative association that its manager shall give all possible support to the nearest cooperative wholesale association, and the directors should require a regular report from the manager on this point.

If there is no such wholesale association in the territory, several cooperative stores should combine their purchases and gradually lay the foundation for such a wholesale.²⁰

²⁰ The addresses of the several cooperative wholesale societies, and the lines of goods handled, are as follows:

Indiana.—National Cooperatives, Inc., Indianapolis. Gasoline, grease, motor oil, tires, tubes, and batteries.

Iowa.—Farmers' Union Service Association, Des Moines. General merchandise, flour, feed, coal, salt, farm machinery, hardware, and petroleum products.

Minnesota.—Midland Cooperative Oil Co., Broadway and Johnson Street NE., Minneapolis. Petroleum products and bulk station equipment.

Missouri.—Cooperative Union Oil Co., 1721 Iron Street, North Kansas City. Gasoline, motor oil, grease, tires, tubes, and batteries.

Nebraska.—Farmers' Union State Exchange, Eleventh and Jones Streets, Omaha. General merchandise, farm supplies, petroleum products, produce, coal, salt. (See p. 32.)

If the stock of a private merchant is bought, his liabilities should be investigated so as not to assume unknown debts.

Delivery and Service

Delivery service is expensive. Studies of a large number of stores show that the average expense of all operations is 14.8 percent for stores without and 18.3 percent for those with such service. Delivery service is often a nuisance and a frequent cause of friction between customers and employees. Also, it is frequently quite unnecessary and is maintained only through force of habit of members and manager.

When delivery service is necessary those who benefit from it should bear the expense of maintaining it; those who carry their goods home should not be given the extra burden of paying to support a truck and driver demanded by those who will not do their own errands. Delivery may be charged for at a flat rate per trip, or at various rates, depending upon the distance traveled by the truck. Special kinds of purchase-rebate records may be given to delivery customers, and a rebate sufficiently lower to cover the cost of delivery may be paid on such slips at the end of the year.

Special trips for orders should never under any circumstances be encouraged; they virtually double the expense of the delivery service. Members may either telephone or send in orders by mail if it is impossible for them to send messengers or give the orders when the previous order is delivered.

The man making the delivery must not only be highly efficient in handling his truck, caring for his merchandise, and keeping records of orders and routes; he must also be a genuine cooperator. The latter qualification is even more essential in the deliveryman than in the store clerk, for he is often the sole person from the association to see some of the members and customers, and their opinion of the entire cooperative will often depend upon the contact they have with him. The most economical kind of truck should be purchased; it should be depreciated rapidly on the books of the association, and replaced by a new one before it is badly worn and its turn-in value reduced too much. Delivery routes should be carefully and scientifically zoned so that there is no duplication of roads covered and so that all patrons are served at approximately equal intervals of time;

²⁰ Continued. *New York*.—Eastern Cooperative Wholesale, 112 East Nineteenth Street, New York. Groceries, flour, feed, and coal.

Ohio.—Ohio Farm Bureau Service Co., 632 East Broad Street, Columbus. Fertilizer, feed, grain, seed, oil, and coal.

Washington.—Grange Cooperative Wholesale, Kullen Building, Seattle. Groceries, hardware, feed.

Wisconsin.—Central Cooperative Wholesale, 1700 Winter Street, Superior. Groceries, clothing, tires, light hardware, bakery products, building material.

two or three times a week is usually often enough for delivery to each customer. Patrons should be trained to adhere strictly to the schedule established and not ask for special trips for orders forgotten or neglected.

In general it is strongly urged that everything possible be done to discourage as many members as can be discouraged from having delivery to their homes—but of course such discouragement must not be carried to the point of driving them away from the association. If delivery is encouraged or passively permitted, even those members who otherwise would carry their groceries will begin to demand delivery and soon most of the sales will be handled in this expensive manner.

Price Cutting

A fundamental principle of cooperation is that goods should not be sold at cost or even at cost-plus. Nor should temporary under-selling of neighboring stores be advocated, except to meet unusual conditions. Cooperative stores that fall into this error do not succeed in the end.

Selling at cost is inadvisable for the following reasons: (1) It deprives the association of surplus. (2) It makes savings returns impossible. (3) It prevents the accumulation of a reserve fund for development and expansion. (4) It prevents social, recreational, and educational work. (5) Actual costs cannot be accurately estimated in advance and such a sales policy therefore increases the danger of an operating loss. (6) Selling at cost also increases the hostility of the private merchants.

Meeting Competition

The cooperative must meet competition as does the private store. It may incur the direct hostility of local merchants' associations as well as the competition that all stores face in a world where competition is still considered "the life of trade." The entire question should be given thought from the beginning and the preliminary survey made before the store is opened should give careful consideration to this hostility.

The chain stores are generally looked upon as the most severe of competitors, though it has often been the private merchants who make the most severe attacks upon the consumers' store. However, the chains are not so serious a problem, especially in these days when each large community has wholesalers selling merchandise at prices about as low as the chain stores are paying. Cooperative directors and managers have acquired the habit of fearing the chain

stores and trying to imitate them, instead of stepping out boldly to make the cooperative society something distinctly different from and better than these stores.

The store belonging to the customers may not have large capital behind it, but it has unique assets that no other corporation can boast. It should capitalize these, and not try to emulate the wealthy chain-store corporation. The cooperative can specialize in quality and guaranteed values. It can build up within its membership a sense of direct ownership, loyalty to the people's store, and pride in creating a business institution unlike anything else in the community. It can specialize also in social and fraternal activities to strengthen the bond which unites the members—entertainments, lecture courses, forums, and other enjoyable and profitable functions. It can cut some of the expenses of operation that every chain store must have; it can rely on its customers more and therefore install equipment for a greater amount of self-service; it can call for volunteer help in making repairs, meeting extra holiday trade, even in getting some of the janitorial work done. The cooperative must learn to make full use of its unique opportunities and assets. Its opposition often consists not so much in the other stores as in the lack of imagination among its own leaders and lack of loyalty among its own members.

Wholesale houses sometimes discriminate against the cooperatives, in higher prices or inferior service. The blame for this discrimination cannot always be placed upon those firms themselves; many of them have had poor treatment from cooperative stores, bills have gone unpaid, or there has been gross discourtesy. It is the ultimate hope of cooperators that they will some day have their own wholesales in all industries; but that time is not yet. Therefore they should strive to have the best of credit rating, cultivate the soundest of business relationship with the local banks, and show the world of business that the cooperatives are efficient and trustworthy. Once such a reputation is established, managers will complain less of discrimination.

The cooperative should wear no political labels. Directors, members, and employees should see to it that the association keeps clear of political entanglements. A consumers' nonprofit store should remain just that and nothing else. Some of the evils of competition arise from the misguided zeal of members who are adherents of particular sects or parties and who want to commit the entire organization to their faith. This is competition from within and not only creates factions among the members, but discredits the cooperative throughout the community.

Educational Work

The first essential of educational work in the cooperative society is frankness, open records, and no secrets regarding the conduct of the business or the activities of officers and committees. If the members do not have confidence in their leaders, no educational work can be effective.

The second principle underlying educational work is that such work shall be connected closely with the business of the store itself, and not treated as something divorced from the association's economic life, the special prerogative of the educational committee. The handling of merchandise, the creating of a cooperative atmosphere, and the dissemination of cooperative ideas must all go along together, else neither the business nor the education prove truly effective.

The third essential is that each local association keep frequently and closely in touch with the nearest educational center of the cooperative movement,²¹ seek its ideas and advice, send to it information on the local work, and participate actively in cooperative conferences, conventions, and joint activities between cooperatives.

Educational work may be divided into three fields—that done among the employees, that done among the members, and that done for the community at large.

1. Education of employees is of two kinds—technical education to make them more efficient workers, and general cooperative education. One statistical bureau finds that of all people who stop trading at a given store, 33 percent leave because of inefficiency of employees, and another 30 percent because of poor facilities for service. A large percentage of cooperative failures is due to lack of cooperative understanding among the workers.

Opportunities for both kinds of education are available within the cooperative movement. Special training schools and summer institutes are organized by the Cooperative League and its district leagues and are run primarily for employees. The courses of study are designed both for the technical training of employees and directors and for instruction in the general principles of cooperation.²²

2. Educational work for the membership may be carried on both inside and outside the store. The best work from within is that handled by the employees themselves either through the spoken

²¹ Such centers are:

The Cooperative League of the U.S.A., 167 West Twelfth Street, New York, N.Y.

Eastern States Cooperative League, 112 East Nineteenth Street, New York, N.Y.

Central States Cooperative League, 1410 North Main Street, Bloomington, Ill.

Northern States Cooperative League, 2100 Washington Avenue North, Minneapolis, Minn.

²² See note 4, p. 7.

word, the cooperative approach to customers, or the use of posters, bulletins, etc. The goods now being packed by cooperative wholesales under special cooperative labels have value in conveying the cooperative idea. All stores to which they are available are expected to stock them and educate the patrons to buy them.

The work outside the store may be direct and intensive, as in study classes, distribution of cooperative literature, lectures, attendance at cooperative schools and institutions. Again, it may be more general and combined with social and recreational affairs. Finally, it may accompany some of the direct work of the cooperative association in its nonmerchandising activities. Thousands have been made better cooperators because of the summer camp the cooperative association ran, the library it organized, the medical assistance it gave to the unemployed, or its lunch rooms for members.

3. Work for the community of nonmembers may take the form of general publicity or advertising. Publicity is designed to acquaint the public with the idea behind the cooperative and to arouse interest in its general work; advertising is to focus attention upon particular commodities. The cooperative movement should make more use of the former. Cases of goods sent to the unemployed, house-to-house canvassing by members of the educational committee, special assistance to the local hospital or orphans' home, meetings planned in the neighborhood church or lodge room—all may be made effective in spreading interest in the cooperative. The special membership drive, usually put on during a designated cooperative week or cooperative month, has proved a valuable means of reaching a new public.

Both the women's guild and the young people's committee should be encouraged to take responsibility for educational work among members and nonmembers. They have more and closer contacts with those who should be reached than have the directors or officers or even the members of the educational committee.

General Principles

Groups starting cooperative associations should beware of outside organizers who are interested in taking their money. Associations also should investigate any organization claiming to be a cooperative wholesale which asks them to join it. No country has ever had so many fraudulent and dangerous schemes, masquerading as cooperative, as America. Associations in the same districts, which know one another, should federate to form their district league or unions and purchasing agencies.

Cooperators at all times must remember that cooperation is not merely a business. It is something more than that. It is an experi-

ment in a different kind of civilization. It should be approached by members in that spirit.

Sources of Cooperative Information

The Cooperative League of the U.S.A., 167 West Twelfth Street, New York City, stands in the position of a central clearing house for the cooperatives in the United States. It is the national federation of consumers' cooperative associations of this country, and is affiliated with the International Cooperative Alliance. It promotes education, gives advice, and unites these associations for their mutual advancement.

Cooperative associations should be affiliated with this federation of cooperatives for purposes of advice and assistance.

The league issues special forms of stock certificates; membership buttons bearing the cooperative emblem; transparencies of the emblem to be used on store windows, sides of trucks, etc.; cards for display in stores; small flyers for insertion in bundles or distribution at meetings; annual calendars depicting cooperation symbolically; and other aids to cooperative education.

The following federations of cooperative consumers' associations are in affiliation with the Cooperative League and offer information on the local problems of cooperative business:

Northern States Cooperative League, 2100 Washington Avenue North, Minneapolis, Minn.

Central States Cooperative League, 1410 North Main Street, Bloomington, Ill.

Eastern States Cooperative League, 112 East Nineteenth Street, New York City.

National Cooperatives, Inc., Indianapolis, Ind.

Statistical information and advice on cooperative problems may be obtained from the Bureau of Labor Statistics of the United States Department of Labor. The Federal Farm Credit Administration has specialists in auditing, accounting, and financing who may be called upon by farmers' cooperatives.

The Division of Subsistence Homesteads in the Department of the Interior, and the Self-Help Cooperative Division and the Emergency Educational Program, both of the Federal Emergency Relief Administration, promote cooperative organization and education among groups having small financial resources.

Appendix A.—Model Bylaws for a Consumers' Cooperative Society

Bylaws of the ----- Cooperative Society

ARTICLE I.—*Identity of the Society*

SECTION 1. *Name.*—The name of this society (association) shall be The -----, Inc.

NOTE.—(a) After a suitable name has been selected by the incorporators, permission to use the same must be obtained from the authorities of the State in which the society is to do business.

(b) The word "cooperative" should always appear in the title of a cooperative society.

(c) Either "Society" or "Association" should also be part of the title. It is desirable not to use "Company" or "Corporation"; they are peculiar to profit business.

(d) Either "Inc." or "Incorporated" should appear in the title as an indication that the liability of members is limited.

(e) If the society is not incorporated, it functions as a company in which each member is liable for the obligations of the whole. There is a real advantage in the absence of incorporation—each member has more at stake and accordingly must be more zealous for the success of the society. Nonincorporation promotes membership interest. Still, incorporation is to be recommended, as interest in the society can be maintained by other methods.

SEC. 2. *Place of business.*—The place of business of the society (association) shall be located in the city (or town or township or county) of ----- and in such adjoining cities, towns, townships, or counties as the board of directors shall determine.

NOTE.—A cooperative society does not have to confine its business to a single community. However, no society should extend its activities into a community already served by another cooperative society engaged in the same kind of business. Violation of this principle may result in the delinquent society being forbidden to take membership (or if already a member, to maintain its membership) in the national cooperative federation or in the cooperative wholesale society which serves its territory. Competition for business is not practiced among cooperative societies. No society tries to take business away from another. Such practice is absolutely noncooperative. Cooperative societies cooperate with one another.

ARTICLE II.—*Object of the Society and Nature of its Business*

SECTION 1. *Object.*—The object of this society (association) shall be (1) to promote the economic welfare of its members by utilizing their united funds and united efforts for the purchase, distribution, and production of commodities of the best quality, and for the performance of services in the interest of the members in the most economical way; (2) to associate itself with other consumers' cooperative societies throughout the State, the United States, and countries abroad for purposes of mutual aid; (3) to advance the consumers' cooperative movement as a system of business having service for its motive; and (4) to do such other things as shall serve the economic and cultural welfare of its members and the public.

NOTE.—(a) The mistake must not be made to place a propaganda purpose ahead of the economic purpose. A consumers' cooperative is first and foremost an association of persons for business purposes.

(b) The society exists primarily for its members. It may also sell to non-members, but this is not its purpose.

(c) If the society is truly to serve the economic interests of its members, it must at all times resist the prevailing tendencies toward poor quality, adulteration, and high prices; it must emphasize high quality, purity, and fair prices.

(d) "Economical way" does not mean selling at cut prices.

(e) It is a mistake to assume that the direct economic interests of the local members may be served adequately by a society which has no contact with the rest of the cooperative movement. That contact is essential for business reasons—reasons of economical buying, legal advice, expert bookkeeping and accounting service, participation of manager and directors in the experiences of other cooperative leaders and workers. It is also essential in order that the local society have the help of and give help to other cooperative societies throughout the country and the world. In unity is strength. It is most desirable that the society shall not remain isolated, but shall affiliate with the national cooperative organization and with the nearest cooperative wholesale.

In no country has the cooperative movement become strong and effective until its societies united in a national federation.

SEC. 2. *Nature of business.*—The general nature of the business to be carried on by this society (association) shall be to buy, store, distribute, sell or handle, process and produce for its members or for its members and other patrons, foodstuffs, clothing, merchandise of all kinds, fuel, petroleum products, building materials, and any and all other commodities which the society (association) may see fit to handle; to perform such other services as the members may desire; to acquire, either by purchase or lease, real estate and other properties or facilities necessary or desirable in the conduct of its business; to mortgage, sell, and convey such properties; and to purchase, hold, sell, assign, or transfer the shares of capital stock of other cooperative corporations. It shall also enjoy all other rights and privileges consistent with its certificate of incorporation and the laws of the State of -----.

NOTE.—(a) In general it is well to include all these purposes in the bylaws, even though immediate plans call for only one or two lines of merchandising. If they are all included in the bylaws from the very beginning, there is no necessity for amending them every time the society enters a new kind of business. The word "service" is desirable because a society may wish to supply something more than commodities. It may want to conduct housing, a moving-picture show, theater, dance hall, recreation club, circulating library, medical service, undertaking business, transportation service, electric supply, or other utilities.

(b) Strict compliance with the laws of the State in which the society is incorporated is essential. Some States will not permit a cooperative to enter all these various lines of activity. Most of the States, for instance, will not permit banking, insurance, or transportation by a business corporation. Those who frame the bylaws for a newly organized society must study carefully the cooperative laws of their own State; and in those States in which there is no cooperative law, they must study the provisions of the ordinary corporation law.

(c) If the law permits, the last clause of the first sentence should by all means be written in. Otherwise, it may prove difficult at some future date to join the nearest cooperative wholesale society, or, for that matter, any central cooperative organization.

(d) If the society is also to market agricultural products for its farmer members, another clause to that effect must be inserted, preferably at the end of the first sentence. The following wording may be used: "Or marketing for the same of grain, seeds, hay, eggs, poultry, milk, cream, butter, cheese, livestock, and all products of the farm, together with the byproducts produced in the manufacture or handling of these products."

ARTICLE III.—*Method of Business*

SECTION 1. *Adherence to cooperative principles.*—The business shall be carried on according to the principles and methods of Rochdale cooperation which are as follows:

- (1) One vote for each member and no more.
- (2) Interest paid on capital at not more than the current legal rate.
- (3) The difference between the net cost price and net distributing price, after paying overhead costs and setting aside reserves, to be returned to the members as savings returns in proportion to their patronage, or used collectively for social purposes.
- (4) Unlimited membership.
- (5) Political, religious, and social neutrality.
- (6) Business on a cash basis.
- (7) No proxy voting.

The purpose of these methods is democratic control and a system of business carried on to supply the owners of the business directly with commodities and services for their own use as ultimate consumers.

ARTICLE IV.—*Membership*

SECTION 1. *Membership defined.*—The members of this society (association) shall be the holders of its shares of capital stock, who are more than 18 years of age, and who have complied with all the requirements of article V, section 4, of these bylaws.

NOTE.—(a) These bylaws are for a cooperative corporation financed by means of capital stock, since this is the prevailing form of consumers' cooperative society in America as well as in other parts of the world. However, Alabama, California, Nevada, New York, Oregon, Washington, and Wisconsin permit the incorporation of a consumers' cooperative as a membership association without capital stock; and where such a law is available, there are some excellent arguments in favor of this form of incorporation, such as the following:

1. The distinction between the cooperative and the profit form of business is much more sharply defined if the former is a nonstock organization. In a community where "capital stock" is for most people associated with dividends on stock, voting of stock, and other common business practices, it is very easy for many people, even members of the cooperative, to look upon their society as only one more example of profit business; and in annual meetings or elsewhere even to demand excessive stock dividends, more than one vote for the holder of several shares, a splitting up among the members of the reserve fund or of the profits on sales to nonmembers. If the society is a straight membership organization without stock, it is easier to explain that its true nature is that of a fraternal association or club run in the interest of its members and without profit.

2. Many people are afraid to buy stock in any organization, especially if they have once lost money by investing in some worthless stocks.

3. Interest paid on the capital stock of cooperative associations is regarded, for Federal income-tax purposes, as a part of the profits of the business and therefore taxable. One society having capital stock outstanding of nearly \$1,000,000, and paying 6 percent interest to the shareholder members—\$80,000 interest disbursements—would pay taxes to the Government of over \$7,000 on this item alone. If the society had been financed by means of money borrowed from its members instead, all this interest could legally have been charged as an overhead expense and it would not have been taxable.

(b) A nonstock membership organization is financed by means of loans secured from its members and elsewhere. There are several sound financing schemes for such a society. Commonly nonstock associations issue certificates of membership instead of stock. The price of these certificates is often similar to the price of shares of stock. Additional funds are sometimes secured by the issuance of bonds or notes. Any cooperative group wishing to utilize this

form of organization, once it has been ascertained that it is possible under the laws of its own State, should write to the office of the Cooperative League, 167 West Twelfth Street, New York, N.Y., for further information.

SEC. 2. Qualifications of membership.—Membership shall be open to all consumers who are in agreement with the aims and purposes of the society (association) regardless of their race, religion, nationality, trade or profession, social position, or political opinions. The membership of the society (association) shall therefore be unlimited, excepting as otherwise provided by the State or National law under which it is incorporated or under which it operates.

NOTE.—(a) It is unwise to limit the membership of a consumers' cooperative to those who hold to particular beliefs or who belong to special economic or social groups. There are distinct religious, political, or social organizations formed for the purpose of propagandizing in behalf of such special causes. The cooperative is purely an economic organization of consumers and should be open on equal terms to all who will patronize it and who are in sympathy with its aims. In countries where adherence to particular religious or political beliefs are made a condition of membership in cooperative societies, those who adhere to opposite political or religious beliefs have organized competing cooperatives, with the result that these national movements are divided into two or more hostile and competing consumers' groups. Such a divided movement is to be found in France, Belgium, Holland, Finland, Poland, and other countries. So serious is this situation in Europe that the Cooperative Union of Sweden excludes from affiliation with it any society which restricts its members to a particular group, and other European central unions are adopting the same rule.

(b) This feature of unlimited membership distinguishes the cooperative. The membership of a cooperative prospers best as the number of members increases; the more members, the more patronage, and the larger the turn-over.

(c) Organizations such as the Farm Bureau, the Farmers' Union, or the Grange sometimes resolve to create a cooperative society from their membership. Such cooperatives observe the spirit of this article, if the membership of the constituent organization is unlimited.

SEC. 3. Application for membership.—Application for membership shall be made in writing on a form provided for the purpose, shall be endorsed by a member of the society (association), and shall be presented to the board of directors which shall pass upon such application at its next meeting. An initiation fee of \$1 shall accompany the application. If the board of directors rejects the application, the initiation fee shall be returned and the board shall state its reasons for such rejection if any member shall demand them; but such an explanation does not have to be made to the applicant.

The application shall contain the applicant's full name, his mailing address, his occupation, his age, and a statement as to whether he is married or single.

The society (association) at its members' meetings shall accept, or reject, the candidates passed upon by the directors.

NOTE.—(a) A certain amount of formality in membership is desirable. Most societies admit new members merely on the recommendation of another member or even without such recommendation. In a small community where people are well acquainted these formalities may be dispensed with, whereas in a large city it is wise to be much more strict.

(b) The initiation fee may be larger or smaller or may be dispensed with entirely. Many societies charge only 25 or 50 cents as an initiation fee. No eligible consumer with spending power should be denied admission on account of lack of money to pay a full fee or buy a share of stock.

(c) Every society should have available the few elementary facts about all its members. Most of the central cooperative unions of Europe demand that their constituent societies have such records.

SEC. 4. Action on application by board of directors.—Upon approval of the application by the board of directors, the applicant shall subscribe for -----

shares of the capital stock of the society (association) and shall make an initial payment on such subscription of at least \$-----, as required in article V, section 4. The applicant becomes a full member with voting privileges only after he has paid for ----- shares of stock. The membership of any shareholder who fails to pay promptly all installments on the entire amount subscribed as they fall due may, at the discretion of the board of directors, have his membership canceled, in which case the money he has already paid for stock shall be returned to him as per article IV, section 6. No member shall have the right to withdraw and demand the return of his money until he has paid in full the amount subscribed.

NOTE.—(a) Directors should have excellent reasons before rejecting an application. The only two really valid reasons are (1) inability of the applicant to patronize the society's business and (2) positive knowledge of the applicant's hostility to the cooperative, its aims and purposes, the nature of its business, or its membership. Hostility on the part of the applicant to particular individuals on the board of directors or among the employees is not sufficient grounds for rejection.

(b) Many societies issue to members on their admission a membership card or book. A card is merely a formal indication of membership with its rights and privileges. A membership book usually contains blank pages on which may be recorded the various installments paid on subscribed capital, other payments or loans made to the society, quarterly, semiannual, or annual purchases made from the society, interest payments on capital and savings returns received by the member. This system is not used so extensively in the United States as in European countries, for the average member here objects to carrying a membership book to the cooperative at regular intervals.

(c) It is advised that the provision giving the society the right to repurchase inherited stock be printed on the stock certificate itself.

SEC. 5. Other applications for membership.—Legal heirs of deceased members, who have inherited stock in the society (association), may apply for membership by making formal application as authorized in section 3 of this article and payment of an initiation fee of \$1. The board of directors shall have the same rights to approve or reject such persons as are indicated in section 3 of this article. The society shall have the right to repurchase the shares of stock of an inheritor if his application is rejected. Nonmembers, patrons of the society's (association's) business who have accumulated surplus savings in the form of credits toward the purchase of capital stock to the value of \$-----, or the amount necessary for membership, may upon making application be elected to membership by the board of directors and receive the stock certificates to which they are entitled.

NOTE.—It often happens that a patron of the society who is not able to pay for membership, desires to become a member, or the society desires to have him as a member. Under these circumstances, he applies for membership, continues his patronage, and a record is kept of the savings returns he would have received were he a member. When the total equals the cost of the share or certificate necessary for membership, he is elected a member and given the certificate of full membership.

SEC. 6. Withdrawal from membership.—A member wishing to terminate his membership shall make written application to the board of directors. Memberships shall terminate only at the end of the fiscal year. The application shall be presented at least 2 months prior to the date on which the member wishes to withdraw. Favorable action upon such an application shall be followed by the repurchase of the withdrawing member's shares of stock in accordance with article IV, section 5. The member's duties and responsibilities shall not cease until his stock has been repurchased by the society (association).

The initiation fee shall not be returned to a member who withdraws or is dismissed.

NOTE.—(a) This rule is in the interest of accounting regularity. There is no reason why members should be permitted to withdraw their capital whenever the whim seizes them. The interest of the society and the majority of its members is paramount to that of any one individual.

(b) This rule also is to permit sufficient time for consideration by the board of directors, not only of the application itself but of the financial condition of the society as well.

SEC. 7. *Expulsion from membership.*—The board of directors shall at all times have the right to dismiss and repurchase the shares of stock of any member or members who have failed to patronize the business of the society to a minimum amount in the previous fiscal year, as specified in article IV, section 11, or it shall have the right to dismiss and repurchase the shares of stock of any member who has been judged by the board of directors to be acting contrary to the best interests of the society (association): *Provided*, That said member has had the opportunity to appear in his own defense before the next regular or special meeting of the society (association) and the board of directors has been sustained in its action by a majority vote of the members present.

NOTE.—(a) This minimum amount will vary according to the nature of the business and other local considerations. A society handling milk or bread only would set a much lower figure than one handling a full line of general merchandise.

(b) This rule is to insure also the consumer nature of the membership. There are societies whose membership is largely that of nonpurchasing stockholders, while the business is done largely with nonmembers. In such a case the interest of the member becomes increasingly a stockholder's interest rather than a consumer's interest, until ultimately these members may decide to reorganize as an ordinary stock corporation and the consumers' cooperative becomes a profit business. It is therefore essential that the actual patrons of the society constitute the membership. In case the financial condition of the society does not permit the repurchase of all shares of stock held by nontrading members, the board of directors may postpone such action to a more favorable time; but they should have this right. Every effort also should be made to induce nonmember patrons to become members and stockholders.

(c) When a member is before the society for dismissal, the case may often best be heard by a special committee appointed for that purpose.

(d) Though the board of directors should have this right, it should be exercised only in extreme instances, such as, for example, when the offending member has opened a private business of his own in direct competition with that of the cooperative business.

SEC. 8. *Membership roll.*—A list of the members with their addresses, occupations, and age at the time of admission to the society (association) shall be kept by the secretary. Each member shall agree to notify the secretary within 10 days of any change of address.

SEC. 9. *Presentation of bylaws.*—A copy of these bylaws shall be given to each applicant for membership not later than the date on which his application has been approved.

NOTE.—It is essential that every member possess a copy of the bylaws of his society at the earliest possible date. In fact, he can legally demand it. It is not necessary that a large sum of money be spent on the printing of the bylaws; they can be mimeographed at a small expense by a local firm of stationers or by the nearest cooperative educational center.

SEC. 10. *Organization members.*—Cooperative societies or other organizations not operated for profit and whose aim and purposes are not in opposition to those of this society (association) may make application for membership and on approval by the board of directors shall subscribe for the minimum amount

of stock set forth in article IV, section 4, or such larger amount as the board of directors shall determine. Such an organization member shall, however, be entitled to only one voting delegate in meetings of the society.

NOTE.—(a) Unless it is clearly established that the laws of the State in which the society is incorporated permit such organization membership in a cooperative corporation, this section must be stricken out. The laws of the State must also be consulted to determine what voting rights are permitted in such an instance.

(b) The directors may determine that another association, which has ample funds and is going to demand more in the way of service than is accorded an ordinary householder, should contribute a larger amount to the capital stock of the society.

(c) The voting privilege here is a fair rule. A consumers' cooperative is organized primarily for the benefit of the men, women, and children who are ultimate consumers, and the interests of other individuals or organizations must be subordinated to this fundamental purpose. Under some circumstances there are reasons for giving such a member society delegate representation with one vote for a certain number of members.

(d) In some European countries the town, city, or municipality, as a political corporation, has joined the local cooperative society.

(e) When the cooperative society is a wholesale, or a federation of societies, the total membership is made up of other organizations; the constituent membership then may have votes in proportion to their number of individual members or to their patronage with the wholesale. Such an organization should have bylaws specifically for an association of associations. These present bylaws are for an association of individuals who may incidentally take into their membership one or more desirable associations.

SEC. 11. *Rights and duties of members.*—Every member must agree to obey the rules of the society (association) as set down in these bylaws, or elsewhere, and the decisions of the general membership meeting or of the board of directors. He must also help to promote the aims and purposes of the society (association), the success of its business, and the welfare of its members. By patronizing its business and by participating in its membership activities, he shall aim to serve himself by promoting the interests of his fellow members in the spirit of mutual aid. Every member shall have an equal right to participate in regular or special meetings and to vote on all matters brought before such meetings, to patronize the place of business of the society (association), to receive interest on his paid-in capital, and to share in the distribution of savings returns: *Provided, however,* That the provisions of this section of article IV shall be subordinate to any special rules pertaining to voting, payment of interest, or distribution of savings returns contained in these bylaws.

NOTE.—Some societies have a pledge embracing these obligations. This is printed on the form used for application for membership. Others ask for a verbal pledge when the applicant is admitted by the board of directors. Although objection has been raised that a pledge of this kind has no real value, since it cannot be strictly enforced, this is not a final argument against it. There is a genuine moral value in any promise which impresses upon the prospective member the fact that he has duties and responsibilities, as well as rights and privileges, as long as he is a part of the society.

ARTICLE V.—*Capital*

SECTION 1. *Fiscal period.*—The business period of this society (association) shall begin with January 1 of each year and end on December 31 of the same year.

NOTE.—The fiscal period, instead of this, may be a period of 6 months, or of 3 months, or it may begin at some other time.

SEC. 2. Various kinds of capital.—The capital of the society (association) shall be composed of (1) the funds paid in by the members for its shares or certificates; (2) such funds as it may borrow from its members or from other sources; (3) the accumulated surplus savings accruing from its business and the properties purchased with such savings; and (4) the properties which it builds or creates.

NOTE.—(a) The share capital, generally known as common stock, is the basic and most important capital of the organization, for it represents the direct contribution made by the members. Some States permit cooperative societies to issue preferred stock also. Such preferred stock would be somewhat similar to the "loan capital" indicated in section 10 of this article; it has a claim upon the assets of the society prior to that of the common stock. Generally the interest on the preferred stock, which must be paid before any interest is paid on common stock, is definitely fixed as to rate. Its payments can be virtually guaranteed by any sound business.

(b) These funds include not only the reserve fund, which is made up of funds actually set aside out of surplus savings for emergencies and for the future extension of the business, but also such savings returns of members or nonmembers as are not paid to them in cash but are applied to their capital account.

(c) Cooperative societies are sometimes organized without capital stock, in which case many of the provisions of this article would have to be rewritten. See note under article IV, section 1.

SEC. 3. Share capital.—The authorized share capital (common stock) of the society (association) shall be _____ dollars (\$_____), divided into _____ (_____) shares of nonassessable stock of the par value of _____ dollars (\$_____) each.

NOTE.—(a) The amount of capital will differ according to the nature and the needs of the business to be undertaken. A cooperative store, for the handling of food only, should have \$5,000 of capital, and one handling general merchandise as well should have at least two or three times that amount. A bakery requires much more capital than a restaurant or store. A housing association will need a large initial capital. A credit union or a buying club, on the other hand, can start with a few dollars. In most States it is not required that the entire amount of capital for which the society is incorporated shall be raised before starting business; therefore it may be wise to set this figure in the bylaws much higher than actual immediate requirements, so that it will not be necessary to go through the troublesome process of increasing the authorized capitalization within 2 or 3 years, since a society is not permitted to sell stock in excess of its authorized capitalization. The laws of the State on this entire matter must be consulted before this amount is established.

(b) Cooperative shares never go above par value. It is here specified more to comply with the technicalities of legal procedure than anything else.

(c) Some States definitely fix the value of the individual shares of stock in a cooperative society. Many States, however, have no laws on this matter, which leaves the local society free to set its own valuation on a share of stock.

SEC. 4. Shareholders.—Each person or organization admitted into the membership of the society (association) shall subscribe for a minimum of _____ (_____) shares of its capital stock and shall make an initial payment thereon of at least \$_____. The balance of the subscribed amount shall all be paid within 12 months from the date of subscription. In the event that all payments are not completed within 12 months the board of directors shall have the right to return to the subscriber the amount already paid and cancel his membership. The privileges of full membership shall be given to each subscriber when he has paid the full amount subscribed, and he shall not receive a stock certificate nor savings returns in the form of cash until the full subscribed amount has been paid. No shareholder shall hold either directly

or indirectly more than 5 percent of the total shares outstanding, unless the total number of members is less than 20. A numbered certificate of shares in the society (association) shall be issued to each member on the full payment of his subscription to the capital stock, such certificates to be numbered and registered as issued and to contain the shareholder's full name, the number of shares owned by him, and their value at par, and to be signed by the president and treasurer and impressed with the seal of the society (association). The record of stockholders and the outstanding stock shall be kept by the secretary in a stock book for that purpose.

NOTE.—(a) The amount required from each member depends upon local conditions. Most store societies should require each member to subscribe at least \$25. Many such societies set a lower figure, but they handicap themselves by so doing. Some store societies demand that each member subscribe \$100, and give him a long period in which to pay it. If organizations as members are required to subscribe larger amounts and to make larger initial payments than individuals, this fact should be specified in the bylaws, or the board of directors should be given explicit permission to make exceptions in such instances.

(b) Loan capital is entitled to its interest before share capital. In fact, the interest on the former should be charged to the expenses of running the business, while interest on the latter must come out of net surplus savings or "profit." It may be well to offer a higher interest on loan than on share capital when extra funds are needed, thus encouraging contributions on which interest is not considered taxable income by the Federal Internal Revenue Bureau.

(c) Not less than \$10 should be required in a new business which needs all the capital it can get. If at some later date the society finds itself prosperous and able to attract new members by reducing this amount, this clause can be amended. Many old societies take in new members on the payment of \$1 or even of 50 cents or 25 cents, and in England some societies offer memberships for 2 cents. This simply means that their subscriptions are all paid ultimately out of accumulated surplus savings.

(d) Six months or 3 months may be allowed for payment of subscriptions. If minimum subscription is \$100, then it is well to make this 24 months.

(e) Cancellation of subscription is essential to protect the society from becoming overloaded with members who have not completed their obligations, but it need not be enforced in the case of a subscriber who is financially embarrassed and unable to meet this requirement strictly on time.

(f) Too many shares in the hands of any one member are not desirable. A member might hold only 5 percent himself, yet have additional shares owned by minor members of his family—children not legally entitled to exercise all the privileges of membership. A member with a large number of shares might not have the power of more than one vote, but he would be in a position perhaps to injure the society by removing all of his money at once. No one individual should be in a position to cripple the society, or to exercise undue influence over the board of directors by virtue of the fact that he is a "big shareholder."

(g) In some States without a cooperative law and in which, if the society incorporates, it must do so under the general corporation law, a stockholder must, under the law, have as many votes as he owns shares of stock. Where this condition exists, a cooperative society can meet the situation by providing in its bylaws that each member shall have only one share. In a State in which the law permits the uncontrolled sale of stock by one person to any other person at any price, then the cooperative society should organize as a membership association with certificates of membership or loan capital in place of stock, or it should issue only as many shares of stock as it has members.

(h) The Cooperative League (New York City) supplies special share certificates expressly printed for the use of cooperative societies.

(i) Other officers may be authorized to sign but these are the ones usually designated.

SEC. 5. Interest.—Share capital may receive interest at the minimum legal rate. This shall be not more than 6 percent per annum. No interest shall be due on shares until the full subscription has been paid.

Loan capital shall receive interest at not more than 6 percent per annum, and such interest may be cumulative.

Interest on share or loan capital may be calculated quarterly, but no capital held by the society (association) for less than 13 weeks shall bear interest. Such interest may, on request of the member and at the discretion of the board of directors, be applied toward the purchase of additional shares of stock or the deposit of additional loan capital.

NOTE.—(a) Massachusetts societies are limited to an interest rate of 5 percent. Other States (see note 11, p. 14) allow higher rates, and cooperative societies sometimes do so when they are greatly in need of capital and cannot get it any other way. It is better, however, to limit the interest rate to 6 percent and depend upon educational methods as the soundest means of getting the members to finance adequately their own organizations. People should not be encouraged to look upon a cooperative society as an investment which will yield large returns on their money. The investment should be safe; the large returns should be in patronage.

(b) No society is permitted to pay interest on share capital unless such money is actually saved or earned during the business year. If savings are small, it may be well for the directors to recommend to the general meeting that interest be paid at only 2 or 3 percent or even passed entirely for that particular year, so that the reserve fund may be made to grow faster or the consumer members encouraged with a slightly higher rate of savings returns.

(c) If interest is to begin as soon as 50 or 75 percent of the amount subscribed has been paid in, it should be clearly stated that such interest payments shall not be made in cash but shall be applied only toward the unpaid balance of subscription.

(d) It is conceivable that during the first year or two the society may not be able to pay even this interest. Therefore provision should be made that in later and more prosperous years the past interest payments may be met. The society has a financial obligation to its sources of loan capital which precedes that which it has toward its sources of share capital.

(e) Interest may be paid from the date the money is received in the case of share or loan capital.

Sec. 6. *Transfer or repurchase of shares.*—The society (association) shall have the first option on any shares of stock offered for sale. Shareholders desiring to dispose of such shares must first offer them to the society (association) through the board of directors which is authorized to redeem them at a price not exceeding their par value, or book value, if the latter be less. If the society (association) through its board of directors is unable or refuses to redeem such shares, the shareholder shall then have the right to dispose of them to any person eligible to membership in the society (association). Transfers of the shares of this society (association) shall not be binding until made upon the books of the society (association) with the approval of the board of directors, and no transfers shall be completed until the old certificate or certificates have been endorsed and surrendered and a new certificate issued in the name of the purchaser.

NOTE.—(a) Some societies have suffered considerably from having outsiders, perhaps even business men who are competitors of the society, get into their hands a large amount of stock. If stock is to be transferred, the society should see that the new purchaser is one who is to be a patron of the society and in agreement with cooperative principles. This section and also the second half of section 4 of this article should amply protect the organization likewise against the buying up of large quantities of stock by a few grasping individuals, who ultimately get complete control and reorganize the society into an ordinary joint-stock company, sometimes with the connivance of the manager. It is well to have this particular provision written on the stock certificate itself.

(b) The redemption price of shares is often regulated by the laws of the State. Some States compel redemption at par value, regardless of the fact of a deficit or surplus on the books of the society.

(c) If the society has refused to repurchase such shares, it cannot legally prevent their sale to another person; therefore it must also accept the new shareholder into membership, after he has filled out the necessary application blank and paid the initiation fee.

SEC. 7. *Authority of board in transfer or repurchase of shares.*—The duration of option of the society (association) to repurchase shall continue for a period of 6 months after the shares have been offered for sale.

The board of directors shall at all times have the authority to repurchase the shares of stock and to cancel the membership of any shareholder who has died; who has ceased to patronize the business of the society (association) as specified in article IV, section 7; who has failed to meet his payments on stock subscriptions within the specified period of time; or who has, for any other reason, been judged unfit for membership. After a shareholder's whereabouts have been unknown for a period of 10 years and in accordance with the laws of the State of -----, due notice and warning have been given in the public press, the board of directors shall have the right to cancel such membership and transfer his share capital to the reserve fund.

NOTE.—(a) No society should permit its shareholders to demand an immediate return of their money. Six months should, however, be a sufficient time for the society to find sufficient funds to pay out any small number of retiring members. Some societies claim an option of 1 year. Yet if a society is going to demand too long a time, more harm may be done than by immediate payment, for if the applicant has a grievance he may talk so much about it that he breaks down the confidence other members or creditors have in the society and thus injures the society's credit. As a general rule, if the applicant seems to have a good reason for wanting to withdraw all or part of his capital, it is best to complete the transaction at once.

(b) Consult the laws of the State for the legality of all these provisions.

(c) Some of the oldest societies in America have on their books the names of members who have been completely lost for many years, and legally they have no way of getting rid of such "members." No society should continue to carry this "deadwood" year after year. A society in Europe struck from its membership roll in 1 year 30,000 inactive members. The rules of depreciation should apply to a society's membership as well as to its physical property. However, the laws of the various States are strict on this matter and must be studied.

SEC. 8. *Reducing capital by repurchasing of shares.*—Whenever the share capital of the society (association) shall, in the judgment of the board of directors, be in excess of current needs, the board of directors shall have the right to repurchase from any or all shareholders, who have shares in excess of the minimum requirements of ----- shares of stock, as many such shares as it shall consider necessary to the best interest of the society (association).

The board of directors shall not repurchase the shares of any withdrawing member nor of any other member when such a reduction of the society's capital would in any way endanger the financial condition of the society (association).

NOTE.—(a) Few societies ever have so much capital that they do not know what to do with it, except for a very limited period of time. Every progressive society should have an expansion program which continually demands more capital. There have been many instances where a society has built up a reserve fund of its own, large enough for all the ordinary purposes. Since interest is paid on share capital and none is paid on money in the reserve fund, interest charges may be reduced by retiring some of the share capital.

(b) It would seem that the last provision is so obviously sensible that it is not needed in the bylaws. However, many a board of directors has acted directly contrary to its own best judgment in the face of persistent demands on the part of some strong-willed shareholder, partly because it "does not want to refuse Smith after accommodating Brown last month." It is easier to grant

than to refuse the demands of an insistent shareholder, especially if he be an influential person in the community. A clause such as this in the bylaws will help to stiffen the backbone of a board of directors.

SEC. 9. *Lien on capital.*—The society (association) shall have an absolute lien on the share or loan capital, and on the interest due thereon, of any member or any subscriber to share capital for his debts owed to the society (association).

NOTE.—Many a society having no such rule as this, has felt itself obliged to redeem the capital stock of a withdrawing member, even though that member was in debt for goods purchased. Not only should there be such a provision, but it should be scrupulously followed.

SEC. 10. *Loan capital.*—The society (association) may accept loans from its members or from nonmembers in any amount acceptable to the board of directors, and shall undertake to pay interest for the use of the same at not more than 6 percent per annum figured quarterly. Such loan capital shall have preference over share capital. Notes or other evidences of indebtedness shall be given by the society (association) for such loans, but no such note shall be for a period of less than 90 days.

NOTE.—(a) Some societies have at all times large amounts of loan capital; in some instances twice as much as of share capital. Such an amount is dangerously high. There are many members who will take the minimum requirement of shares of stock, but will advance additional money only in the form of deposits or loans which are a much safer investment in the event of losses sustained by the society's business, and which at the same time are more easily recovered on reasonably short notice. Thus loan capital offers many a society a new source of capital. On the other hand, since a serious wave of unemployment or other crisis in the community might provoke a "run" on the loan-capital fund, no society should load up heavily with such a dangerous form of capital except on long-term callable notes or bonds.

(b) Sample form for notes against loan capital may be had from The Cooperative League, 167 West Twelfth Street, New York City.

(c) Wherever agreeable to the depositor, these notes should be made for longer periods of time—6 months or a year, or 2 years or more; or they could be redeemable "90 days after demand." Notes or bonds running 20 years or more are advisable where the money is used for building. Bonds are safer than short-term notes, because they insure a longer loan, and they have a definite maturity date. Most cooperative societies will not undertake to issue bonds, but they should try to give to these notes something of the same stability. Of course, as long as this form of capital is needed, members should be urged to renew their notes well in advance of date of expiration.

SEC. 11. *Reserve fund.*—At the end of each year, a sum not less than 5 percent of the net surplus savings or profits shall be allocated to a reserve fund. This fund shall be made up of money especially allotted to it from net savings or earnings of the business, initiation fees, fines, contributions from individuals, confiscated capital of removed or dead members, and any other funds appropriated to it by action of the board of directors or the general membership meetings. The reserve fund shall be for purposes of unforeseen losses due to extraordinary depreciation of equipment, fire, theft, or other causes, for the extension of the society (association) as a consumers' cooperative, or for any program of social welfare or insurance or other development directly associated with the cooperative movement as shall be decided by a general meeting of the membership. The reserve fund shall be the indivisible property of the society (association) as a whole.

NOTE.—(a) Under this section, it is possible for the society to make an appropriation to the central, national, or district educational headquarters. Generally, however, such appropriations should be made out of current surplus savings or earnings. Funds should not be appropriated from the reserve fund as donations to organizations or causes outside the consumers' cooperative movement; such action establishes a precedent from which it is difficult to disentangle the society in the future; furthermore, it may cause disagreements and

division in the membership. Donations to pure philanthropies by unanimous vote of the membership are the only exception.

(b) It is unlawful to pay savings returns or interest on share capital for any particular year out of the general reserve fund.

(c) The indivisibility of the reserve fund is important. Its meaning should be made clear to the membership, for this is one particular in which cooperative business differs radically from profit business. Many societies have made the mistake of crediting each shareholder with "his share" of the reserve fund and actually turning this over to him in the form of cash when he withdraws. In other societies, the membership meeting has voted to divide the reserve fund. Either practice is objectionable.

(d) Before the amount to be placed in the reserve fund is determined the State law should be consulted, as some of the laws have a definite provision on this point.

SEC. 12. Educational fund.—At the end of each year, a sum not less than 5 percent of the net surplus savings or profits shall be allocated to an educational fund. This fund shall be placed in the hands of the educational committee of the society (association) to be used for purposes of education among the members and the public.

SEC. 13. Distribution of surplus savings.—At the end of each fiscal period, after paying the interest on capital stock, and after providing for the reserve fund and the educational fund, as required by article V, sections 5, 11, and 12, the remainder of the surplus savings may be used collectively for social purposes or may be divided according to the Rochdale method among the members, who have paid in full for their shares of stock and who are not in arrears, in proportion to the amount of their patronage. Any fraction thereof remaining shall be carried to the account of the member for the next fiscal period. All such savings returns not withdrawn within 10 days after being declared shall be carried to the member's surplus savings account. Savings returns may be allotted to members who have not paid in full for their shares of capital stock if they agree to allow this money to go toward the payment of the said stock.

NOTE.—Some societies pay savings returns to nonmembers in one half the amount paid to members. (But see note 16, p. 23.) Such nonmembers should be urged to allow these savings returns to remain on the books toward the payment for their share capital.

ARTICLE VI.—Prices

SECTION 1. Distribution prices.—Goods and services shall be supplied to the members at the prices prevailing in the profit business of the neighborhood or with which the society (association) competes.

NOTE.—The reasons for this difference between cost and distributing price are (1) to create a surplus (this difference is the profit in profit business; it is the surplus saving in cooperative business); (2) to prevent the hostility of competing profit business which arises if the cooperative sells at cost; and (3) to make it easier to know what prices to ask because of the difficulty of figuring exact cost at the time of sale. Cooperatives sometimes find it advantageous to have some prices below the market. There must always be a good reason for such pricing.

ARTICLE VII.—Use of Surplus

SECTION 1. Surplus savings.—The surplus savings (or profits) which accumulate shall be used for (1) paying overhead costs, (2) paying interest on capital, (3) creating a permanent surplus fund, (4) expanding the business, (5) general welfare undertakings in the interest of all the members, (6) philanthropic service, and (7) the balance shall be returned to the members in proportion to their patronage.

NOTE.—Some societies find it advantageous to use much or all of their surplus savings for the general good of the members in the form of education,

recreation, insurance, health protection, housing, and other welfare services.¹ The disadvantage of this is that the benefits are not always enjoyed in equitable proportion by those whose patronage have created the surplus savings. It is more equitable to return to each member the surplus which his own patronage created. The society may then make available for him the above services, which he may directly purchase with his own savings returns or returned savings.

ARTICLE VIII.—*Government*

SECTION 1. *Membership control.*—The control of the society (association) shall be vested in the membership meetings. The board of directors and such special committees as may be elected by the membership meetings are elected to administer its affairs. Final and supreme authority resides in the membership meeting. All meetings shall be governed by "Rules of Order."

NOTE.—(a) Included under this head are both regular and special meetings. (See secs. 3 and 5.)

(b) For the number and nature of such committees see sections 15 and 16 and footnote. These committees must not be confused with those elected or appointed by the board of directors. The latter are under the control of and responsible to the board of directors only.

(c) General control and centralized administration are the basis of cooperative business.

(d) Roberts' or other authoritative rules of order may be used.

SEC. 2. *Quorum.*—A quorum competent to transact business shall consist of 20 percent of the members. No meeting shall proceed with business unless a quorum be present.

NOTE.—The number necessary for a quorum should be given careful consideration. It should depend upon the size of the society and the possibility of members' attending. In a society of more than 1,000 members, the quorum may be made less than 20 percent. In a smaller society it should be more.

SEC. 3. *Regular membership meetings.*—The regular meetings of the membership shall be held semiannually on the ____ day of _____ and the ____ day of _____ at 8 p.m., at a place to be determined by the board of directors and specified in the call to the meeting.

Notice of regular meetings shall be posted prominently in the society's (association's) places of business and shall also be sent by mail to the address of every member as registered on the books of the society at the time the notices are sent. Notices shall be sent at least 6 days before the date set for meeting.

NOTE.—(a) Some societies have regular meetings quarterly, and a few even monthly. On the other hand, many of the older societies, in which the members are not interested in attending more often, meet regularly only once a year. Much depends upon local conditions. Such meetings should take place at least twice a year; four times is even better, provided the members are really interested in attending. Monthly meetings are excellent, especially during the early life of a society when enthusiasm is high and the members are eager to educate themselves, but it is probably wiser to designate frankly such monthly affairs as educational meetings. In a small town it is easier to have frequent meetings than in a large city. People having few other social affiliations will attend cooperative meetings more frequently than people who belong to other active groups, clubs, fraternities, unions, etc.

(b) "Third Thursday of February and third Thursday of August" is the way one society designates the date of meeting. Some States (New York is one) demand that the exact day be designated in this way. Others permit the directors to use their own discretion in each instance. If the State law does not require this, it may be left out and in its place may appear the words "on such a date as may be determined by the board of directors." The date

¹ But the laws of some States require the distribution of surplus savings in proportion to patronage. See note 16, p. 28.

should, however, be at least a month, preferably 6 weeks, after the end of the fiscal period. See article V, section 1.

(c) A few States demand that the place for the meeting shall also be fixed in the bylaws but this is unusual. The call to the meeting is sent out by the secretary, either on a postcard or by letter. Whenever possible it should also be published in the local press or in the publication of the local society, if there is one.

(d) Six days' notice is usually enough, but again, in a community where many of the members make many engagements in advance (a large city for instance), this might better be 10 days or 2 weeks.

SEC. 4. Order of business at regular meetings.—The order of business at regular membership meetings shall include:

Reading of minutes of last regular or special meeting.

Unfinished business left from previous meetings.

Report of secretary.

Report of treasurer.

Report of manager.

Report of audit committee.

Report of education committee.

Report of membership committee.

Report of other committees.

Discussion of the reports.

Election to fill vacancies on board of directors or committees.

Action on distribution of net surplus savings.

Action on other recommendations of board of directors.

Other new business.

NOTE.—(a) The items here set down are only the most important ones, and they should not be looked upon as a complete order of business. Some of them might not be applicable to the semiannual or quarterly meeting (elections, for instance, or distribution of savings, if such action takes place once a year).

(b) It is very easy for a meeting to confine itself exclusively to business matters. Therefore, it is essential that a place be definitely allotted on the agenda for discussion of education and membership. It is important to have a sound educational policy as well as a sound financial policy. Expansion and development of the membership are as essential as expansion and development of the business. Otherwise the members lose contact with their business institution, become indifferent to it, and soon begin to look impersonally upon it, merely as one of several competing stores in the neighborhood.

(c) The board of directors should always present its recommendations on the distribution of surplus savings, advising the membership as to how much should go to the reserve fund, to the educational fund, how much to be distributed as savings returns, and how much to other funds and causes. The meeting is then ready for a worth-while discussion of the whole matter and may accept the recommendations, modify them, or reject them.

(d) Other matters to be presented may cover a wide range of subjects, such as proposed amendments to the bylaws, construction of a new store building, placing a mortgage on the society's real estate, expelling a member, opening a new department or branch store, authorizing a delegate to a national or district convention.

(e) Discussion of new subjects proposed by members from the floor would come under the heading of new business.

SEC. 5. Special meetings.—Special meetings of the membership may be called at any time by action of the board of directors, and such meetings must be called whenever a petition therefor is signed by at least 10 percent of the members and presented to the board of directors.

Notice of special meetings shall be given in the same manner as is provided for regular meetings (see sec. 3), but such notices shall be sent at least 10 days before the date set for the meeting.

Notice of special meeting shall state the time, place, and purpose of such meeting, and the business to come before it; and no business other than that specified in the notice shall be transacted.

NOTE.—(a) The right to initiate a call for a special meeting should be recognized in every cooperative society. A very small society should probably require the signature of 20 percent of the members, whereas a society having several thousand members might require only 5 percent or even less. One such large society requires only 30 members to sign, which is really less than 1 percent of the membership.

(b) Ten days' instead of 6 days' notice is suggested here because of the extraordinary nature of the occasion. The members usually are not expecting a call to such a special meeting, as they are at the time of a regular meeting, and they should therefore have more time to prepare for it.

(c) This last paragraph is a legal requirement in many States, and it should be the law for every cooperative society. A special meeting generally has some special purpose, and this purpose must be clearly stated in advance. And then, once the meeting is in session, no person present should be permitted to surprise the meeting with some other business, the nature of which the members may not be prepared to discuss. In fact there might be many members absent from the special meeting whose interests would be vitally affected by the "surprise" business and who would not be absent if they knew it were to be discussed. Special meetings must be sharply restricted to the special purpose for which they are called.

SEC. 6. *Rights and limitations of the membership meeting.*—The membership meeting has both the right and the responsibility to elect directors or members of committees and to remove them from office if and when they are derelict in their duties; to hear and pass upon the reports of officers and the general manager of the society (association) and of any committees which are responsible to it; to determine the method of dividing the net surplus savings or earnings; to make the final decision regarding any drastic changes in the financial policy; to act as a final arbiter in any disputes or disagreements which may arise between the board of directors and any committees or individual members; to determine what amendments shall be made in the bylaws; and to exercise its final authority in all other matters vitally affecting the society (association) as a cooperative fraternal body and as a business organization.

NOTE.—At first glance this section may seem unimportant; it is not. Many societies have been seriously crippled because the membership meeting did not have its duties clearly defined; therefore it neglected some of its most important duties (such as selecting the proper people for the board of directors or holding them strictly to account after they were elected), and, on the other hand, handicapped the board's effectiveness by interfering with its work. The meeting may establish certain broad rules or laws to guide the directors in their work, but it must not attempt to instruct them in advance as to how they shall handle the details of specific business problems to arise in the future—such as, for instance, the pricing of goods, the kind of fixtures to be installed, or the people to be employed to fill vacancies on the staff. It is best that a membership meeting shall not pass upon the qualifications of the manager nor of other employees, nor dictate to the board of directors the details in the manner of handling the day-by-day business affairs of the society. These are technical matters. They may be discussed by the members, but official action by a large body is apt to be swayed by oratory or other unsound influences. Such things are best left with a special committee to investigate and report—but not to kill.

SEC. 7. *Participants in membership meetings.*—Every member who has met his full obligations as regards share capital, as specified in article IV, section 4, and who has not in other respects been judged delinquent nor acting contrary to the interests of the society (association) by a membership meeting, shall be qualified to vote and to participate in the meetings of the society (association).

NOTE.—If the board of directors has already decided that any member should be dismissed for infraction of the rules or for failing to patronize the society's

business, the offending member should not be disqualified from participating in the meeting unless the meeting has approved the action of the board. The board should not be placed in such power as to make it possible for it to determine who may or may not vote at a meeting. This power should rest with the membership only.

SEC. 8. Voting rights.—Election of directors and members of committees shall be by ballot unless unanimous consent is given to a vote by show of hands. Action on all other matters shall be either by ballot, by a show of hands, or by a rising vote, as the majority of members present may decide. Each member shall have one vote on all voting occasions, and never more than one vote, and there shall be no voting by proxy.

NOTE.—(a) In most all instances the show-of-hands method of voting proves quite satisfactory. It is only where a contest for a place or places on the board of directors is keenly contested, with some degree of feeling between the candidates or their supporters, that a ballot vote is required. This constitutes a secret ballot.

(b) The one-vote rule should be enforced under all circumstances, unless the State law contains specific provision to the contrary.² It is one of the fundamental principles of consumers' cooperation.

(c) For instances of an organization holding membership in the society and represented in the meeting by delegate or delegates, see article IV, section 10.

(d) Proxy voting should not be permitted in cooperative societies because it may be used to defeat democratic control. When societies reach so great a size or have a membership so widely scattered that the members cannot come together in a single meeting place, such societies should be divided into district groups, each having a meeting place, local autonomy, and delegate representation in the central meetings of the central organization. If the problem cannot be solved in this way because of sparsely scattered membership, voting must be carried on by referendum. That is, each question to be voted on should be formulated to be answered "yes" or "no", and sent to each member for his vote. But proxy voting should not be adopted as a compromise under any circumstances, unless the requirements of the State law make this unavoidable.³

(e) If the State law requires vote by mail under certain circumstances, a provision to that effect should be inserted in the bylaws at this point.⁴

SEC. 9. Officers.—The management of the society (association) shall be vested in a board of directors, consisting of president, vice president, secretary, treasurer, and five other members, whose terms of office shall be for 1 year. The office of secretary-treasurer may be combined in one person, in which event an extra member shall be elected to the board in order to provide for an odd number. The board shall elect its officers.

Directors, auditors, and other officers shall be eligible to serve until the election of their successors.

NOTE.—Some societies do not allow more than two consecutive terms, requiring that candidates retire for one term before they become eligible for further service. The board of directors and all other committees should always be an odd number. The size of the board should vary with the size of the society.

SEC. 10. Disqualification of officers and directors.—Any director or officer shall vacate his office if he holds any other office or place of profit under the society (association); if he becomes bankrupt or insolvent; or if he partici-

² Thus, the Missouri law provides for vote by shares in the election of the directors; that of South Dakota for share voting in associations with a capital of over \$50,000.

³ As in Alabama (nonstock), specifically permitting proxy voting in the election of the trustees, and in Illinois and North Carolina, providing for written proxies, but in the latter State no member to vote more than 1 proxy.

⁴ In Michigan an opportunity to vote by mail must be provided. In Alabama (nonstock), Illinois, Iowa, Minnesota, Montana, Nevada (nonstock), New York (stock), New York (nonstock), North Carolina, North Dakota, Oregon, South Dakota, Washington, and Wisconsin, a member unavoidably absent may be permitted to vote by mail if notified in writing of the question to be voted on and if a copy of the motion is attached to the vote; Minnesota and Oregon require the vote to be signed and Minnesota that it be certified by the voting member.

pates in the profits of any outside business with the society (association). No employee of the society (association) or person supplying the society (association) with goods shall hold office as a director on any account whatever. No director shall engage in business which competes with the business of the society (association).

NOTE.—(a) It is highly objectionable to combine the offices of president and manager in the same person. Some societies do this with apparent success, but the success is often more apparent than real. Such societies tend to become "one man" organizations. Sometimes the one man has such control of the business that it is to all purposes his private affair. Such societies have often been destroyed by being taken over by the manager upon his terms. If the manager is both competent and sincere, the society seems to prosper, but the membership and directors' control becomes relaxed. A precedent is established. And the next president-manager, if he fails in either competence or sincerity, is pretty sure to wreck the society. Too much power in the hands of one person sooner or later destroys a cooperative organization. A society, with a good manager, that has not enough material in its membership to produce a good president is in bad condition.

(b) Although employees may not hold office, it is strongly recommended that delegates of the employees be invited by the directors from time to time to confer with them on matters of joint interest, and the employees should be encouraged to organize as workers in their industry.

SEC. 11. *Duties of directors.*—The directors shall administer all business carried on by or on account of the society (association). The directors shall in all their actions be under the control and direction of any regular or special meeting of the members. The directors shall meet at least once in 2 weeks. A majority shall form a quorum. They may arrange themselves into subcommittees. When this is done each subcommittee shall superintend one or more of the different activities carried on by the society (association) and each chairman shall make a detailed statement of the work done in that department at the directors' regular meeting.

The directors shall convene the meetings of the society (association). Any two directors may call a special meeting by giving 2 days' notice in writing to the secretary, specifying the object thereof.

The directors shall act for the society (association) and be responsible to it for the performance of the following duties:

1. To engage a staff to undertake the work of the society (association), with suitable heads of departments, or a manager over all, and to determine the duties and emoluments of each.
2. To provide suitable accommodation, machinery and plant to conduct the society's (association's) business.
3. To insure that the business is conducted in accordance with the rules, and that justice is given to members and to employees.
4. To control all investments, whether in shares and loans in other societies, or in land, property, and fixtures.
5. To secure economical working of the society's (association's) business; to safeguard the society (association) against fraud by providing, if possible, a complete check against errors, carelessness, or loose handling of cash and property by every person responsible for the same.
6. To provide the best possible conditions of labor in the society's (association's) service, and to demand and secure equivalent results in efficiency, faithfulness, and diligence.
7. To control the sources of supply of the society's (association's) goods and to maintain a direct and vital connection with other cooperative organizations.
8. To foster a spirit of enthusiasm for cooperative effort, both in the staff and the members of the society (association), and to identify themselves with every good feature of cooperative endeavor.

SEC. 12. *Duties of president and vice president.*—The president shall act as chairman at all meetings of the society (association) and of the board of directors, but should he be absent, the vice president shall take the chair; should he also be absent, the officers and directors present shall elect one from among themselves to act as chairman on that occasion. The president, or chairman acting in his absence, shall sign all contracts.

SEC. 13. *Duties of secretary.*—The secretary shall attend all meetings of the society (association) and of the board of directors and shall record the names of all the directors present, and the minutes of their proceedings; he shall also countersign all contracts sanctioned and entered into by the directors; he shall likewise receive all proposals for admission into the society (association). He shall attend to all correspondence, keep the accounts, documents, and papers of this society (association) in such a manner and for such purposes as the directors may appoint. He shall prepare the regular statement of the society's (association's) affairs. The secretary shall on all occasions in the execution of his duties act under the superintendence, control, and direction of the board of directors.

SEC. 14. *Duties of treasurer.*—The treasurer shall be required to attend all the general meetings of the society (association) and of the directors. He shall be responsible for such sums of money as may from time to time be paid into his hands by the secretary or by any other person on account of the society (association) and for the investment of the same under the authority of the directors. He shall pay all wages due to employees and all accounts due. He shall balance his cash account weekly and supply the secretary with a duplicate thereof.

NOTE.—It is customary for the manager or the treasurer to be given the responsibility of depositing the money received once daily in the bank. Checks in payment of purchases should be signed by the treasurer and one other officer—the president or an auditor.

SEC. 15. *Election and duties of auditors.*—There shall be three auditors who shall be elected by the members of the society (association). They shall serve for 1 year and shall at all times have access to the books, vouchers, and accounts of the society (association), and shall examine and audit the same and every balance sheet of the receipts and expenditures and effects of the society (association) at least every 8 months. The auditors shall be responsible for the daily and perpetual accounting system kept by the manager and shall check same at least weekly. If in the judgment of the directors an expert accountant is required they are authorized to employ one as often as they think necessary.

SEC. 16. *Subcommittees.*—The members should elect at the annual meeting the following special committees, composed of a chairman and not less than two other members, which shall serve for 1 year or more: Educational committee, auditing committee, and membership committee, for the purpose of securing new members and increasing the interest of the members through recreational and social activities.

NOTE.—Other committees may be elected or appointed from time to time to meet special needs.

SEC. 17. *Bonds.*—The treasurer, manager, or other officers or employees, having the custody of the funds or goods, shall each give a bond with corporate surety sufficient to insure the society (association) against possible loss.

NOTE.—There is an advantage in having the bond so written that the employee is responsible for a certain initial sum in case of loss. This he covers

by making a cash deposit of that amount with the society when he takes his position. A second responsibility in a second amount should rest upon the society, prior to the responsibility of the bonding company. By these expedients the society is held to keener vigilance as to the character of its employees, and the liability insurance is secured at a lower cost.

SEC. 18. *Amendments.*—For the alteration of these rules by amendment, repeal, elimination, or addition, a two-thirds vote of the members voting at a membership meeting shall be necessary. Notice of the proposed changes shall have been published to the membership at least 2 months before the meeting.

Appendix B.—Sample Pledge, Membership Application, and Receipt

<p>BLANK COOPERATIVE SOCIETY</p> <p>No. Date</p> <p>Received from</p> <p>.....</p> <p>the sum of \$1 for initiation fee and \$..... as advance payment for stock as agreed on detached pledge and application form.</p> <p>Signed:</p> <p>(Officer of Society)</p>	<p>BLANK COOPERATIVE SOCIETY</p> <p>No. Blank, N.Y. 193...</p> <p>I hereby make application for membership in the above named society, and if elected, agree to abide by the constitution and bylaws and by personal effort endeavor at all times to promote the interest of the said association. I do also pledge the fullest possible amount of my own patronage to my cooperative store.</p> <p>I hereby make payment of \$1 as my initiation fee, and in addition do subscribe for..... shares of the capital stock of the society, at \$..... per share.</p> <p>With this application I make payment of \$..... on my subscription of stock and do promise to pay \$..... per month hereafter until full amount is paid.</p> <p>Name</p> <p>Address</p>
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Sample subscription for capital stock

I hereby subscribe for shares of the capital stock of the Society at \$ each, and agree to pay for same

It is understood that such capital stock shall bear interest at% per year, and shall be withdrawable only upon 60 (or 90) days' notice in writing.

Signed:

Date

[The first of these application blanks should be in two parts as indicated, and detachable. They may be bound up in pads or books of 100 each. A similar form of detachable application may be worked out for loan capital subscription.]

Part 2.—Organization and Management of Consumers' Cooperative Clubs

Object and Scope

The object of the consumers' cooperative club is to serve as an initial step in cooperative organization and to save its members money. It is organized for the purpose of training and study and for buying in quantities sufficient to obtain discounts or wholesale prices. It is a means of dispensing with the services of one or more middlemen and often of getting into direct commerce with the producers themselves. The cooperative club can yield definite results. The members may save money for themselves and get good merchandise and fair measure.

While savings are the usual object there are other objects of equal or greater importance. Thus, it is entirely within the function of economic cooperative enterprises to stress the educational and social function. The club may be made a natural social center.

The club may exist under a number of conditions, each one of which must to some extent alter its form and policy. A group of neighbors may be completely independent, and mold their enterprise according to the degree of cooperative intelligence enjoyed by the members. A group of factory workers, on the other hand, may have to depend upon the goodwill of the management if they are to have the facilities for storage and for meetings which their employers may supply. If they meet outside the factory, but in a community in which the factory has a financial interest, there may be situations in which they will find themselves opposed. A network of interests and reciprocities sometimes enmeshes the tradesmen and the various business interests of a community. It is more likely today, however, that in most industries where fair conditions of work prevail, the management will welcome proposals from the employees looking to self-help and mutual welfare. Managements have frequently taken a helpful interest in these cooperatives. It is far better to let the men organize and manage their cooperative undertakings than to impose upon them, however generously, the form without the spirit of cooperation. What they initiate and do for themselves will benefit them more than what is done for them. The management may suggest the plan to leaders among the employees, and it should show itself sympathetic and helpful; but it should not confuse cooperation with welfare work.

Among salaried workers in the large business houses of the cities, the cooperative club meets with little or no resistance. The great insurance companies are themselves to some extent cooperative, and several large and successful cooperative clubs have been established in these institutions.

In such cases, as well as in private business, it is important to enlist the coöperation of the men in charge.

In community center groups where self-help is taught and practiced, the soil is rich for the growth of cooperative organizations. The center or settlement, however, that deals with the problems of the very poor—necessarily more or less philanthropically—will find extreme difficulty in establishing a club or store on anything like a democratic basis. It will be found necessary to enlist the interest and cooperation of the more thrifty members of the community, and then to work back, by a process of education, to the indigent and frequently shiftless part of the population. But in any case it should be made a community affair and not be maintained for any length of time out of the pockets of a few.

The cooperative club must be made a democratic association. Just to the degree that it is not, it is not cooperative. If every member holds himself ready to contribute service when and where needed, the cooperative club may become an effective agency in paving the way to better business. It will at least produce better and more social individuals. It establishes the habit of just dealing and the sense of mutuality among the members.

Organization

The bylaws will have to vary to suit different conditions. Certain principles, however, are essential to every case, and may be stated as follows:

1. Every member having one vote and no more.
2. No voting by proxy.
3. Savings distributed in proportion to patronage.
4. Adequate and responsible supervision by instructed committees.
5. Cash business.
6. Unrestricted membership.
7. Neutrality in matters of opinion and status of members.
8. Education and expansion.

In order to give the club a good start, the persons who are convinced of the feasibility of the plan should try to interest as many others as possible in the subject before any meeting is called.

The meeting duly announced and assembled, its object should be clearly and briefly stated. The chairman should call for a tentative plan of organization as a means of getting the whole matter quickly

before the meeting; and the tentative constitution should be submitted.

The chairman should here announce that since the object of the meeting has been stated and a form of organization proposed, a motion is in order to organize a consumers' cooperative club. If this motion is carried, it may be moved that a paper be circulated through the meeting for the signatures of those whose intention it is to subscribe for shares.

A further motion may follow in order to the effect that a committee of five be appointed by the chair to draw up a constitution; and that the meeting be then thrown open to a discussion and criticism of the sample constitution that has just been read to the meeting. Such discussion should assist the new committee in its work.

The constitution should outline a complete and self-perpetuating organization. A cooperative club may, of course, consist of one enthusiastic and several acquiescing members; and such a group is likely to be content without rules of any consequence.

The bonding of the two officers through whose hands the money and goods pass is an important guaranty of safety. It should not be avoided out of a mistaken consideration for the feelings of these officials, or because of their recognized personal integrity. The bonding precedent should be started at once and never departed from.

Another method of electing officers than the one above proposed is to elect a board of directors, who shall themselves select the officers from among their number, or this latter method may be modified by the popular election of the president alone. There might be some gain in electing pairs of directors for 1, 2, and 3 years, or half years, since it would insure the club against ever having only novices in office.

Where the need arises, a committee of three may be appointed each month from an alphabetical list of names, to assist the manager in checking stock orders, and in supervising distribution to the members.

The payment of savings returns as proposed in the constitution is a feature that is popular in cooperative stores. This is not so important in the case of the cooperative club, but it is to be recommended. In the case of a large club in New York City, "we figured our selling price by advancing our cost price an average of 10 percent which made it possible to sell below prevailing retail prices and hold our members. A savings return was then declared yearly." The organizer and manager of a postmen's club writes that his club sells rather close to cost but "by adding an allowance for savings returns and incidentals, it would make the nonmembers help to support the club if they purchased. In cooperative clubs the members

are not always looking for savings returns, but we find by experience that it is an incentive to give something to show for loyalty." The "Belgian idea"—the use of surplus savings for insurance and other mutual benefits—has much in its favor. It often means much more to members of a cooperative society to have the food continue to come when the pay envelop has stopped and when the breadwinner is disabled by sickness than to receive cooperative savings in cash; cooperatively owned meeting and amusement halls, libraries, nurseries, and dwellings are often of more benefit to the members than savings returns in cash.

It is a serious technical matter to determine the kinds of goods with which to start a club. Tea and coffee, butter and eggs are standard. There is a large margin of profit on tea and coffee; and if the members may be persuaded of the fact that 2 or 3 mixtures of each are enough to satisfy every taste, these articles may be bought at a considerable saving. Canned goods, on the other hand, are not likely to prove economical. It seldom pays to bother with the cheaper qualities. Cereals, biscuit, and many other package goods will save the club a small percentage when bought in quantities. Dried fruit, including prunes, are likely to yield larger savings, and also dried peas, beans, and rice, hominy, and similar products in quantity. Goods in bulk can often be handled to advantage and with great saving. In view of the excessive profits in package goods, bulk goods can often be packed by the club.

Clubs sometimes buy meat successfully. Smoked meat, bacon, ham, smoked and brined fish, and sausage meat may be tried without special facilities for storage; but fresh meat, of course, must be either cut or distributed without delay or put into cold storage. A good saving is made where fresh meat can be handled; and clubs have bought sides of beef at large discounts.

The subject of buying cannot be touched on further here, since it would require too much space to give it adequate treatment. A booklet on buying for consumers can be consulted.

The Cooperative Wholesale Society is the economical source of supply. In some places profit wholesalers will not sell to cooperative organizations; but they are not the rule. Not all of them, however, will sell at equally favorable prices. The club should get in direct touch with the farmers for a number of articles, such as eggs and potatoes; and the express companies are offering new facilities as direct middlemen between producer and consumer. These companies issue circulars and price bulletins. The development of producers' cooperation should enable cooperative clubs to reach groups of farmers with their orders. The club secretary should get in touch with all such groups in the surrounding counties. A committee should be

appointed to help the secretary study the best buying practice for the locality.

When the club is small, cash should accompany the order of each member so that money will be on hand to pay for bulk orders in advance or on delivery. When the club is large, goods may be purchased in anticipation of the demand, as a cooperative store does, but more conservatively. It is a great advantage, of course, to be able to buy in a cheap market without delaying to secure a lot of individual orders. Where this is permitted the members must be ready to share any losses due to mistaken judgment on the part of the secretary-manager or a buying committee. It must not be forgotten that a cornerstone of cooperation is cash, or no credit. Exceptional conditions or the need of waiting for pay day may call for limited credit arrangements. Credit should under no conditions be allowed to exceed the amount of the member's investment in the club, either as stock or as loan capital.

More bookkeeping is necessary where savings returns are paid than where goods are sold to members at cost. It need not be made too difficult, however. The method of keeping a record of business is simple; a triplicate recording machine is used. The manager writes the member's name, articles purchased and the amount; the original copy is given to the member upon payment, the duplicate is turned over with the cash to the treasurer at the end of each day, while the triplicate copy remains within the machine on a roll. As soon as the roll is used up this is given to the secretary to be used as a check against the amount of sales entered in the treasurer's books. A machine is, of course, not necessary; and the system must be made to suit the particular methods employed.¹

Incorporation is often a difficult problem owing to a want of good cooperative laws in some States. This question will have to be met by each different society and in each separate State. Careful study must be given to the law in its relation to the objects and future of the society.

In the case of a small neighborhood club, storage room may be hard to find. One of the members may have a convenient cellar, or the members can take turns in receiving the goods at their homes and calling the club together for the distribution. This latter method may be made a social function of importance to the group. When a neighborhood club gets so large that it seems necessary to hire storage room and an attendant, it is time to consider making the necessary changes in organization to become a cooperative store society. Clubs in factories and business houses will probably be able to obtain space

¹ Those who contemplate forming a club may get a pamphlet on accounting from The Cooperative League of the U.S.A., 167 West Twelfth Street, New York City.

from the management at a small or no rental charge. One writes, "The company donated the room for our store purposes, but in no way had any say in the management of it. Our only overhead charges were the hire of one clerk at \$12 per week, paper and twine for packages, ice for refrigerator, and insurance premiums." This club practically amounts to a cooperative store.

Delivery should not be undertaken by the ordinary cooperative club, unless it can be done by a boy of working age employed after school hours once or twice a week. Where a large number of members scattered over a large city buy certain staple things, a wagon delivery twice a week would probably pay. It is important, however, to restrict delivery whenever possible. A large club could adopt the excellent plan of charging 7 cents for each delivery. This plan avoids taxing, for delivery to some, all those who are willing to carry their purchases home.

Cooperative clubs sometimes arrange with local tradesmen to give their members a definite discount on all purchases. This is sometimes done with clothiers and tailors, men's furnishers, hardware and furniture dealers, florists, druggists, doctors, dentists, and other business concerns. The discount is arranged and the amount of the discount fixed at a certain figure by agreement. Clubs that confine themselves to this kind of business never seem to make much progress as cooperative organizations.

Larger Possibilities

It should not be the ideal of the consumers' cooperative club to hold itself aloof and apart, a sort of pin point of economic democracy in a world of struggle and combination for profit. It should make it a definite policy to get in touch with other cooperative clubs and with cooperative stores and to urge pooling of orders and federation. A local federation could effect many economies and would doubtless encourage the promotion of other cooperative organizations.

It is quite possible that a well-organized federation of cooperative clubs would make the club feature, as distinct from the store, permanent. Such a federation, indeed, would be, as a whole, a kind of store in which the comparative scattering of the membership is made up for economically by the small overhead expenses involved. But where the club is not established within a system, its organization is not at all likely to remain fixed. With growth of membership, with the paying of wages, with increase of capital, and with buying for cheapness in anticipation of orders, the demand will set in for a larger and more varied stock, for a suitable storage and display room, for more paid service, and for delivery facilities. Thus the club becomes a store, and reorganization must follow or accompany the change.

Whether or not the club is to be more than a temporary phase of organization it may, at least, be an important phase, and is thus of undoubted value to the progress of the cooperative idea. The members should conduct regular meetings for purposes of study and discussion. Specific problems in cooperation should be taken up. Their study may be assigned to certain members to report upon the result of their studies at certain meetings. The history, principles, philosophy, and methods of cooperation should be studied and discussed. Speakers may be invited to address the club from time to time. Cooperative periodicals should be subscribed for and a library developed.

The question of expansion into other cooperative business should constantly be before the club. Distribution of milk, coal, or petroleum products may be considered. A cooperative bank or credit union can always be conducted by such a group. A bakery, restaurant, or boarding house may be developed. The members may organize for health protection by employing physicians, nurses, and laboratory and clinical services. Cooperative undertaking business is highly successful. Recreations, an orchestra, a choir, a movie, a summer vacation home, or a farm within reach of the members offer possibilities. People cooperatively organized are in a position to move into any field for their mutual advantage.

The club is not a means of getting something for nothing, but it is a way—and if rightly undertaken, a good way—of shortening and cheapening the route from producer to consumer, and thus saving the consumer money. It costs a dealer money for rent, say 1 to 3 percent on sales; for clerk and help hire, say 8 to 12 percent; for insurance, interest, waste, and so on. By avoiding the incurring of these expenses the club frequently can save the consumer on a large portion of his food supplies from 5 to 25 percent. It can connect the organized consumers with the organized farmers and other producers, promoting the economic advantage of both parties, and at the same time give training in cooperation and mutual aid and prepare the members for expansion into other cooperative fields.

Appendix.—Model Bylaws for a Consumers' Cooperative Club

Bylaws of the ----- Cooperative Club

ARTICLE 1.—*Name*

The name of this organization shall be-----Consumers' Cooperative Club (or-----Buying Club or-----Cooperative Club, etc.)

ARTICLE 2.—*Object*

The object shall be to obtain for members at the lowest possible cost services and the ordinary articles of consumption. The method employed is that of voluntary economic cooperation both in buying and in manufacturing.

NOTE.—Here cooperative manufacture is understood as a consumers' enterprise. In a small group it would probably be confined to the making of preserves, cake, etc., by the members; but in a large group, the possibilities increase with its size.

ARTICLE 3.—*Membership*

Any person who would be benefited by membership and whose membership would benefit the club, subscribing to the constitution and bylaws, may become a probationer by paying the initiation fee.

A majority vote at any regular meeting shall admit the probationer to membership.

A two-thirds vote at any regular meeting may expel a member, provided that written notice of the proposed motion be signed by at least five members and mailed to all voting members not less than 2 weeks prior to the meeting. A member may withdraw from the association by handing in his or her resignation and accepting 75 percent of the initial share payment as payment in full. All surplus savings standing to such a member's credit are to be refunded to him in full.

ARTICLE 4.—*Dues and Shares*

An initiation fee of \$1 shall be charged. On this no interest shall be paid. Stock shall be sold at \$5 per share. The first share of stock may be paid for in installments of 25 cents per week.

No person shall own more than one fifth of the outstanding capital stock of the society.

Shares are nontransferable without the consent of the board of directors in each case. The society reserves the right to purchase at par any stock offered for sale.

ARTICLE 5.—*Meetings*

There shall be held:

1. A regular monthly meeting of the members.
2. Four quarterly meetings at which savings are distributed and problems and policies in connection with them discussed. These quarterly meetings shall coincide with four of the monthly meetings.

A quorum shall consist of 10 percent or more of the members.

Each member shall be entitled to but one vote. No proxy voting shall be permitted.

Members who are paying for their shares in installments may allow their savings returns to be applied to the payment for their shares, and they may vote after their shares necessary for membership have been paid for.

A special meeting shall be called by the secretary at the request of any 5 percent of the members, provided notices thereof are mailed 4 days prior to the meeting.

ARTICLE 6.—*Savings*

Services and goods shall be supplied to members at approximately the prices that obtain in the retail market of the neighborhood.

The surplus savings effected after paying all expenses shall be divided quarterly by placing 5 percent in an educational fund (to be used to teach the principles and benefits of cooperation to members and the public), 10 percent in a reserve fund (for protecting and enlarging the economic interests of the society), and the remaining 85 percent shall be placed at the disposal of the individual members in exact proportion to purchases made during the quarter, to be taken in cash, applied on the payment for shares, left with the society as loan capital (on which 4 percent shall be paid), or disposed of collectively in such way as a two-thirds vote of the whole membership shall determine.

ARTICLE 7.—*Officers and Committees*

The officers of this club shall be a president, a treasurer, and a secretary-manager.

The president shall perform the usual duties of that office, and shall further undertake a special responsibility as chairman of the education committee.

The treasurer shall hold all funds, make all disbursements as voted by the board of management, and keep an accurate record of all moneys spent and received. The treasurer shall be bonded for \$-----.

The secretary-manager shall be in charge of all business details of the club, and, with the president, countersign all vouchers for payment. He shall further carry on all correspondence and keep the minutes of all membership meetings and of the proceedings of the board of management. The secretary-manager shall be bonded for \$-----.

The three officers shall constitute a board of management, the duty of which is to transact all business for the club, subject to instructions from the members in meeting assembled.

Three members not officers shall be elected to a committee on administration. It shall be the duty of this committee to hear members' suggestions and to submit recommendations to the board. Members shall not tender complaints or suggestions to the board unless by letter duly signed and posted.

A committee on education shall be composed of the president, as chairman, and two elected members not officers. It shall be the duty of this committee to encourage membership and to arouse interest in cooperation among the members and the community.

A control committee of three shall be elected from members not on the board of management. It shall be the duty of this committee to inspect the financial records at least every month and to determine the manner of keeping the accounts. The committee shall investigate and report upon the quarterly balance sheet.

ARTICLE 8.—*Amendments*

Amendments to the constitution may be made at any regular meeting by a two-thirds vote of the members present, provided that a written notice of the proposed amendment to be voted on has been placed in the hands of or mailed to each member at least 10 days before such meeting.

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