Developments in Consumers' Cooperatives in 1951

Bulletin No. 1073

UNITED STATES DEPARTMENT OF LABOR
Maurice J. Tobin, *Secretary*
BUREAU OF LABOR STATISTICS
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Letter of Transmittal

UNITED STATES DEPARTMENT OF LABOR,
BUREAU OF LABOR STATISTICS,
Washington, D. C., March 3, 1952.

The SECRETARY OF LABOR:

I have the honor to transmit herewith a report on events in the consumers' cooperative movement in 1951. This report was prepared by Florence E. Parker, of the Bureau's Office of Labor Economics.

EWAN CLAGUE, *Commissioner.*

Hon. MAURICE J. TOBIN,
Secretary of Labor.

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Progress in 1951

Scattered reports thus far available to the Bureau of Labor Statistics indicate that, in general, retail cooperatives increased their sales and their earnings in 1951. The regional cooperative wholesales—even the urban wholesales that have encountered rough going the past few years—also reported gains. These achievements were attained in spite of handicaps—widespread damage from floods in the Midwest, additional closings of weak associations, and supply and price difficulties.

Substantial increases were made in investments in productive facilities. Funds were used not only for the modernization of existing plant and equipment, but also for the building of new structures.

Many new housing associations were formed, several existing associations expanded their projects, and some progress was made despite an unusually tight mortgage-money market.

Stalemate in relations with the medical profession, a legal victory in the court, and increased public acceptance in individual localities were reported by that branch of the cooperative movement fostering consumer-sponsored medical care. A long effort in Illinois to obtain permissive legislation for medical-care plans was successful.

In the legislative field, some victories and some defeats were recorded. The tax advantage which farmers' cooperatives meeting certain qualifications had under the Federal income-tax law (i.e., tax exemption on unallocated earnings placed in general reserves and on capital stock) was removed by the 82d Congress. However, endeavors to tax earnings refunded to members on their patronage were defeated. (Court decisions have invariably held that money not retained by the association cannot be regarded as income, if the association has an obligation in its bylaws or elsewhere to make such refunds. This principle was reaffirmed in a 1951 decision.)

Local Cooperatives

Distributive Associations

Some new cooperatives were formed in 1951, in places widely scattered. A new association was reported in Alaska, where cooperatives are few. Eastern Cooperatives, Inc. (New Jersey), reported early in the year that inquiries about starting cooperatives were being received at the rate of four a week. Among those making requests were members of several cooperative housing projects. Certain groups were considering new stores; others were contemplating buying clubs only.

Cooperative Trading, Inc., Waukegan, Ill., one of the leading consumers' cooperatives in the United States, celebrated its 40th anniversary in 1951. In Maynard, Mass., United Cooperative Society, another outstanding cooperative, reported

increased business and earnings despite the depressed condition of the town's main industry, textiles.

Some local associations—but, it appears, in smaller numbers than in the past 3 years—went out of existence.

The year was unusually active as regards new facilities. The opening of new places of business—mainly stores and gasoline service stations—was reported by associations from New York and New Jersey to California, and from Minnesota and South Dakota to Texas.

The cooperative at Squaw Lake (in the northern summer resort district of Minnesota) had built a new store building, with a lunch counter. It was planning also to construct a dock for the convenience of members and patrons arriving by boat from across the lake.

Extensive improvements, including air conditioning, were made in the supermarket operated by Rochdale Cooperative of Virginia (Alexandria, Va.) and resulted in greatly increased business. As a result, this association joined the select group of million-dollar nonfarm consumers' cooperatives in 1951.

Greenbelt (Md.) Consumer Services, in its first large venture outside its headquarters town, opened first a supermarket and then a combination drug and variety store in a new shopping center in Takoma Park, Md. Other associations opening branches included the San Diego (Calif.) Services Cooperative and the Rudyard (Mich.) Cooperative Co. The latter opened a branch store at Pickford, Mich., and a milk-processing plant. About 3 months after the store of the Hempstead (N.Y.) Cooperative burned, the association opened a new and larger place.

The labor-sponsored association in Flint, Mich., moved from an outlying location to a supermarket in the city's center. During the year, special week-end demonstrations were held at the market by a number of the supporting labor unions. Similar events were held by local unions for the benefit of the Motor City Cooperative, Detroit.

Cooperative Enterprises of Akron, Ohio, organized early in 1949, received support from the local labor unions, including those of the rubber workers, railroad brotherhoods, aircraft employees, and steelworkers. At the end of a 2-year fund-raising campaign, during which the association enrolled over 2,000 members, a site was obtained and a shopping center was begun. The enterprise was expected to open in May 1952. Departments include groceries, produce, and meat, service station, drug store, restaurant, ready-to-wear and work clothes, hardware, and home appliances. Office and meeting rooms and parking space for 224 cars are also included in the project.

In mid-1951, the A. H. Consumers Society, New York City, whose members live in the cooperative apartments erected by the labor-sponsored Amalgamated Housing Corporation, opened a supermarket in the new shopping center owned by the housing association.

A newcomer in another field of business was the Union Co-op Burial Service announced in June by the United Auto Workers (CIO). It was reported that a contract had been signed with a local funeral director for standard funerals at fixed prices. Membership was to be open to members of unions and cooperatives in the Detroit area.[1]

Some cooperatives suffered loss from the floods in the Midwest, in July. It was reported from several places, however, that damage was held down by "heroic efforts" of cooperative employees.

Cooperatives appear to have been a special target for burglars in the past 2 years, mainly in the Lake Superior region. The general manager of Central Cooperative Wholesale estimated that some $50,000 had been stolen from associations in its area. So serious had the situation become that some cooperatives were unable to obtain insurance, because they were regarded as bad risks. As a consequence, the wholesale created a fund from which to pay rewards for information leading to the capture of burglars. By mid-1951, 34 associations had joined the plan.

The Cooperative Auditing Service (Minneapolis, Minn.) reporting on the petroleum associations whose books it audited, stated that these commonly showed decreased operating expense ratios and increased earnings, but slower turn-over of inventory and increased accounts receivable.

Structural changes. The pooling of functions of independent local associations in the interests of greater efficiency and earnings was a subject of ma-

[1] Coal miners' unions in several places in Illinois have been operating burial associations, with their own facilities, since the early 1920's.

jor interest in the territory served by Central Cooperative Wholesale in 1951. It had been evident for some time that the progress of the smaller associations was not keeping pace with the times. Although comparatively few had closed, a considerable proportion were showing rapidly decreasing earnings or even losses. After much discussion, the members of associations operating 12 stores within a 30-mile radius in CCW's District 15 (the Upper Peninsula of Michigan) approved a unified plan. Under it, operations were pooled but the corporate identity of each association was retained. Purchasing, record keeping, and bank-account control were placed under a supervisory manager for the whole group. Pricing, advertising, special sales, floor and window displays, and store fronts were made uniform. The plan involved individual study of the stores' lay-out, display, and other features with a view to interior and exterior renovation and to improved customer traffic and other conditions.

The wholesale pledged its support and assistance in carrying out the plan, which went into effect early in July. Two months later, a revitalization had already begun to be evident, with increased sales in all associations. By the middle of November all but one of the stores were "in the black."

Encouraged by these results, a group of nine associations farther down the peninsula adopted a similar scheme. Other districts were reported to be looking favorably upon some kind of integration.

Statements in the cooperative press indicate that these experiments are being observed with interest (but in some places, with some skepticism) by cooperators all over the United States and in Canada.

Housing

Negotiations for the purchase of the "greentowns" of Greenbelt, Md., and Greendale, Wis., were stopped early in July 1950 because of the Korean situation. In the spring of 1951 the Senate committee, in its report to accompany S. 349, stated its opinion that these projects would not be needed in defense housing, and urged that they be sold "as expeditiously as possible." In conformity with this directive, negotiations with the preferred purchaser of the Maryland project, Greenbelt Veterans Housing Corp., were reopened early in May. On January 3, 1952, the Public Housing Administration announced that the property had been reappraised at $8,971,200—or about $450,000 more than the price previously named. In October PHA announced that the dwellings in Greendale, Wis., would be sold to individual purchasers, giving preference first to residents, second to nonresident veterans, and third to nonresident nonveterans. Two cooperative associations of veterans had been formed but neither was able to obtain preferred-purchaser status.

New cooperative housing associations in 1951 include one sponsored by teachers, one by disabled American veterans, and two promoted by joint cooperative and trade-union effort. Another project, initiated by the International Brotherhood of Electrical Workers (AFL) in 1949, received financial support from the union members, the union pension fund, and employers in the industry. There was considerable unemployment in the building trades when this project was started and one motivating factor was to provide employment for the union's members. Changes in the economy produced by the Korean situation slowed down the project. However, one of three planned buildings was built and its 100 units were ready for occupancy by the fall of 1951. The entire project is expected to provide 2,100 dwellings.

New Negro cooperative enterprises were reported in Morganza, Md., New York City, and Cheyney, Pa. The Pennsylvania project will provide 16 detached dwellings on an all-the-way cooperative basis, with the association retaining title to the property and each occupant holding a 99-year lease to the house occupied.

Additional houses were constructed in the Bannockburn project (Glen Echo, Md.), bringing the total to 87. The association has land for still more construction.

The York Center (Ill.) association was making plans to expand its project, on the 10-acre plot it bought in 1951.

The Amalgamated Housing Corp. completed a 12-story, 151-unit apartment building in the Bronx, N. Y. Occupancy began early in March

1951. Another 8-story building, with 150 apartments, was completed about midsummer. The corporation's Bronx buildings contain altogether 1,435 apartments.

In the Hillman project of the Amalgamated group, in lower Manhattan, the first building was finished in 1950 and the second in 1951. The third was ready for occupancy late in the year. This total project provides accommodations for 806 families.

The Community Services and Management Corp. (subsidiary of the United Housing Foundation) made some progress on its first project, in the Corlears Hook section of lower Manhattan. This project (like the Hillman apartments) is being carried out under the State Redevelopment Law. Among the sponsors of this enterprise are the Municipal Credit Union and the International Ladies' Garment Workers' Union (AFL).

Interest of the Congress of Industrial Organizations in cooperative housing was evidenced by resolutions passed by its national convention urging (1) long-term low-rate construction and mortgage loans from the Reconstruction Finance Corporation for mutual and cooperative housing associations in new production centers, and (b) the sale of Government-owned low-rent housing to occupants in projects in which 50 percent or more of the residents have incomes exceeding the allowed ceiling.

Under the Section 213 cooperative program, authorized in the Housing Act of 1950,[2] a considerable volume of housing has been planned. Figures released by the Federal Housing Administration indicate that, as of the end of 1951, 537 applications had been received, covering 62,554 units with an estimated total cost of $593,250,204. Cases expired, withdrawn, or rejected totaled 279. The number of active projects and their status on December 28, 1951, were as shown in the accompanying table.

The Section 213 program has been retarded, according to reports, by difficulty in obtaining buyers for mortgages. This situation is not peculiar to cooperatives. The home-building industry as a whole in 1951 was afflicted by what was characterized as "the worst mortgage-money shortage since 1932." Main cause was said to be the flight of funds to other investments with higher yield, whereas interest on VA and FHA mortgages was limited to 4 and 4½ percent.[3] The building industry was also affected by cut-backs in materials and supplies, and by other controls.

TABLE 1.—*Status of housing operations under Section 213 as of December 28, 1951*

Status	Total number of projects	Total number of units	Total estimated cost
Active case load	258	37,579	$350,275,148
Mortgages insured	38	7,805	71,118,590
Commitments outstanding	24	4,335	37,999,172
Eligibility statements outstanding	66	6,897	61,664,600
Applications in process	130	18,542	179,492,786

At the close of its 1951 session, the Congress of the United States authorized the Federal National Mortgage Association to make advance commitments to buy not more than $30 million worth of Section 213 mortgages for cooperative housing projects approved by FHA prior to June 21.

Several possible additional sources of funds for cooperative housing were reported. In Columbus, Ohio, the Farm Bureau Mutual Insurance Cos. formed a subsidiary corporation, Peoples Mortgage Co., capitalized at $1 million. It will carry on a general mortgage business, giving special consideration to Section 213 projects. In Detroit, the Service Savings and Loan Association was organized; in the first few months, over $100,000 had been invested by credit unions and their members. Cooperative housing associations are expected to benefit by loans from the association. Consideration was already (August) being given to a project sponsored by the De Soto UAW–CIO local, to be located near the De Soto plant in Dearborn, Mich.

Medical Care

An important event of the year for the cooperative movement was the annual convention of the Cooperative Health Federation of America, held in Chicago, July 6 and 7, 1951. Preceding the meetings, an institute, the main concern of which was "community health through community

[2] See U. S. Bureau of Labor Statistics Bulletin No. 1030, p. 6.

[3] Architectural Forum, June 1951, pp. 1–20.

health insurance," was held. The convention adopted the following legislation program for the ensuing year: (1) Continued support for Federal aid to medical education; (2) support of Senate bill S. 1875, to provide loans for construction of health facilities by nonprofit organizations; (3) efforts to obtain enabling legislation for consumer-sponsored medical-care plans in at least one additional State; (4) support of the bill to provide hospitalization insurance for beneficiaries of old-age insurance; and (5) continuance of small, informal committees representing national organizations interested in health legislation.

Toward the end of 1951, the Casa Grande Valley Cooperative Community Hospital Association (Arizona) was admitted to the Federation as an associate member.

No improvement was reported in the relations of cooperative medical-care plans and the medical societies, but some progress was made in lawsuits that were under way (see p. 24).

Among the local associations, substantial success in winning general community acceptance was reported in a number of places Arrowhead Health Center, operating a clinic in Duluth, Minn., conducted a campaign for funds to build a hospital, with labor unions and cooperatives in the area joining in this drive. Similar community support was given in Two Harbors, Minn., where Community Health Center began a program for a new 40-bed hospital and clinic building. Rosebud Community Hospital, Winner, S. Dak., announced the gift of some hospital equipment from the local Veterans of Foreign Wars and reported that since its formation the hospital has been the beneficiary of contributions of money and equipment totaling some $55,000. Tigerton (Wis.) Cooperative Hospital reported that practically every organization in the town had contributed in some way toward remodeling and equipping the hospital.

The Farmers' Union Community Hospital in Elk City, Okla., used the proceeds of an estate, to which it fell heir, to retire the indebtedness on its buildings.

Group Health Cooperative of Puget Sound, Seattle, Wash., bought and remodeled an apartment building near its hospital, for clinic and administrative purposes. A building across the street was also acquired, to house the pharmacy and the optical and sales departments.

In St. Louis, Mo., Labor Health Institute, which provides medical care for unionists covered by collective agreements with employers, bought the building in which its clinic was housed.

Labor organizations have taken the lead in several places in a program to provide new services on a cooperative basis. In Chicago, the Union Cooperative Optical Center, which was expected to be in operation by the end of the year, will furnish complete optical care to some 60,000 members of sponsoring unions. The center was the result of a year's effort by the Council for Cooperative Development and its affiliated bodies. According to late 1951 reports, a cooperative health center was being organized under the leadership of Chicago Janitors' Union, Local 25 (AFL).

A report on health insurance plans, made for the Senate Committee on Labor and Public Welfare, indicated "much opposition from organized medicine" to the comprehensive group-practice plans. It commented as follows:

> Medical-care insurance has potentialities for stimulating the creation of needed facilities and the location of professional personnel in many rural and some other areas where insurance protection is now of little benefit because of the absence or inaccessibility of such facilities and personnel. Medical-care insurance might better realize these potentialities if it placed a greater emphasis upon the provision of comprehensive benefits through organized service units such as hospitals and group medical practice, wherever practicable.
>
> If the comprehensive plans were enabled to overcome the legal and practical difficulties enumerated in the previous sections, they have great potentialities not only for protecting their subscribers against nearly all the costs of the services of physicians, hospitals, visiting nurses, and perhaps, of dentists, but also for the improvement of health through preventive medicine and health education, for providing care of known professional quality in an organized fashion, for the creation of facilities, and for attracting physicians and others to areas where they are now deficient.[4]

* * * * *

Successful initiation and operation of the latter type of comprehensive plans depend upon their ability to provide

[4] Health Insurance Plans in the United States (p. 15), Report of the Committee on Labor and Public Welfare, U. S. Senate, pursuant to S. Res. 273 and S. Res. 39. (Report No. 351, Part 1-3, 82d Cong., 1st sess.)

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themselves with adequate physical facilities for their medical group and their ability to attract and keep physicians on their full- and part-time salaried staffs. Their subscribers are usually entitled to benefits only if they use the staffs selected by the plans. Such plans have problems arising from administrative detail required in their establishment and operation, from the initial financing required for group-practice facilities, from the fact that such comprehensive benefits necessarily cost more than the partial benefits of other plans, and, to an extent, from the reluctance of some people to join because they wish to have the insurance cover the charges of physicians not participating in the plan. By far their most serious problem, however, is the resistance of the medical profession to any insurance plan whose enrollees, in joining the plan, choose as their doctors the limited staff that has been selected to serve the plan. This, it is felt, offers unfair competition to nonparticipating physicians. In general, this resistance takes the form of putting pressure on physicians not to participate in such plans by refusing membership in or expulsion from medical societies, and seeking to prevent participating doctors from holding privileges in hospitals. In somewhat more than half the States, moreover, the special enabling laws adopted for medical-service plans, usually at the instance of physicians and medical societies, through various qualifying requirements, place in the hands of the medical profession or its organized societies the exclusive right to form and control any such plan. These laws have enabled the medical profession to control the establishment of such plans in the manner it desired.[5]

Student Cooperatives

The annual convention of the North American Student Cooperative League, held at Lake Geneva, Wis., June 26–29, 1951, brought together delegates from student cooperatives at eight colleges and universities. The meeting voted to establish the office of a field director who would include among his duties those of the former executive secretary. The main duty of the new officer would be that of liaison among the student cooperatives throughout the United States. He would also assist in the formation of new cooperatives, act as an information center, and carry on educational work. The meeting decided to revive its Student Cooperative Employment Service, to obtain jobs in cooperative employment for students on graduation, and to supply labor for cooperatives applying for such. The conference also passed a resolution to establish a cooperative Hostel Service, whereby students traveling during vacation could use the facilities of the NASCL member associations for overnight lodging and meals.

The new board of the NASCL set up membership requirements in conformance with the Rochdale principles and methods: one vote per member, open membership, political and religious neutrality, operation for cash only, return of patronage refunds, and continuous education in cooperation.

It was reported at the NASCL meeting that 59 campus cooperatives, with about 3,500 members, were affiliated with the League.

The primary purpose of the student cooperatives is, by self-help, to bring the cost of room and board within the reach of students of very limited resources. Among the many problems the primary one is to find funds with which to get under way. Generally, an old house is rented, put into repair by the members' own efforts, and supplied (at least to some extent) with furniture contributed by parents and friends. At the end of the year's operations, any money left from the member's monthly payments is usually put back into the house in various ways.

From such small beginnings, some of the associations have accumulated sizable assets. In many places the cooperatives have been examples of sturdy self-reliance, with the members doing all the work about the place, determining the policies, and meeting all the financial and other problems. Some of the cooperative houses have also been outstanding for the scholastic attainments of the residents.

Certain difficulties of the campus cooperatives have stemmed from the failure of the local public officials to recognize the nonprofit, noncommercial character of the student houses. It has been necessary for the cooperatives to demonstrate this convincingly in order to escape the imposition of higher rates for electric power, income taxes on "earnings," regulations applicable to commercial restaurants, special zoning regulations, etc.

A case in point occurred in Michigan in 1951. The city council at Ann Arbor issued a regulation prohibiting "group dwellings" (such as those of fraternities, sororities, and cooperatives) in two zones classed as "residential," but permitting them in a new intermediate zone established by

[5] Health Insurance Plans in the United States, pp. 106, 107.

the regulation. Inclusion of cooperatives was a victory for the student houses at the university, which had been urging this action. United Co-operative Projects, Chicago, had to close one of its houses in 1950 because of zoning regulations.[6] In 1951 it bought a six-family apartment building, which it remodeled, to accommodate these displaced members.

There has always been a large membership turn-over in the campus cooperative houses. In ordinary times they could expect to lose, on the average, roughly one-fourth of the members each year, as the seniors graduated. They made up this loss by recruitment from new students. This problem of turn-over has become greatly accentuated in the past few years because of the unusual defense demands of the country and the consequent drafting of students into the armed services.

The experience at Kansas University seems to be typical. Several co-op houses there united in 1941 to form the University of Kansas Student Housing Association. Withdrawals of students into the Armed Forces during World War II forced the closing of six of its eight houses. In 1945, the organization expanded again, and in 1951 was operating nine houses. As early as May 1951, however, the effects of graduation of GI students and others and of the military draft were felt. Its oldest member house was scheduled to be closed at the end of the school year, with other closings likely.

Another new factor has arisen since the end of World War II, in that educational institutions have had certain preferences as to public war housing (which they could take over and use for student housing) and the building of new facilities. This was pointed out in the final report of the retiring executive secretary of the North American Student Cooperative League. In his opinion, "the growing trend of university administrations to dominate the field of student housing" will pose serious problems for the campus cooperatives in the years ahead.

The handwriting is on the wall in regard to the survival of student-operated houses on college campuses. Every university that I know is building residence halls. They have at their resources sums for building far beyond our wildest dreams of obtaining. The buildings are planned for economy of operation, are located near the campus, can be filled with students direct from the dean's office, and have the approval of parents who demand close university supervision of their children. In addition, they are fireproof, are nicely appointed, and in some cases there are opportunities for democratic control in areas of membership and social programs.

Student co-ops will have to learn to compete with these university residences if they are to survive. In order to do this, they must look forward to improvement programs. They must constantly demonstrate to college officials that their membership is composed of mature students, capable of managing their houses along both financially and socially accepted paths. They must, through cooperative effort, maintain good standards of cleanliness, scholarship, quiet hours, and morality.

They must make long-term plans for building new structures. They must see that the co-op way of life which lays emphasis on family type of living, complete democratic control, and open membership is maintained.[7]

Insurance

The Minnesota-Wisconsin area is served by Group Health Mutual (writing hospital and medical-care insurance) and Mutual Service Insurance Cos. (writing life, accident, fire, and automobile insurance). Early in 1951 the latter proposed a merger of the two, on the ground that a "single-package" insurance was essential in order to serve the patrons properly and effectively. In the meantime, "at least until June 1," there would be no active competition between the two.

The annual meeting of Group Health Mutual rejected the merger proposal on the ground that the functions and organizational structure of the two organizations were too divergent to provide any sound basis for merger. Its board had previously offered to cooperate in arrangements, short of merger, to prevent competition between the two groups. It offered to have its agents write Mutual Service policies in cases in which the policyholder wanted such coverage. It also proposed 100 percent reinsurance by each association of the coverages written in the other's field. This, it said, "would have all the advantages,

[6] See. U. S. Bureau of Labor Statistics Bulletin No. 1030 (p. 19).

[7] Co-ops on Campus (Ann Arbor, Mich.). October 1951,

plus a great many others, not the least of which would be the preservation of our institution as a specialist in the health field."[8] No further developments have been reported.

Group Health Association, educational affiliate of Group Health Mutual, awarded scholarships to two students, one to study medicine and the other to train for medical technician. The scholarships were made possible by the contributions of dimes by Group Health Association's members. The recipients were chosen from families in membership in the health organization.

The Mutual Service Insurance Cos. purchased additional land adjoining their home office building in St. Paul, Minn., as a site for an extension to the building, in 1951. The companies announced that they would start operation in Iowa and southern Michigan during the year. These companies use part of their funds for making loans to cooperatives. Progress was reported on one of the problems of insurance associations—insuring democratic control by the members (policyholders). Under the Mutual's plan of voting, the policyholder assigns to the local cooperative, of which he is a member, a blanket proxy authorizing the cooperative to represent him (by delegate) at the annual meetings. Thus control of the insurance program is exercised by the local cooperative movement in the area.

Consumers Insurance Agency, a subsidiary of Consumers Cooperative Association (Missouri) announced in mid-1951 that it was establishing agency connections for various types of insurance. It had acted previously as broker only. At the time of the report it was serving about 400 cooperatives, mostly members of CCA. "Because of the favorable experience of cooperatives as a group," it was able to secure substantial reductions in rates.[9]

The three Farm Bureau Insurance companies (Ohio) announced the purchase of the National Casualty Co., licensed to operate in 48 States. This purchase will expand considerably the field of operations of the Ohio organizations which had previously sold insurance in 12 States and the District of Columbia. These companies moved into a new nine-story home office building in Columbus in April.

In the far West, three Grange insurance companies—Grange Mutual Fire Insurance Co. of Oregon, Grange Insurance Association of Washington, and Grange Mutual Life Co. of Idaho—organized the Grange Mutual Insurance Group. The arrangement will make available, to Grange members only, all the types of insurance written by the three constituent organizations. These include fire insurance on houses, farm buildings, and standing grain; hail, windstorm, liability, automobile, life, accident, hospital, and surgical insurance; and policies for annuities, education, retirement, etc. It was reported that the plan will be extended into other States and that already requests for coverage had been received from Grange organizations in Minnesota, Montana, and Wyoming.

Expansion by the two Farmers Union Insurance companies was also reported. These companies write life and hospital insurance (in 19 States) and property and casualty insurance (in 20 States and the District of Columbia), respectively. They have made loans to more than 100 cooperatives without ever having "lost a penny on any loan to a cooperative," though "in dozens of instances the loan made the difference between having a cooperative and not having one."[10] The companies added a fourth story to their home office building in Denver, Colo., and were already in need of more space by midsummer.

In the Seattle area, Farmers Union groups were reported to be working closely with local cooperatives, especially the members of the medical-care association, Group Health Cooperative of Puget Sound. The annual meeting of the Seattle Farmers Union local adopted, as a main objective, an educational program to assist the local cooperatives in their further development.

Because of current inability of Group Health Cooperative to extend its services outside the Seattle area and because the insurance for the farm groups is available to their members only, a new organization was formed in 1951. This organization, Co-op Insurance Agency, Inc., will serve city people, and will work with Group Health

[8] Midland Cooperator (Minneapolis, Minn.), Apr. 2, 1951.
[9] Cooperative Consumer (Kansas City, Mo.), June 15, 1951.
[10] Pacific Northwest Cooperator (Walla Walla, Wash.), April 1951.

Mutual of St. Paul (which recently qualified in Washington) and Group Health Mutual Life. (The latter was organized in 1937 by lumber and sawmill workers' unions, under the name of Union Employees Mutual Life Insurance Co.) The new organization will also act as agency for other types of insurance. The new program will offer insurance "as a preliminary step toward eventual establishment of a direct-service [i. e., medical-care plan] in each community where feasible."

The Health Insurance Plan of Greater New York received grants of $150,000 and $155,000 from the Commonwealth Fund and the Rockefeller Foundation, respectively. The money is to be used on a study of the 4 years' experience of a sample of the membership, involving about 117,000 man-years of medical care. The Health Insurance Plan, although not a cooperative, is a nonprofit organization affiliated with the Cooperative Health Federation of America.

Electricity and Telephone Cooperatives

Electricity cooperatives reported increased problems in obtaining needed materials. They charged that discrimination was induced by representatives of private power companies (their long-time adversaries) who were occupying strategic positions in Federal Government agencies. The annual meeting of the Wisconsin Electric Cooperative passed a resolution requesting that allocations of critical materials be made by the Rural Electrification Administration, rather than by defense agencies directly, to prevent possible discriminatory action.

These cooperatives were likewise concerned over the attempts of certain power companies to get control of the distribution of current generated by Federal dams. "If they succeed, it can well be the death knell of the electric cooperatives and the end of plentiful power at reasonable rates for the farmers." [11]

The cooperative press also reported a move by the American Progress Foundation to wipe out the REA and other similar activities by an amendment to the Constitution. This organization was stated to be trying to enlist the aid of business and professional clubs in promoting passage of a resolution for such an amendment introduced in the Senate. Senator Aiken of Vermont warned, in an article in the Rural Electrification Magazine, that the enemies of rural electrification cooperatives "have never been more determined, more ruthless, or more active in their efforts. They have made substantial gains in recent months." [12]

Similar difficulties were reported facing the telephone associations for which loans on the REA principle were authorized by Congress in 1949. Reports came from several States of legislative bills that would either make it impossible for telephone associations to take advantage of the Federal law or bind them by severely hampering restrictions. (See p. 18.)

[11] Midland Cooperator (Minneapolis, Minn.), June 18, 1951.
[12] Cooperative Consumer (Kansas City, Mo.), Sept. 28, 1951.

Central Organizations

The Cooperative League

The Cooperative League of the USA reported that, during the first 6 months of 1951, it sponsored, planned, and called a number of conferences to further the cooperative movement. These included two conferences for cooperative general managers; two meetings of the Central Coordinating Committee on Cooperative Public Relations; a meeting of the League's Insurance Conference; a conference for workers in cooperative education, organization, publicity, and public relations; and an institute preceding the convention of the Cooperative Health Federation of America. (See p. 4.) It reported closer relationships with mutual insurance companies, savings and loan associations, and retailer-owned wholesales, as a result of the National Tax Equality Association's attacks on cooperatives as "tax evaders." (See p. 14.) The League was among the organizations representing the cooperatives at the congressional hearings on taxation in 1951.

It sponsored a tour of European cooperatives. A number of the United States cooperators who

participated in the tour were also delegates to the International Cooperative Congress at Copenhagen.

The development of a long-range training program for cooperative management was also reported. The regional cooperative wholesales are expected to take part in this program.

During 1951 the Wisconsin Electric Cooperative (a State-wide service federation for REA cooperatives) and the Cooperative League of Puerto Rico were admitted to membership in the Cooperative League of the USA. The Puerto Rico League, organized in 1948, has 113 local cooperatives of various kinds as members.

National Cooperatives

National Cooperatives, Inc., Nation-wide buying agency for the regional wholesales, reported business amounting to $13,292,045 (an increase of 27.7 percent). Earnings amounted to $304,303—six times those of 1949–50. Its milking-machine division at Albert Lea, Minn., declared a patronage refund of $94,461 on its operations for 1950–51. At the annual meeting the general manager cautioned cooperatives against undertaking productive enterprises unless assured of a demand sufficient to enable them to operate at capacity. The general manager and the officers cited the lack of volume as one cause of operating losses in cooperative plants, and stressed the greater savings that would be possible with more business channeled through cooperative enterprises, including National Cooperatives.

Regional Wholesales

The semiannual meeting of Associated Cooperatives (California) authorized the establishment of a committee to study specific projects for cooperative development throughout the State. The wholesale's report had pointed out the desirability of integration of smaller cooperatives for greater efficiency and of expansion of existing successful organizations by the opening of branches to serve additional areas. Larger business and greatly increased earnings of the wholesale, as compared with 1950, were reported.

An encouraging report for the first half of the 1951 business year was given also by Central States Cooperatives (Illinois). Operations were showing net earnings, in contrast to losses during the past few years. The wholesale's paper, Co-op News, suspended publication on April 5, and the Cooperative Builder (Superior, Wis.) was designated as outlet for news of the Illinois regional.

Farmers Petroleum Cooperative (Michigan) was reported to have invested nearly $2½ million in a half interest in 136 oil wells in Illinois. It already owned 18 wells. The recent addition means that the organization will control over 50 percent of the amount needed to fill its 44 member associations' requirements.

Midland Cooperative Wholesale (Minnesota) reported at its silver anniversary meeting, in April 1951, that it was the third largest distributor of petroleum products in that State. The wholesale disposed of its 12 wells and leases on 2,000 acres of land in the Fidler Creek field in northeastern Wyoming. The reason given was lack of pipeline facilities to transport the crude oil to Midland's refinery at Cushing, Okla. Plans for expanding the refinery's capacity were under consideration at the end of the year. Some loss to a warehouse from windstorm damage was reported. The wholesale established a department for the sale of propane gas.

Installation of a $3½ million catalytic cracking plant at its Laurel, Mont., refinery was announced for 1951 by the Farmers Union Central Exchange (Minnesota). This would increase refinery capacity by about 25 percent. By midsummer, two oil wells had been brought in near Garland, Wyo. The wholesale was already whole or part owner of several wells.

Consumers Cooperative Association (Missouri) added an acidulating unit at its Muskogee, Okla., fertilizer plant. It also announced plans for a $16 million nitrogen fertilizer factory to be built at Lawrence, Kans., but later reported difficulty in obtaining authorization from the National Production Authority.

Contracts to raise the capacity of the wholesale's Phillipsburg, Kans., refinery from 4,000 to 8,000 barrels a day were signed in December. New equipment will include a 5,000-barrel-a-day catalytic cracking unit and a catalytic polymerization unit. The wholesale is participating in an oil-exploration venture in Saskatchewan jointly with the cooperative wholesale of that Province, Saskatchewan Federated Cooperatives.

Lease of a feed mill at Tulsa, Okla., with a daily capacity of 30 tons was also announced. Its product will go to supply CCA's member cooperatives in northeastern and north central Oklahoma. Completion of a million-dollar expansion program at the lumber mill at Swisshome, Oreg., was reported at the annual meeting. Later in the year a severe storm did considerable damage to timber owned by the association. Additional warehouse space was acquired in Des Moines, Iowa, and Sioux Falls, S. Dak.

The reorganization of Eastern Cooperatives, Inc. (New Jersey), was completed early in the fall of 1951. Under the plan three area warehouse organizations were created, each financed and controlled by the local member associations in the areas. These warehouses are as follows: Mid-Eastern Cooperatives, Inc. (Palisades Park, N. J.); New England Cooperatives, Inc. (Cambridge, Mass.); and Potomac Cooperators, Inc. (Baltimore, Md.). Distribution of goods to member associations takes place through these warehouses. The wholesale will continue to handle any production and processing of goods, do offset printing, and issue The Cooperator (its monthly paper). A condition of membership in the warehouse corporations is that the local associations shall pay dues to ECI for educational purposes. The report of the first 9 months' operations under the new scheme showed that all the warehouse associations were operating "in the black," as were also the remaining departments of the wholesale.

A record-breaking volume of business was reported by Farmers Cooperative Exchange (North Carolina). The wholesale also announced completion of the expansion of its feed mill at Statesville.

Utah Cooperative Association started producing crude oil in 1951, with the signing of an agreement for joint exploration with a private company, the resulting oil to be shared in proportion to their investment. Shortly thereafter, their first drilling venture in the Uintah Basin was started. Utah Cooperative Association holds leases on some 10,000 acres of land in the State.

Pacific Supply Cooperative started leasing oil land in 1950. By the end of November 1951, it had leases on 140,865 acres in Alberta (Canada) and Wyoming, and leases on land in southern California sufficient for 8 to 10 wells. During December it purchased leases on 575 acres in California. In addition, it owned six shallow wells north of Los Angeles. By the end of 1951, five southern California wells had been brought in. The wholesale announced the purchase of 48 acres of land in southeast Portland, Oreg., to be used at some future time as a site for a warehouse and chemical plant. Earnings nearly double those of 1950 were reported at the 1951 annual meeting.

Chief interest at the annual convention of Central Cooperative Wholesale (Wisconsin) lay in the question of unified operations of small associations, with a view to greater efficiency and earnings. After protracted discussion, the meeting endorsed the principle of integration and authorized the wholesale's management to work with local associations requesting assistance in this direction.[13] The meeting also reaffirmed resolutions of previous years, favoring a merger of Central and Midland Wholesales. Increased earnings were reported for CCW for 1951, even though the expense ratio rose.

District Wholesales

In Minnesota, the report of Trico Cooperative Oil Co. showed increased volume, but slightly decreased earnings in spite of lower operating expenses. The meeting voted stricter control of accounts receivable. C-A-P Cooperative Oil Association added bulk service of propane gas. Range Cooperative Federation reported greater earnings than in 1950. The desirability of a merger of its dairy in Virginia, Minn., with that of a cooperative creamery in Cook, 25 miles away, was discussed. The question was to be presented to the federation's members for consideration.

Productive Federations

The modernized and expanded catalytic cracking plant of National Cooperative Refinery Association (Kansas) went "on stream" early in June 1951. This new operation was expected to increase the daily 18,000-barrel productive capacity by 4,000 barrels. The association purchased a

[13] During the year the local associations in two districts put into effect an integrated system, and it was under consideration in others. (See. p. 3.)

crude-oil property, yielding some 355 barrels per day, and leases on 560 acres in Kansas. By the end of 1951 the association owned 486 wells, supplying more than half of the refinery's total needs. It planned to sink 6 or 7 wells in 1952.

Boone Valley Cooperative Processing Association (Iowa) moved its soybean processing operations, at Hubbard, to Eagle Grove.

Explosion in one of the plants of the Premier Petroleum Co. (Texas), owned by three regional wholesales, caused a month-long shut-down. The company had a damage suit pending against a number of oil companies for alleged violation of antitrust laws, forcing one of its refineries out of business.

Relations With Other Groups

Relations With Labor [14]

Spearheading labor's activities in the cooperative field is the Council for Cooperative Development. This organization—a joint labor-cooperative enterprise—was formed in June 1947, at a conference attended by cooperators and representatives from several AFL and CIO international unions. Planned as a research and information-exchange center, the council has helped to promote the United Housing Foundation in New York City, labor-supported food cooperatives in several Midwestern cities, and two optical-care centers. In its 1-week institutes at the Wisconsin School for Workers, nearly 200 unionists received training as cooperative organizers and administrators. The council states that it "has not seen itself as a missionary force, but rather as a defensive one," for the protection of workers forming and operating a consumers' cooperative enterprise. Chapters of the council have been started in a number of cities.

To enable the expansion of its work, the council has asked each international union to contribute one-third of a cent per member for each year, 1952–54. This, it was estimated, would provide an annual income of $45,000.

The affiliates of the Council in 1951 were the following:

American Federation of Teachers (AFL).
American Federation of State, County, and Municipal Employees (AFL).
American Newspaper Guild (CIO).
Brotherhood of Sleeping Car Porters (Auxiliary) (AFL).
Communications Workers of America (CIO).
Hotel and Restaurant Employees International Union (AFL).
International Association of Machinists (AFL).
United Auto Workers (CIO).
United Packinghouse Workers (CIO).
United Rubber Workers (CIO).
Upholsterers International Union (AFL).
The Cooperative League of the USA.
Central States Cooperatives, Inc.
Eastern Cooperatives, Inc.
Midland Cooperative Wholesale.

After a visit to the Central Cooperative Wholesale, the executive board of the Minnesota CIO Council constituted itself the State cooperative committee, with a view to formulating a program for closer relationships with the consumers' cooperative movement.

In Chicago, Local 113 of the International Association of Machinists (AFL) enrolled 16 of its members in a series of cooperative classes given under the auspices of the labor division of the University of Chicago.

For the third consecutive year, Midland Cooperative Wholesale received the award of the Minnesota Safety Council for its low accident rate.

Farmers Union Central Exchange early in 1951 presented for the consideration of its member associations a retirement plan to cover their employees. Under the plan the employer association would contribute 3 percent of its net earnings (including patronage refunds from the wholesale) and the employee would contribute 2 percent of his salary. Retirement age would be 60 years. The extent of acceptance by the local cooperatives has not been reported. The wholesale has had a retirement plan for its own employees since 1945.

The pension plan covering the employees of Consumers Cooperative Association and those of

[14] See also discussion under "Local associations," "Medical care," and "Housing."

62 of its affiliated cooperatives had funds amounting to $2,040,978 as of August 31, 1951. Twenty-nine retired employees were receiving benefits under the plan. Savings of $87,556 made by self-insurance were to be returned to the participating associations.

Relations With Farm Groups

The American Farm Bureau Federation in annual convention reaffirmed its support of cooperatives and expressed resentment against the attacks being made on them by certain groups "under the banner of tax equality."[15]

A committee for farmer-consumer cooperation was formed in Utah early in 1951, to work out direct trading between the farmers and consumers, possibly through cooperatives or buying arrangements by labor unions in industrial plants.

Farmers' retail outlets.—In 1944, farmers' cooperatives in New York State started a new retail organization to serve as an additional means of disposing of farm products.[16] By 1951 this organization, P & C Family Foods, Inc., was operating a chain of 25 stores and serving an average of over 65,000 customers weekly. It was reported in mid-1951 [17] that 26 farmers' marketing associations were members of the organization and provided about 30 percent of the commodities sold in the stores. Assets totaled nearly $1.7 million.

Relations With Government

The director of the Cooperative League's Washington, D. C., office was appointed chairman of the executive committee of the Consumers Advisory Committee of the Office of Price Stabilization. The general manager of Consumers Cooperative Association was again named as a member of the National Petroleum Council.

[15] Midland Cooperator (Minneapolis, Minn.), Jan. 8, 1951.
[16] A similar organization in Indiana, started in 1946, went out of business in November 1948.
[17] News for Farmer Cooperatives (Farm Credit Administration, Washington, D. C.), June 1951.

Education, Recreation, Publicity

Education

An important event of the year was the Lake Geneva (Wis.) conference of June 26–29, sponsored by the Cooperative League. The general subject of the meeting was how to develop an informed, active, and loyal cooperative membership. It was emphasized that cooperatives are both business institutions and a social force. Active participation at all levels and by all factors, beginning with the individual member, is the key to cooperative success.

Numerous institutes for adult cooperators were held, including one in the Mesabi iron range district, one in western Minnesota, and one in northern Michigan (all in areas served by Central Cooperative Wholesale) and the twenty-second annual institute of Eastern Cooperatives. The eighth annual labor-cooperative institute, sponsored by the University of Wisconsin School for Workers, Rochdale Institute, and the Council for Cooperative Development, was held in midsummer. Schools for cooperative recreation leaders were held in Wisconsin and New York. A management "clinic" or training course was given in Massachusetts; a 3-day conference for cooperative directors and a short course for bookkeepers, in Wisconsin; and a seminar for young people 16 years of age and over, in New York.

In mid-1951 Central Cooperative Wholesale announced an arrangement whereby it was to take over the management of the Duluth (Minnesota) Cooperative Society and use its facilities as an on-the-job training center for cooperative managers and employees.

Early in 1951, Midland Cooperative Wholesale began publication of a new periodical, for directors of cooperatives.

Recreation

One-week, cooperatively sponsored, family camps were held in California and Colorado. In Connecticut, Cooperative Consumers of New Haven started a day camp for the children of members.

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In the Midwest, several cooperative groups own their own camps. One of these, at Cloverdale, Mich., is operated for members of cooperatives affiliated with Central States Cooperatives. Another, at Round Lake, Ill., is owned by a group of cooperators of Ukrainian descent. The camp at Brule, Wis., now operated as a department of Cooperative Services (Maple), was reconditioned in 1951 "through the cooperative effort of many communities." [18]

A newcomer among the ranks of the cooperative camp associations was the Co-op Educational Society, formed to carry on cooperative educational and social activities for the Mesabi Range district in Minnesota. It purchased a rundown lakeshore camp. Member cooperatives raised funds by various activities, such as social events and dramas. Cooperators from various parts of the Range participated in "bees," at which camp buildings were repaired or torn down, property was cleaned up, electricity was installed, etc. The camp was open for children for 3 weeks, and a week-end institute was held for adults.

[18] Cooperative Builder (Superior, Wis.), June 28, 1951.

A 2-week camp for young people has been sponsored jointly by Midland and Central Cooperative Wholesales for several years. Additional sponsors in 1951 were the Mutual Service Insurance Companies (St. Paul) and Franklin Cooperative Creamery Association (Minneapolis).

The fee is low in the cooperative camps (because they are nonprofit enterprises), and often only part of the fee has to be paid by the camper. The remainder may be raised by the women's guilds or the local cooperatives affiliated with the organization operating the camp.

Publicity

In Nebraska, radio station KRVN went on the air early in 1951, and was operated on a nonprofit basis by farm and cooperative organizations.

WCFM, cooperative radio station in Washington, D. C., started a 5-hour Sunday program of classical music originating from the British Broadcasting Co. During the year it also presented a series of basic music-talent tests for children and a program "Co-ops at Work," sponsored by the Potomac area cooperatives.

Taxation

Another determined drive against cooperatives was made by the National Tax Equality Association in 1951.[19] In advertisements and in congressional hearings, it protested against what it termed the "inequalities" of the tax legislation exempting farmers' cooperatives [20] (which meet certain requirements) from paying Federal income tax on earnings placed in unallocated reserves. It also supported an amendment, introduced in the Senate, that would have subjected all patronage refunds to tax unless such refunds were (1) paid in cash or merchandise within 75 days after the end of an association's business year, or (2) paid at least half in cash and not more than half in 2-year obligations bearing not less than 3 percent interest.

The act as finally passed (see p. 15) levies the tax on unallocated reserves, thus placing the farmers' cooperatives on exactly the same basis as other corporations.

This attainment of its declared objective—to remove the tax advantage of farmers' cooperatives—failed to satisfy the NTEA, however. In November it began another campaign for funds. "After coming this far, we must carry on until we win final victory." [21] What will constitute "final victory" was not explained by the NTEA. The cooperatives believe that destruction of the cooperative movement is the goal.[22]

[19] For accounts of its previous activities, see U. S. Bureau of Labor Statistics Bulletins Nos. 821 (p. 14), 859 (p. 24), 904 (p. 35), and 1030 (p. 16).

[20] Nonfarm cooperatives have no exemption of any kind.

[21] Farmers Union Herald (St. Paul, Minn.), Nov. 11, 1951.

[22] Cooperative Builder (Superior, Wis.), Mar. 15, 1951; Farmers Union Herald (St. Paul, Minn.), Nov. 12, 1951; Pacific Northwest Cooperator (Walla Walla, Wash.), April 1951; A Reply to NTEA Propaganda, by National Association of Cooperatives (Chicago), p. 7.

Legislation Affecting Cooperatives

Federal Laws

Very little legislation directly affecting cooperatives was passed by the first session of the Eighty-second Congress.

Housing

In the closing hours of the session, the Congress voted unanimously to authorize the Federal National Mortgage Association to make advance commitments to purchase up to $30 million worth of mortgages on cooperative housing projects approved for insurance by the Federal Housing Administration before June 29, 1951. This helped to ease the mortgage situation that had been blocking the Section 213 program.[23]

Medical Care

Several bills were introduced with cooperative support, but failed to pass. Among them was S. 1875, providing for 25-year loans, at 2 percent interest, to voluntary nonprofit health associations. In order to qualify for assistance the association would have had to meet the following requirements: Administration would be in the hands of the members, but control of the medical treatment would be entirely by physicians; participation by both members and doctors would be voluntary; physicians would be paid at fair rates; service would be open to nonmembers also; and nonparticipating doctors would be free to use the facilities in cases of emergency.

Taxation

The National Tax Equality Association and its adherents sought legislation imposing heavier taxes on cooperatives, including a levy on patronage refunds. The Revenue Act of 1951, as finally enacted (Pub. Law No. 183, 82d Cong., 1st sess.), made no changes in the tax status of nonfarm consumers' cooperatives. It did remove the advantage previously enjoyed by farmers' marketing and purchasing cooperatives which met certain requirements relating to membership and business with nonfarmers. These had had an exemption from earnings that were put into unallocated reserves.[24]

Under the 1951 act, farmers' cooperatives are still allowed to deduct from their gross income: (1) Amounts paid in dividends (interest) on capital stock during the year; (2) amounts received from sources other than patronage and allocated in any form to patrons; and (3) patronage refunds to patrons, paid in any form. The last may be made any time up to and including the 15th day of the 9th month following the close of the taxable year and still be deductible. Not included in the exemptions—and therefore taxable—are surplus earnings placed in reserves not allocated to individual members or patrons.

Hereafter an association paying patronage refunds must list in its tax returns all allocations amounting to $100 or more to any patron. It may be required, at the option of the Secretary of the Treasury, to report all patronage refunds of whatever amount.

Three bills that would have subjected credit unions to additional taxation were introduced but failed to pass.

Credit Unions

Two other bills, also unsuccessful, would have allowed the Federal Deposit Insurance Corporation to insure Federal credit union members' share balances, and would have permitted credit unions to invest their funds in any State-chartered institution insured by the Federal Savings and Loan Insurance Corporation.

[23] Mortgages on Section 213 projects are eligible for FNMA purchase only if (1) they have had FHA insurance for not less than 2 months nor more than 12 months prior to the purchase, (2) the original principal amount of the loan does not exceed $12,000 per family unit, (3) the mortgage bears interest at not over 4 percent, and (4) at least 3 private lenders have declined to purchase the mortgage at par.

[24] Only slightly more than half of the farmers' cooperatives ever took the trouble to qualify for the exemption.

State Legislation

Extensive revision in cooperative laws, especially those governing credit unions, was made by the State legislatures in 1951.

General Cooperative Laws

A new provision in *Alaska* (ch. 63) requires directors to be elected for a term of not more than 3 years, with not less than one-third of the board elected each year.

The Legislature of *Idaho* added a new section to the law governing nonprofit cooperatives (ch. 51). It permits them to amend their bylaws or adopt new ones by a two-thirds affirmative vote at any regular or special membership meeting at which a quorum is present.

In *Minnesota*, one uncoded act extended the corporate existence of cooperatives inadvertently failing to renew their charters, and validated subsequent actions by them (ch. 438). Another extended retroactive validity to cooperative shares inadvertently issued in excess of the amount authorized (ch. 195). The State repealed and reenacted its nonprofit act, stating specifically that the act does not apply (among others) to cooperatives or medical- or hospital-care associations (ch. 550).

The *New York* cooperative law was repealed in 1951 and a new law was enacted (ch. 712) which retained certain provisions of the old law, usually with some changes in phraseology, but dropped others. Whereas the previous law had separate divisions dealing with different classes of associations, the new law combines all into one general act, except for short sections giving special provisions for agricultural cooperatives and credit and agency associations.

Among the more important of the new provisions concerning consumers' cooperatives of all kinds are the following:

(1) The furnishing of hospital services and indemnities for medical or dental expense has been added to the purposes for which cooperatives may be formed. The act does not authorize the operation of a cooperative clinic. An association may become a member of another cooperative and may enter into contracts with other associations for services or use of facilities in common.

(2) Proportionate voting, based on patronage, may be provided for. However, in matters on which the law requires the affirmative vote of a majority or more of the members, no member shall be entitled to more than one vote. A cooperative may provide for voting by delegates, from designated districts or from local associations that are members. As provided in the bylaws, delegate votes may be on the basis of one vote per delegate, one vote per member represented, one vote per member present at the local or district meeting, or votes in proportion to patronage.

(3) Ordinarily a cooperative's members are not to be held personally liable for its debts, but the certificate of incorporation may provide otherwise.

(4) Directors are authorized (formerly required) to distribute any surplus earnings, in the form of patronage refunds, at least every 12 months. Such distribution need not be in cash, but may be in capital stock or other securities.

(5) In purchasing other businesses, the cooperative is authorized to issue securities (as well as shares) in whole or partial payment.

(6) Charges against a director may be filed by any member, accompanied by a petition signed by 5 percent of the members. The association may remove him from office upon a three-fourths (formerly two-thirds) vote at a membership meeting at which not less than 10 percent of the entire membership votes.

(7) The bylaws may give the directors authority to amend the bylaws. Any such amendments, however, must be reported to the annual membership meeting and will not go into effect unless approved by it. Changes or repeal of bylaws require an affirmative vote of two-thirds of the members voting in person or by delegate, at a meeting called after due notice of time and purpose.

(8) In cases of voluntary dissolution a cooperative may, after paying its debts and redeeming its stock (at par) and other fixed obligations, distribute the remaining assets to the members and/or patrons in proportion to their patronage. However, if to do so would cost as much as 50 percent of the amount to be distributed, the association may elect to distribute the assets by pricing down the inventory or increasing its advances on marketed commodities.

A new section (11.1114) was added to the *South Dakota* cooperative act by chapter 17 of the 1951 laws. It gives the board of directors "full power and authority" to borrow money from any Federal agency, and (without being specifically empowered to do so by the membership) pledge the cooperative's assets therefor.

Wisconsin amended its cooperative law by setting the number required for a quorum in associations with fewer than 500 members at 10 percent of the members (formerly 20 percent) or twice the number on the board of directors, whichever is greater; 50 members are required for associations with over 500 members (ch. 360).

Medical Care

The only enactment in the medical-care field was one in *Illinois*. That act (p. 569) authorizes the formation of "voluntary health services" plans. Such plans may be organized by five or more residents of the State who are also citizens of the United States. Such plans will be under the supervision of the State director of insurance, and rates charged are subject to his approval.

Each association must have a board of trustees of not fewer than seven, of whom at least 30 percent must be physicians licensed in Illinois. They are to be elected for 3-year terms, one-third to be chosen each year. The medical director of each plan must be allowed to participate in the deliberations of the board, but without vote. He is to have complete charge of the medical and scientific aspects of the plan.

The association may limit or define both the field of membership and the benefits.

Every physician, dentist, or dental surgeon licensed in Illinois is eligible to participate in the plan, on conditions and terms mutually acceptable to him and the association. The physician-patient relationship is to be maintained as to medical treatment, and each member must be given free choice among the doctors participating. Contracts between member and association run for 1 year, subject to termination on 1 month's notice.

Administrative expenses are limited to not more than 20 percent of the annual income from subscribers. The association must have working capital of at least $60,000, and not more than 30 percent of the admitted assets may be invested in equipment. A special contingency reserve must be created to which yearly payments amounting to 2 percent of the income from subscribers must be made until the reserve equals 55 percent of the average annual payments for the preceding 5 years.

All organizations chartered under the act are declared to be charitable and benevolent institutions and, as such, exempt from all taxes and fees.

Previous laws, for "nonprofit hospital service plans" and "medical service plans" were amended so as to exempt the "voluntary" plans from their provisions (pp. 577 and 578).

In *Minnesota* a bill authorizing the formation of consumer-sponsored medical-care plans was again unsuccessful, not even being reported out of committee.

Electricity Cooperatives

Several enactments were made relating to electricity cooperatives. Amendments in *Alabama* (Act No. 766), *Alaska* (ch. 63), and *Tennessee* (ch. 185) permit staggered terms for directors.

Michigan enacted Act No. 137, giving electric power cooperatives the right of eminent domain and placing all corporations exercising such right under the jurisdiction of the Michigan Public Service Commission.

Hereafter, in *Minnesota*, electricity cooperatives that are delinquent on taxes must pay a penalty of 5 percent on the amount unpaid plus 4 percent interest on both principal and penalty (ch. 590). Chapter 408 authorizes any association to organize a mutual windstorm insurance company not subject to insurance law.

A *New Hampshire* amendment (ch. 203) placed electric cooperatives under the jurisdiction of the State Public Utilities Commission.

REA cooperatives in *North Dakota* are authorized by a new provision (added by ch. 108) to sell electric power at wholesale and to make contracts for the sale, interchange, etc., of electric energy with other cooperatives, public utilities, municipalities, and State and Federal agencies. Any of these may become members of the cooperative. Another amendment (ch. 322) clarifies the meaning of "first year" of operation, for purposes of the gross-receipts tax levied on electricity cooperatives.

An amendment (ch. 178) enumerates the kinds of property on which *Montana* electricity cooperatives must pay a real-estate tax. Measures were introduced in this State that (1) would have placed power cooperatives under the regulation of the State Public Service Commission, and (2) would have prevented them, for a period of 25 years, from supplying power to municipalities. The latter provision would have abrogated existing contracts, prevented the municipalities from benefiting by the low rates of the cooperatives, and made the private power companies their only source of supply. Both measures were vetoed by the Governor.

Cooperative marketing associations, "organized for purposes of rural electrification," are to be regarded as public utilities in *Ohio* and therefore subject to the jurisdiction of the State Public Utilities Commission (ch. 285).

The *South Carolina* law that established a State REA Authority was repealed in 1951 (Act No. 420). The Authority had never functioned. The exemption of REA cooperatives from State, county, municipal, school, and special taxes was made permanent by Act No. 379.

Telephone Cooperatives

The subject of telephone cooperatives received attention in several States.

In 1949, *Alabama* had passed an enabling act (No. 339) for telephone cooperatives. At the 1951 session of the legislature, Act 613 amended the Alabama law as follows: "Rural area" was defined to mean an area "not included within the boundaries of any incorporated or unincorporated city, town, village, or borough having a population in excess of 1,500 inhabitants." [25] The former provision permitting cooperatives to make telephone-installation loans was deleted. The prohibition against duplication of facilities "in any area except where existing telephone systems in that area are unable or unwilling to provide service" was changed to prohibit duplication of "telephone service to any person, firm, corporation, governmental agency, or political subdivision." The provision relating to the prohibition against construction and acquisition of telephone facilities within the corporate limits of a municipality was amended to be applicable "in any area other than a rural area as defined by this act." A provision was also added, giving cooperatives the power to require other telephone companies to interconnect in order to provide adequate local and long-distance service.

In *Arkansas* a bill, neither sponsored nor supported by cooperatives and bearing no legislator's name, became a law (Act No. 51). The act authorizes the formation of telephone cooperatives, on the following conditions: (a) Nonmember patrons may not exceed 10 percent of the total number of members.[26] (b) No cooperative may operate within the boundaries of a place with over 2,500 inhabitants. (c) No cooperative may lease or otherwise acquire any telephone facilities from a municipality. (d) Every association must obtain a "certificate of convenience and necessity" from the State Public Service Commission in order to operate or expand its facilities. (e) No area being furnished with "reasonably adequate telephone service by a telephone company or a cooperative shall be assigned to another cooperative or telephone company."

The cooperative telephone act (ch. 193) passed in *Indiana* provides for not fewer than 11 incorporators, all of whom must be local people and prospective users of the service. The law contains provisions similar to (a) and (d) of the Arkansas act, but defines "rural" community as a place with not over 1,500 inhabitants.[26] It permits a cooperative that acquires existing facilities to continue to serve the patrons of the latter (up to a number not exceeding 30 percent of the cooperative membership) without requiring them to join.[27] They must be permitted to become members, however, if they choose to do so.[26] No person may become or remain a member of the cooperative unless he uses its service.[26]

A cooperative must provide "reasonably adequate" service. Its rates are subject to approval by the State Public Service Commission.

The directors must be members of the cooperative and must be elected by the members.[26] The president and vice president must be directors. The bylaws may provide for representation by areas.[26]

[25] This provision conforms to the definition of "rural area" contained in the 1949 amendment to the Rural Electrification Act (7 U. S. C., 901-924).

[26] This provision conforms to a suggested draft of a bill recommended by the Rural Electrification Administration.

[27] The bill recommended by REA sets this figure at 40 percent.

The act permits a merger of two cooperatives serving contiguous areas, on approval of the Commission and the affirmative vote of at least three-fourths of the members of each. A cooperative desiring to change its territory must get the written consent of other telephone companies or cooperatives and of at least half the heads of all the farm families in the territory proposed to be served or dropped. Public notice and hearings are provided for, before a decision is made by the Commission.

The local associations may form a "general cooperative corporation," to provide educational, engineering, financial, or other service. Prerequisites, however, are written consent (1) of all the local telephone cooperatives in the area and (2) of an incorporated farm organization that has in its membership at least one-third of the farm families in the territory.

A bill (H. B. 161) was introduced in *Kansas* that would have barred telephone cooperatives not only from places of 1,500 or more population, but also from any territory connected with such a place by an "economic, social, or administrative interest." No cooperative would be permitted in an area which a telephone company had expressed an interest in serving at some future time. Cooperators charged that the bill was introduced at the instance of a paid lobbyist for an association of telephone companies.[28] It bore no legislator's name and no public hearings were held, but the public utilities committee of the State House of Representatives reported it unanimously. Cooperators succeeded in having it returned to committee for hearings at which it was opposed by cooperative and farmer representatives. The bill died upon the adjournment of the legislature. However, another measure (ch. 366) was enacted, subjecting cooperative and mutual telephone companies to regulation by the State Corporation Commission; exempted are cooperatives and mutuals that control only a single telephone line.

Under an *Ohio* enactment (p. 405), "telephone companies not for profit" are considered as public utilities and, as such, are under the jurisdiction of the State Public Utilities Commission.

A telephone cooperative bill, passed by both houses of the *Oklahoma* Legislature, was vetoed by the Governor.

Wisconsin enacted a law (ch. 389), exempting certain obligations of REA telephone borrowers from the jurisdiction of the Wisconsin Public Service Commission.

Bills to provide for the formation of rural telephone cooperatives were introduced but failed of passage in *Florida* (H. B. 630 and S. B. 311), and *Colorado* (S. B. 92), and were pending in *Missouri* (H. B. 286) and *South Carolina* (S. 376).

Credit Unions

Many States amended their credit union laws.

In *California*, chapter 364 established a Financial Code, of which credit union legislation is made a part, beginning with section 14000. Several other acts made changes in the credit union provisions. Thus, chapter 419 requires any loan exceeding $3,000 to be secured by real or personal property (previously, only that part of the loan above $3,000 had to have security). Chapter 497 provides that whenever losses resulting from depreciation in values of "securities or otherwise" exceed the total of undivided earnings and reserves—with the result that the estimated value of the assets is less than the total due to the shareholders—the association may, by three-fourths vote of the entire membership at a special meeting, order a proportionate reduction in the equity of each shareholder. If, later, the amount realized on the securities is greater than previously calculated, the excess may be divided, but the amount distributed may not exceed the amount of the previous reduction.

Chapter 280 permits a credit union to take out group life insurance for its members.

In the case of an association in financial difficulty, the commissioner of corporations no longer has to give notice to the credit union before taking possession of its affairs (ch. 382). However, such an association is to be given an opportunity to submit a satisfactory plan of putting its affairs on a sound basis. If the plan meets the commissioner's approval, he may permit it to resume operations under such conditions as he deems to be in the public interest.

[28] Cooperative Consumer (Kansas City, Mo.), Feb. 14, 1951.

By chapter 141, the *Colorado* Legislature set up a new schedule of examination fees, gave the supervisory committee the additional duty of verifying the members' shares, deposits, and loan accounts biennially, and authorized the directors to destroy records and files more than 6 years old. Hereafter, all legal claims of creditors of credit unions in dissolution must be satisfied in full before any distribution of assets to members may be made. A new section authorizes mergers between credit unions if at least two-thirds of the entire membership of each approves, and sets forth procedures for carrying out such a merger.

Connecticut Act No. 99 raised the maximum permitted unsecured loan to $500 (from $300) and the permitted maximum shareholding by an individual member to $5,000, exclusive of dividends on shares (formerly $1,000 subscription in any calendar year, with a maximum shareholding of $3,000).

Act No. 86 increased the maximum loan period to 3 years (from 2), and allowed investment of credit union funds in shares of building and loan associations up to 25 percent (formerly 10 percent) of the credit union's assets. A credit union may borrow amounts up to 20 percent (formerly 10 percent) of its paid-in and unimpaired capital and surplus. This limit may be raised to 40 percent (formerly 25 percent) if written approval is given by the State bank commissioner. A State-chartered association may hereafter make loans to any credit union in Connecticut operating under Federal charter. Under Act No. 98, a credit union need make no further payments to reserves after the latter amount to 15 percent of the loans outstanding on December 31, except as required to keep the reserves at that ratio.

Another law (Act No. 100) permits any credit union to deposit funds not only in Connecticut banks but also in adjoining States within 25 miles of the credit union. Hereafter (Act No. 183), associations must report to the State bank commissioner within 20 days (formerly 30) after December 31 (formerly September 30).

Articles of incorporation (as well as bylaws) must have the approval of the Auditor of Public Accounts in *Illinois* (p. 799). The same amendment permits credit unions to purchase shares of other credit unions (as well as make loans to them, as formerly). Associations may also accept as members other organizations that limit their membership to the same group as is served by the credit union. Associations may elect to pay patronage refunds to borrowers, proportioned on the amounts of interest paid by them during the year.

Chapter 210, in *Indiana*, requires that loans be evidenced by notes signed by the borrower. Maximum amounts permitted in unsecured loans are based on the assets of the credit union and range from $100 for those with assets of less than $25,000 to $300 for those with assets of $50,000 or more. The total unpaid balance of unsecured loans may never exceed twice the amount of the reserve fund and undivided profits.

Security may consist of: (a) Credit union shares (to the amount of the loan); (b) signatures of one or more comakers attested, in writing, as sufficient by a majority of the credit committee or of the board of directors; (c) negotiable obligations of the United States having a cash or par value, whichever is less, equal to the loan; (d) tangible or intangible property, estimated in writing by a majority of the credit committee or of the board of directors to be worth 133⅓ percent or more of the loan (in case of a life insurance policy, offered as security, the amount of the loan may not exceed its cash-surrender value); or (e) improved real estate, within 50 miles of the credit union's office, secured by a first lien. Real-estate loans may run for either 5 years, in which case the amount shall not exceed 50 percent of the fair cash value, or 12 years, in an amount that may run up to 66⅔ percent of the fair cash value. The total unpaid real-estate loans shall at no time exceed 33⅓ percent of the credit union's assets.

Maximum obligations of borrowers are based on the total credit union assets and range from $500, in associations with assets of less than $5,000, to $20,000 in those with assets of $500,000 or more. If the borrower is an association or corporation, all the members of which are eligible for membership in the credit union, its obligations may not exceed $500 or 10 percent of the credit union assets, whichever is greater.

Certificates of indebtedness of Indiana industrial loan and investment companies were added to the investments permitted to credit unions.

Among the investments permitted to credit unions in *Kansas*, by chapter 204, are shares of a central credit union situated within the State and supervised by the State bank commissioner. An individual will hereafter not be regarded as a

credit union member until the required share or shares have been paid for. If one share is not paid for in full within 3 years, the amount credited on it shall be refunded, except that the amount is to be placed in the reserve fund if the person's whereabouts are unknown. With the approval of the commissioner, an association may lend up to 25 percent of its unimpaired capital and surplus to other State-chartered credit unions at a rate of interest fixed by the board of directors. No loan secured by real estate may exceed $1,000. A new provision requires credit union boards to meet at least six times a year, with at least one meeting each quarter.

The only change made in the *Maryland* law was to raise the maximum amount of unsecured loans from $300 to $400 (ch. 214). In the case of loans exceeding $400, only the amount in excess need have security.

Personal loans must be repaid within 2 years in *Massachusetts* (ch. 117). New limits are set on the amounts loanable in excess of the shares and deposits of maker and comaker. The maximum is $3,000 in cases in which the security consists of the borrower's note and certain specified collateral. An association may invest up to 5 percent (formerly 3 percent) of its assets, subject to a maximum of $15,000 (ch. 246) in any one bank (ch. 654).

An application fee must hereafter be paid to the *Minnesota* Bank Commissioner, when charter applications and bylaws are filed (ch. 308). Fees for examination of credit union accounts begin with a minimum of $15 for associations with assets of less than $2,000; for those with assets of over that amount the fee is $30, plus a rate per thousand thereafter that diminishes as the assets increase (ch. 309).

In *Nebraska*, employees, members or appointive (not elective) officers who are notaries are authorized by chapter 253 to take acknowledgements or administer oaths.

An amendment (ch. 179) in *New Hampshire* permits semiannual (as well as annual) division of credit union earnings. Interest on loans, formerly set at 6 percent, may hereafter not exceed 1 percent per month, calculated on the unpaid balances (ch. 22).

New Jersey associations may obtain blanket bonds—the cost of which the association may pay—instead of individual bonds, for persons handling money (ch. 180). Bonds must provide that the protection is not cancelable except on 5 days' notice to the State Department of Banking and Insurance. The same amendment permits the spouse of a member to be a comaker, unless other security is required, and raises from $100 to $300 the maximum unsecured loan permitted. No loan secured by shares may exceed by more than $300 (formerly $100) the value of the shares pledged. Loans secured by new cars, bonds, securities, and life insurance policies may be as high as $1,500, but not more than two-thirds of the value of the security. The previous limit was $250 or 5 percent of the credit union's total shares outstanding. The maximum liability of an individual as endorser or borrower may not exceed $1,500.

North Dakota chapter 104 extensively amended the State's credit union law. Associations hereafter are under the supervision of a State credit union board. Any amendments of bylaws must have the approval of the board before being submitted to the membership. The act enumerates the investments permitted to credit unions; formerly they could invest in any securities permitted to savings banks and trust funds. To the extent approved by the State board, credit unions may hereafter buy land and buildings for office purposes, own furniture and fixtures, purchase real estate at sales under judgments or mortgages, and accept real estate as security for loans. Boards of directors are authorized to fix maximum shareholdings and maximum loans, subject to a schedule based on total assets. Loans permitted under this schedule range from $5,000 if the assets are $70,000 or less, to $15,000 if the assets exceed $500,000.

The membership may fix a maximum rate of dividend on shares. If the regular reserve (15 percent of assets) is not sufficient to cover bad and delinquent loans, a special reserve must be created, the amount of which is based on the amount and period of delinquency of loans. No dividend may be paid until provision is made for this reserve, where needed. Having established a special reserve (if such is necessary), a credit union may elect to pay patronage refunds to borrowers on amounts paid by them in interest on loans.

Examination fees are 20 cents per $1,000 of assets for the first $100,000 and 10 cents per

$1,000 for all over that amount. Formerly, credit unions were assessed at the same rate as building and loan associations.

Although directors and committee members receive no compensation for their services, they may be reimbursed for expenses incurred while on credit union business.

The vote required for voluntary dissolution of a North Dakota credit union was reduced from four-fifths of the entire membership to two-thirds.

The *Oregon* Legislature made a number of revisions in the credit union law, by chapter 100. As is usual in credit union legislation, the Oregon amendment provides that interest and "charges" may not exceed 1 percent per month, calculated on the unpaid balance. To the items that need not be considered as a "charge" (i. e., that can be billed to the borrower in addition to the 1 percent) is added the premium cost of a "chattel mortgage nonfiling insurance" policy, carried by the association in lieu of paying for filing and recording. Applications for approval of a change in the business address must, as before, be accompanied by a statement of reasons for the change, signed by a majority of the board. A certified copy of a resolution adopted by a membership meeting is no longer required.

Examination of credit union books must be made "at least" annually or oftener, if the superintendent of banks deems it "necessary or expedient." Basic fees for examination are doubled in most cases. In addition, the association must hereafter pay an amount equal to 0.1 percent of its total outstanding loans not over $500,000, and on the amount over that, 0.01 percent; loans to other credit unions need not be included in figuring this rate. The superintendent of banks is authorized to reduce the fees, if it seems advisable. If any credit union's affairs require more time and attention than average, the actual cost of such extra time is to be charged.

One change was made in the *Rhode Island* law—the deletion of the limit of $3 per meeting on the compensation that credit unions with assets of over $500,000 are permitted to pay their directors (ch. 2692).

In *South Carolina*, the State credit union act was repealed by Act No. 415, and the supervision of credit unions was deleted from the duties of the State Board of Bank Control (Act No. 419).[29]

In *Tennessee*, bona fide residence in the State was added to the requirements for membership in credit unions (ch. 192). Interest rates charged by credit unions may not exceed the legal rate (previously, "reasonable rates"). The customary requirement was inserted in the law: Interest and all other charges may not exceed 1 percent per month on the unpaid balance. Chapter 126 increases the examination fee to $30 (previously $20) and provides that the superintendent of banks may impose an added charge of not more than $10 per day if necessary to cover the cost of the examiner's time.

Several revisions were made in the *Vermont* law (by 1951 Act No. 185). A credit union may make loans to societies, associations, and copartnerships in a total amount not exceeding 10 percent of its total share capital, loans to other credit unions being excepted from this limitation.

A revised schedule approximately doubled examination fees, which will hereafter range from $7.50 for credit unions with assets of $1,000 or less to $50 for those with assets of $25,000 to $50,000. Associations with assets exceeding $50,000 must pay the actual cost of examination. Associations whose books were not balanced as of a date within 30 days (previously 60 days) prior to examination must pay an added fee of $10.

Annual reports for the calendar year must be made to the State Department of Banking and Insurance on or before February 15, instead of (as previously) on the "date of call to State banks."

An amendment to the insurance law permits credit unions to take out group life insurance.

In *Wisconsin*, a newly added section (186.34) of chapter 530 of the Statutes allows a credit union to issue to a member shares payable at his death to another person, thereupon transferring to the latter the member's rights and privileges.

Taxation

A bill to tax patronage refunds was defeated in the legislatures of *Colorado* and *Kansas*. In the former State a committee was then appointed to study the tax status of cooperatives. In *Montana* an unsuccessful attempt was made to impose a tax on the gross receipts of cooperatives.

[29] At the end of 1951 there were only 3 State-chartered credit unions in South Carolina. Two of these were old associations, the other was formed in 1950.

Other Laws

Connecticut Act No. 323, dealing with the licensing and regulation of funeral directors, does not mention cooperatives. It is, however, so worded that a cooperative could operate as a corporation and employ a funeral director. Thus, "no person shall carry on or engage in the business of funeral directing * * * unless he is licensed by the board as a funeral director and unless he owns his business of funeral directing or is an employee or member of a firm, partnership, or corporation operating a funeral-directing business at an established place of business."

Court Decisions Affecting Cooperatives

On October 19, 1950, the United States Supreme Court denied the petition of Watson Bros. for a writ of certiorari in the lawsuit brought against it by Central States Cooperatives.[30] The company was appealing from a decision in favor of the cooperative in the Court of Appeals for the Seventh Circuit.[31] This denial by the Supreme Court closes the case.

A discount-sales organization, Civil Service Employees' Cooperative Association, with headquarters in Philadelphia, was sued by a manufacturer who obtained an injunction in the United States District Court for the Eastern District of Pennsylvania, forbidding the sale of the company's products at a discount and ordering an accounting. The company alleged a violation of the State Fair Trade Act, under which the retail sales price is set by the manufacturer.

Appeal was taken to the United States Court of Appeals for the Third Circuit. That court found that the association conducted display rooms with a wide variety of home appliances and other commodities. Articles shown were sold to patrons at a discount from regular list prices.

Membership in the association was of two types: (a) Active (voting) membership, open to present or former employees of Federal, State, or local governments and persons in the military services or National Guard. Active members paid dues of $1 per year. (b) Affiliated (nonvoting) membership, open to members of any cooperatives affiliated with the discount association.

In its decision of March 20, 1951,[32] the Court of Appeals held that the association had violated the Fair Trade Act by giving the discount at the time of purchase. It implied, through approving reference to an article in the Michigan Law Review, that the association would not have been in violation had the amount of the discount been withheld until the end of some specified period.

The Court of Appeals affirmed the decision of the lower court relative to the issuance of the injunction. The decision was reversed on the accounting, on the ground that there had been no showing of actual loss to anyone by the association's sales. Rehearing was denied on April 12, 1951. However, the case was reopened after the United States Supreme Court rendered its decision in the Schwegmann Bros. case.[33]

At the rehearing, the argument of Sunbeam was that, as all of the cooperative's sales were intrastate, the goods were no longer in interstate commerce and were therefore subject, not to Federal, but to State law. The court held that this was directly contrary to the result reached by the Supreme Court in the Schwegmann case, in which it was held that the governing factor was the character of the manufacturer's commerce, not that of the local distributor. In the present case Sunbeam's business was interstate and its price-fixing scheme "constitutes a trade restraint. This is the plan Sunbeam seeks to make Nation-wide by enforcing the nonsigner provisions of local law in each of the States where a fair trade act has been established." The court therefore changed its previous decision and reversed the judgment of the District Court. This case was remanded with direction to enter judgment for the cooperative association.[34]

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[30] *Watson Bros. Transportation Co.* v. *Central States Cooperatives*, 71 Sup. Ct. 44.

[31] For the decision of the Circuit Court, see U. S. Bureau of Labor Statistics Bulletin No. 1030, pp. 18, 19.

[32] *Sunbeam Corp.* v. *Civil Service Employees' Cooperative Association*, 187 Fed. (2d) 768.

[33] *Schwegmann Bros.* v. *Calvert Distillers Corp.*, 71 Sup. Ct. 745.

[34] *Sunbeam Corp.* v. *Civil Service Employees' Cooperative Association*, 192 Fed. (2d) 572.

Medical Care

Puget Sound Case

In Washington, the State Supreme Court rendered a unanimous verdict [35] in the appeal by Group Health Cooperative of Puget Sound from a decision of the Superior Court of King County.[36] Because of its importance to the cooperative movement, the decision is here reviewed at some length.

Facts and findings.—The cooperative's original action was brought against the King County Medical Society, the King County Medical Service Corp. (a nonprofit organization to furnish prepaid medical care to employees of industrial enterprises), the King County Medical Service Bureau (a nonprofit organization composed of physicians under contract with the corporation to furnish care to these employees), the Swedish Hospital in Seattle, and Public Hospital District No. 1 of King County (a public hospital at Renton). Both the Bureau and the Service Corp. were organized by the Medical Society in 1933.

In the beginning, membership in the Medical Society was not denied to doctors engaging in industrial contract practice.[37] In 1933, however, a bylaw provision was added making such practice ground for "censure, suspension, or expulsion," unless authorized by the board of trustees. (The only plan that ever received authorization was that of the Service Corp.) A later amendment made it "unethical" for a member even to consult with any nonmember physician or one engaging in contract practice.

Most of the other contract plans in existence in 1933 have ceased operation. One of two exceptions was the Medical Security Clinic, Inc., which continued operation until the fall of 1946 when its facilities were purchased and its industrial contracts taken over by Group Health Cooperative. Its medical staff was also retained. Until that time the cooperative had rendered medical service only to individual subscribers and their dependents.

The court noted that the medical society had apparently been "willing to tolerate the cooperative's prepaid service to its own members," provided it would discontinue the industrial contracts. "The cooperative's industrial contracts appear to offer more complete medical service than do those of Service Corp. This is particularly true in the field of family care and preventive medicine."

The cooperative's contract with its medical staff provides for a strictly hands-off policy on the association's part as regards the professional doctor-patient relationship. This provision, the court found, had been "observed at all times, to the letter."

There were many charges and countercharges. Those of the Medical Society, and the court's findings regarding each, were as follows:

1. *Charge:* Incompetence of GHC doctors, and unsatisfactory service. *Finding:* In these respects the cooperative was "in no different situation than the average medical practitioner and hospital in King County." The cooperative invited investigation of its methods and practices, but the Medical Society never made any. All the cooperative's physicians and surgeons were licensed to practice in Washington and were accredited by the American Medical Association. Further, the cooperative hospital was accepted and entered on the AMA register in June 1948, indicating that "AMA officials do not regard the cooperative as providing 'unethical' service, insofar as AMA standards are concerned." In the court's opinion, the evidence failed to sustain the charge.

2. *Charge:* Violation of principle of "free choice of physicians." *Finding:* The cooperative's contracts offered "quite as much" free choice as those of the Service Corp. The principle the Medical Society was really contending for was not free choice of physician but "equal access to patients." The AMA standards did not require the cooperative to employ more doctors than were required to perform the service.

3. *Charge:* Miscellaneous objections as to "unreality of consent of contractees"; extravagant promises by salesmen; bribery to secure contracts; lack of scientific meetings; profit to third party; lack of personal touch between physician and

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[35] *Group Health Cooperative of Puget Sound et al.* v. *King County Medical Society et al.*, 237 Pac. (2d) 737. Decision handed down on Nov. 15, 1951.

[36] For account of the lower court's decision, see U. S. Bureau of Labor Statistics Bulletin No. 1013 (p. 5).

[37] Under this arrangement, employers contract with individual physicians or groups of physicians for medical care for their employees to cover accidents and ailments suffered while on the job. Under some plans, employees, by paying set fees, may buy limited care for their dependents.

patient; solicitation; tendency to make money out of contracts; and control by lay operators. *Finding:* Except as regards solicitation, the evidence relates to conditions prior to the advent of the cooperative. The latter maintains a force of salesmen, but so does the Service Corp. "There is nothing in the record to indicate that there is any misrepresentation, overselling, or other impropriety with respect to the way in which this soliciting is done."

The cooperative charged injury by reason of the following "overt acts":

1. *Charges:* (a) No physician not a member of the Service Corp. and Service Bureau is allowed to perform any service for their contractees; (b) the Medical Society threatened to expel any doctor performing service in competition with the Service Corp.; (c) the society refused to accept transfers of membership of doctors from other places, who intended to join GHC; and (d) denial of membership in the society prevented cooperative doctors from being certified as specialists. *Finding:* These allegations were "fully sustained by the evidence."

2. *Charge:* Respondents caused the introduction and enforcement of bylaws by hospitals (including the Swedish and Renton Hospitals), admitting as staff members only members of the Medical Society. *Finding:* Application of GHC's doctors for hospital privileges "have been uniformly denied." The society and Service Corp. were successful in getting this policy "through persuasion and economic pressure," aided by the custom of leaving to the hospital staff the approval of new staff. This exclusion policy "has in recent years been directed primarily against the cooperative." Accordingly, when for any reason the cooperative took a patient to a hospital other than its own, the patient had to be surrendered to another doctor who had staff privileges there.

3. *Charge:* The Medical Society refused to admit into membership any physician competing with the Service Corp. *Finding:* Respondents concede this to be true, unless the physician is willing to discontinue industrial contract practice. "The importance of membership in the Medical Society is not disputed." Such membership is necessary in order to obtain hospital privileges, certification by specialty boards, consultation with other physicians, affiliation with State and national organizations, access to technical reports, and right to attend meetings at which general and local medical problems are discussed. "Perhaps more important than all of these considerations, a nonmember of the society is quite generally regarded as an outcast by his fellow practitioners, his patients, and members of the public, and suffers very real humiliation and embarrassment."

4. *Charge:* Doctors were intimidated, by "threat and practice of professional and social ostracism," from serving as consultants to the GHC staff. *Finding:* Actually, the matter has been left to the judgment of the society's individual members. Some will and some will not serve as consultants. However, the record indicated that the respondents' policy has seriously handicapped the cooperative in obtaining consultant service. The record did not support the allegation of social ostracism.

5. *Charges:* (a) An advertisement in the local telephone directory regarding the Service Corp. is misleading to the public; (b) the Service Corp.'s solicitors made libelous statements regarding the qualifications of GHC's doctors; (c) the Medical Society tried to prevent doctors from joining the cooperative staff, by informing them of its sanctions against the cooperative; and (d) monetary loss was sustained by both cooperative and doctors, as a result of the society's policies and actions. *Findings:* Charge (a) is not well founded. Regarding (b), there were isolated instances of derogatory statements, but these were not sufficiently defamatory to constitute libel, nor do they appear to have been authorized by the Medical Society. Charge (c) is true as regards society members. With regard to nonresident doctors, the society's policy did operate to prevent them from accepting GHC employment, but there was no indication that the society "took affirmative steps" in this respect. The charge of monetary damage, (d), to the cooperative was not proved with the required degree of certainty and definiteness. Since the physicians were employed on salary, they also could not prove a monetary loss such as might have been possible had they been on a fee basis. However, the general loss and damage sustained, although not compensable in money damages, "is serious and irreparable and will be so as long as these overt acts continue."

6. *Charge:* The society and Service Corp. engaged in an unlawful combination or conspiracy in restraint of competition and for the purpose of

establishing monopoly. *Finding:* There was a "combination" among the respondents that came into effect when the Bureau and Service Corp. were formed, medical service constitutes a "product" within the meaning of the Antitrust Act, and the purpose of the combination was to limit production and fix prices to be charged for contract medical service. There was no question that the purpose was also "to preempt and control all contract medicine in King County," and that, if successful, the result would be a "complete monopoly" throughout the county.

The court pointed out also that, having acquired monopoly control, there would be nothing to prevent the society from eventually eliminating all contract service, including that rendered by the Service Corp. "Nor is this possibility altogether remote"; since the beginning, the contract business has been regarded as a temporary expedient, the need for which might vanish.

The respondents' contention that there was no monopoly because all qualified physicians were entitled to join the society and participate in the medical plan would be true only if the bylaw provision requiring members to give up contract practice were eliminated. Also, "the facts do not bear out the contention" that the respondents' conduct was necessary because of the quality of service rendered by the cooperative or because of its unethical practices, because there was no real ground of complaint on either count. In using the "opprobrious" term, "unethical," the society is merely castigating those "who seek only to carry on contract practice independent of and in competition with Service Corp. In our opinion, the society may not, through the mere use of the term, 'unethical,' clothe with immunity acts which would otherwise fall under the ban of the antimonopoly provision of our Constitution."

The court concluded that all the elements of a monopoly were present in the case.

The respondents' claims that the cooperative had acted beyond its powers, and that its members make a profit by way of lessened cost of service were dismissed as without substance. The court pointed out that, although prepaid plans are often referred to as "low-cost" service, as a matter of fact the primary purpose is to share the risk among all the participants. What is a low cost for a member who requires a great deal of service is a very high cost for one who requires little. Although the operations of the cooperative are paying their way, such net earnings as have been made have been used to improve facilities and services. No member has received any cash dividends or other emoluments.

Decision: As to the question of the kind and amount of relief to which the appellants were entitled, the court examined the situation of each of the respondents separately. It concluded: (1) that the Medical Society and its officers and directors should be enjoined from any acts having the effect of excluding applicants from membership on the ground that they are practicing contract medicine; (2) that the Society, Bureau, and Service Corp. be enjoined from any acts discouraging their members from acting as consultants or rendering professional services with cooperative physicians on the sole ground of practicing or providing facilities for contract medicine (these injunctions would also remove the obstacles to participation on hospital staff); and (3) that they be enjoined from any course of conduct designed to exclude cooperative physicians from the hospitals of King County on the sole ground that they are practicing contract medicine.

In our view, the injunctive relief authorized above will, in all likelihood, result in termination of the unlawful features of respondents' combination. We are therefore of the opinion that it is not necessary at this time to provide equitable relief touching the other classes of overt acts in which respondents have been engaged, as found above.

The interests of the parties will be served, however, if the decree to be entered upon the remand of this case provides that the court shall retain jurisdiction (except with respect to Swedish Hospital) for a period of 3 years from the date of entry of that decree. We so direct.

During that period appellants may apply for such additional injunctive relief as may be shown to be necessary under developing circumstances, in order to effectuate the discontinuance of the unlawful features of the combination. Respondents may likewise, during that period, apply for such determinations respecting the amendment of bylaws or otherwise as may be convenient and useful in ascertaining the permissible scope of their policies and activities.

The court concluded that, as a private hospital, Swedish Hospital had a right to exclude from its facilities any doctors it wished. The charge against it was therefore dismissed and the lower court's decision affirmed as regards that hospital. Renton Hospital, however, is a public enterprise and any exclusion from its facilities on the sole

ground of practicing contract medicine is "unreasonable, arbitrary, capricious, and discriminatory." The hospital was therefore ordered to be enjoined from "following any course of conduct having for its purpose such exclusion of appellant physicians" from its staff.

The judgment of the lower court was affirmed as to the Swedish Hospital. It was reversed as to all other respondents, and remanded with instructions to enter a decree conforming to the views expressed above.

Other Medical Cases

Suits involving similar charges of discrimination are under way in Oregon and Oklahoma.

The decision of the Circuit Court for the Ninth Circuit, in the U. S. Department of Justice suit against the Oregon State Medical Society,[38] was appealed to the United States Supreme Court. The latter, in April 1951, agreed to hear the case in its October term.[39] Hearings were begun on January 2, 1952.

In Oklahoma a long series of delaying actions, begun in 1950 by the Beckham County Medical Society, was terminated by ruling of the court, on September 12, 1951. The case was expected to be argued early in 1952.

Taxation

Patronage refunds which a cooperative association was under the obligation to pay were held to be excludable from its gross income, for income tax purposes, by a decision rendered by the United States Tax Court on October 15, 1951.[40] The association, Colony Farms Cooperative Dairy, protested the action of the Bureau of Internal Revenue in assessing taxes on that part of its earnings that was distributed to the members as patronage refunds. Its bylaws provided for such distribution in any year in which the surplus earnings above expenses amounted to $100 or more. In the years in question, the distribution was in the form of certificates of interest, showing the amount credited to the member but retained for a period of years for working capital.

In the years for which tax had been assessed, business with members constituted about 37 percent of the total business. In its accounting for these years, the association segregated the earnings derived from the members, put them into a "reserve for members' equity," and several years later paid the members in cash the amounts credited to them in this reserve, as evidenced by the certificates. It had excluded these amounts from its computation of taxable income.

The Tax Court pointed out that the problem involved was "not new and has often been before the courts. The accepted rule is that if the cooperative receives these earnings under an existing legal obligation to distribute them to its members, such earnings are not income of the cooperative and consequently are to be excluded in the computation of its gross income."

The question at issue in the present case was whether the association had a legal obligation to distribute surplus earnings to the members. The Bureau of Internal Revenue contended that the distribution of earnings was discretionary with the cooperative's board of directors, and questioned whether the certificates actually constituted a "distribution." The court agreed that the Virginia law under which the cooperative was operating was permissive, not mandatory, as regards patronage refunds. However, the obligations of the association were determined by its charter, bylaws, and contracts. All of these contained mandatory provisions on patronage refunds and these, the court noted, had been "meticulously carried out."

The court had "no hesitation" in concluding that the association did have a legal obligation; also, that the certificates were just as much a "distribution" as payment in cash would have been. It therefore overruled the Bureau in its assessment on the amounts distributed.

The question of the liability of Federal credit unions in the District of Columbia for payment of the local personal property tax came before the District of Columbia Board of Tax Appeals. This case was brought by the District of Columbia Credit Union League on behalf of one of its members which had been assessed for and had paid the tax under protest. The District law expressly

[38] For an account of the case in the Circuit Court, see U. S. Bureau of Labor Statistics Bulletins Nos. 1013 (p. 5) and 1030 (p. 19).

[39] *United States* v. *State Medical Society et al.*, 71 Sup. Ct. 615.

[40] *Colony Farms Cooperative Dairy, Inc., Petitioner* v. *Commissioner of Internal Revenue, Respondent* (17 T. C. No. 77).

exempts credit unions from the tax. The Federal law exempts credit unions from taxation by State or local taxing authority except for real and tangible property which, it states, is to be subject to taxation "to the same extent as other similar property is taxed." It was the interpretation of this provision in the Federal law that was at issue. On April 12, 1951, the board ruled that credit unions were exempt from the personal property tax.

The Consumer-Farmer Milk Cooperative appealed to the United States Supreme Court for a writ of certiorari in the case of an adverse decision of the Court of Appeals for the Second Circuit. The appeals court had upheld a decision of the United States Tax Court assessing income taxes against the association.[41] The Supreme Court denied the petition on May 14, 1951.[42]

[41] For previous accounts of the case, see U. S. Bureau of Labor Statistics Bulletins Nos. 1013 (p. 28) and 1030 (p. 20).

[42] *Consumer-Farmer Milk Cooperative* v. *Commissioner of Internal Revenue*, 71 Sup. Ct. 802.

International Developments

The outstanding event in the international field was the holding of the 18th International Cooperative Congress, at Copenhagen, September 24–27.[43] Delegates were in attendance from national cooperative organizations in 23 countries, affiliated to the International Cooperative Alliance.[44] As criteria for membership in the Alliance, the meeting approved the principles of open membership, democratic control by the members, and freedom from interference from government or political parties. In so doing, it endorsed the ICA Executive Committee's actions with regard to membership applications since the congress at Prague in 1948. In 1951 applications from Poland and Eastern Germany were rejected on the ground that the applicants did not meet the membership requirements. The Jamaica Cooperative Union (British West Indies) and the Petroleum Cooperative Society of Cairo, Egypt, were admitted as members.

The congress passed resolutions that: (1) Directed the Alliance to create a joint retail-wholesale committee for rationalization of commodity distribution; (2) looked toward closer relationships between agricultural and consumers' cooperatives; (3) proposed various educational and other remedies for problems faced by cooperatives; (4) urged measures (such as accelerated international trade, government measures, and a UN study of monopoly) to curb monopoly; and (5) specified freedom of thought, speech, and movement, improved standards of living in underdeveloped countries, collaboration with the UN and international control of all armaments as prerequisites for world peace.

The congress was preceded by conferences on housing, education, youth, workers' productive associations, and the cooperative press, and by the meeting of the International Cooperative Women's Guild.[45] The cooperative movement of the United States was represented at these meetings.

The ICA proposal for a UN study of world oil resources, with a view to assuring equitable distribution of petroleum products, was on the agenda of the UN Social and Economic Council at its meeting in February 1951. On motion of the British UN delegation, the proposal was removed from the agenda, thus killing the proposal for that session.

The International Cooperative Petroleum Association reported sales in 1950 of $1,370,231 to 29 cooperatives in 18 countries, and patronage refunds amounting to $34,568 paid to these patrons in 14 countries.

In June 1951, an International Federation of Young Cooperators was organized in Austria by a group of 150 young delegates from 8 countries (Austria, Denmark, France, Germany, Great Britain, Norway, Switzerland, United States, and Yugoslavia). The functions of the new federation will be to coordinate the activities of young cooperators, help in the formation of national organizations of cooperative youth, and provide means of collaboration among them for the furtherance of the cooperative cause.

[43] For detailed account, see Monthly Labor Review, January 1952.

[44] The current membership of the Alliance includes 52 federations in 31 countries.

[45] For detailed account, see Monthly Labor Review, January 1952.

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