CHAPTER I

INTRODUCTION

In modern economic system marketing is undertaken by a number of agencies. They can be broadly categorised as Private, Governmental, or Cooperative.

A Private Agency is usually in the form of proprietary, partnership or corporate business that conducts its operations in the hope of earning profits. A governmental agency is any department of Municipality, State or National government engaged in trading. The third agency is the cooperative which since the beginning of this century has risen to a place of importance in commercial life and it is attracting the attention of all classes in society as a superior method of marketing commodities, providing services and selling farm products.

Significance of Cooperative Marketing:

A cooperative Marketing Society is a typical sales association. It is a voluntary business organisation established by farmers to market farm products collectively for their direct benefit. It is governed according to democratic principles and the earnings are apportioned to the members on the basis of their patronage. Members as owners, operators and contributors of the commodities handled, are the direct beneficiaries of the earnings that accrue. The cooperative marketing society is a


Dr. C. R. Fay in his book "Cooperation at Home and Abroad" defined Cooperative Society "...as association for the purposes of joint trading originating among the weak and conducted always in an unselfish spirit on such terms that all who are prepared to assume the duties of membership share in its rewards in proportion to the degree in which they make use of their association."
business institution organised to conduct business according to sound business principles. But its organisation and methods are radically different from those of governmental and private commercial enterprises. Instead of selling independently and in competition with one another, farmers pool their resources, consolidate their selling force, and improve their bargaining position.

The cooperative basis of organisation is expressed in the following provisions. Each member is entitled to one and only one vote; Dividends on Capital stock are limited to a fixed percent per annum and the net proceeds of the business are apportioned among the patrons in proportion to the volume of business transacted with or through the society.

**Its Purpose and Scope:**

The immediate purpose of a farmers' marketing cooperative is to obtain the highest price for his products. All other considerations are secondary. Hence a cooperative unit must succeed as a business institution. It cannot prosper long on any other basis. Regardless of any individual or social ambitions of its members it must excel its competitors in efficient marketing or be doomed to failure.

Marketing cooperatives are organised because of the conviction that agricultural production is essentially a small unit business. If there were in agriculture, enterprises as large as the major industrial concerns, it is doubtful whether cooperatives would have developed for marketing their products. Large industrialists are in a position to integrate their production and marketing functions and may find it more economical
to distribute their own products than to have private middlemen do it for them. Small growers do not have sufficient output to market it economically. Hence they are dependent upon middlemen for assembling, grading, packing, storing, processing and other services of marketing.

The ostensible purpose of a marketing cooperative, however, is not to eliminate private middlemen as is commonly believed. The purpose of cooperative sale is to lower the cost of distribution, improve the quality of production, integrate marketing and production operations, eliminate wastes, prevent expensive duplication of sales efforts and distribute the products in a systematic manner.

Another objective of a marketing cooperative is to influence but not to arbitrarily control, prices which farm products fetch in the markets. Yet, many farmers believe that through cooperative organisation arbitrary price fixing power is gained. A marketing cooperative that receives a large volume of a crop and is served by excellent market information and efficient sales staff, commands a position that enables it to obtain the most favourable prices.

Alternative Methods of Improving Marketing:

The several alternatives are often suggested as the effective means of improving marketing viz. (1) Competition (2) Monopoly (3) Government regulation (4) Governmental distribution (4) Cooperation.

Competition as a force to lower the costs of marketing and to increase prices paid to farmers has not proved itself a dependable medium of improvement. The good neighbour policy of "live and let live" and combination among buyers of farm produce
as well as the concentration of economic power with big merchants
in the primary markets, have rendered competition in the purchase
of farm products as unreliable force. Monopoly in distribution
might result in the economies of operation cost, but with no
assurance that such gains would be passed on to farmers in form of
higher prices. (or to consumers in form of lower retail prices.)
The instance where only one dealer handles the produce of a
village proves this.

The governmental regulation of business as a safeguard for
both producer and consumer has also been found incapable of being
completely effective under a democratic form of government.
Regulation of trade is often bitterly opposed by private enterprises.
Legislation is usually a compromise measure with the technical
loopholes enabling its violation. Thus although governmental regula­
tion is desirable, the interest of the primary producers are
not fully protected and advanced by this method. There is a
should become a distributive agency for farm produce. Government
little support to the tendency that the government, being under
obligation to all groups in society the it may not function with
only 'Rural bais.'

Why Cooperatives?

Cooperation is the only sound medium of distribution in
which profits are returned to farmers in form of higher prices for
their produce. The cooperative method is better suited to farmers
because it is based on what the farmer has to sell i.e. farm
products and not what many farmers lack i.e. Capital.

As long as the success of a business is dependent more upon
patronage than upon Capital investments, the cooperative form
of business is better suited to the business of selling farm
products than the usual corporate form of sales organisation.
The illustration can prove this:

Farmer A has 20 bales of Cotton to sell and only Rs. 50 invested in a trading company. With this he can buy say 5 shares of Rs. 10 each. Farmer B has 5 bales of Cotton to sell but Rs. 200 with him to buy 20 shares of the same trading company. A has four times as much Cotton as B, but B has four times as much money as A. A has far greater interest in the affairs of the company than B. A's produce will contribute more to cost reduction than B's, but in a Private Trading Company B will get four times more dividend than A, whereas in a cooperative society A will get four times more share in savings of the concern than B.

Therefore an organisation in which A with his greater volume of produce can have as much voice in the management as B with his greater Capital investment suits A's purpose better than an organisation in which voting power and returns are made dependent on the size of investment.

Capital, is needed in a cooperative trading also but it is not so important as patronage which can, of itself, become the basis of Capital Loans. Many times, cooperatives have begun without capital investment and have borrowed on the strength of members' products and succeeded. However, no amount of capital without patronage can make a business succeed.

Cooperative Versus Capitalist Trading:

Since, competition as an internal corrective force and governmental authority as an outside controlling agency have both been found unsatisfactory and incapable of assuring both producers and consumers of a 'Square deal' some enthusiasts for cooperation advocate the overthrow of capitalist economy and the
substitution of a cooperative commonwealth. Some feel that a cooperation is a peaceful way of establishing a socialistic or communistic state, and at the same time of warding off the Fascism. Others contend that the cooperation is an effective means of preventing the encroachments of Socialism and Communism and that it is a brake upon the extremes of Capitalism. We are here more concerned with its trading aspect, and from that point of view, a consideration of Similarities and Differences of Cooperative versus Capitalist Trading may be worth while.

Similarities:—

The Capitalist Trading is a method of distribution in which Capital is invested for gain by the investor. Trader purchases goods with a view to selling them at higher prices. Other fundamentals which are supporters of this system are right of free enterprise, right of contract, guaranteed, privileges and personal liberty. Cooperatives possess many features found in a Capitalistic enterprise. They require Capital to carry on their functions, and pay interest for its use; they need labour and when forced by the competitors they attempt to get it as cheaply as the capitalists do; they use land, buildings, and equipments which they attempt to purchase at as reasonable cost as possible; they employ managers who retain their positions on the basis of the merits of their services; they appeal to producers on the basis of the strength of price; they attempt to eliminate competition and to obtain exclusive control of the market; they depend upon business efficiency for their success; and they favour to retain the same fundamentals which support the success in Capitalist Trading.

Differences:—

However, the differences, between a Cooperative Trading and
a Capitalist Trading are much more striking than the similarities. The most important difference lies in the aims. (1) A Capitalist Trader invests capital with the primary hope of earning profit for himself. A cooperative member uses capital as a means to provide marketing services at the minimum cost. In the former the basis of organisation is 'Money'; in the latter, it is the 'Individual' as the user of money. (2) The Capitalist trading policies are designed primarily to earn profits and secondarily to provide only those goods and services which may bring profits. The cooperative society is also interested in Savings or Gains, but these are secondary to the performance of efficient services. (3) The Capitalist concern attempts to eliminate competitors and to secure monopoly advantages for itself. The cooperative unit attempts for the same but in the interest of the members. On the contrary it strives to liberate its members from unbridled competition among themselves and from the competitive advantage of those with whom they must deal. (4) Persons who invest their funds in a capitalist trading concern, wish to secure dividends upon their investments without having to work for it or to supply it with products for sale or to purchase from it. Their relationship with the concern is highly impersonal. In a cooperative, on the other hand, there is a personal relationship between the member and his organisation. The member does not invest in the cooperative as a lucrative medium of investment but rather for the purpose of establishing an association which will market his products. Any savings over and above actual costs of operations are returnable to the members on the basis of patronage contributed and not on the basis of their share
in the investment. (5) Membership of a capitalist concern is open to all those who can contribute capital. Membership of a cooperative marketing unit is open to bonafide producers only and is not freely transferable or assignable. (6) Management of a cooperative trading unit is more democratic than that of a capitalistic concern. In the former each member carries one vote irrespective of the shares held by him, and voting by proxy is not permitted, while, in the latter, each share carries a vote and voting by proxy is allowed. In a cooperative organisation the size of shares to be held by each member is limited while in a capitalistic organisation any member can virtually monopolise the voting power by holding maximum number of shares. (7) The main policy of a capitalist firm is to widen the gap between the purchase price and the sale price so as to secure the largest margin, while a marketing cooperative renders services at cost and aims to secure as high a price as possible for member's produce without concerning itself in any way with price margins. (8) The capitalist trading tends to concentrate wealth among the capitalists. The cooperative trading tends to decentralise it among its members. Thus Private trading attempts to make its investments more valuable so that capital should yield more returns, whereas the cooperative aims to make agriculture prosperous so that the farmer may get more returns.

Cooperative Versus Socialist Trading:

Even though opinions differ as regards with methods of establishing a Socialist economy, there are certain principles common to all socialists, as regards the methods of distribution in a socialist state. Socialism requires that the process of
distribution (along with production) should be regulated not by competition, with self-interest as its moving principle, but by society as a whole for the maximum social welfare. The term 'collectivism' more accurately connotes its aims and methods. It implies that the individuals should possess, in their collective capacity as members of a society, all the instruments of production so that distribution is eventually done collectively. The key note of both cooperation and socialism is to render social service and not to pander to individual greed. The fundamental basis of both rests on economic theory of collective action as opposed to the individualism of capitalist trading. Since in socialism capital would be collectively owned by the state, the capitalist as a class would be eliminated. Even the property will be collectively owned and the producers will receive mere wages rather than interest, rent, or profits.

Now in the contrast with these doctrines of socialism, the cooperatives do not advocate collective ownership of production by the state. Carried to its logical conclusion, socialism would require state ownership and control of agriculture. Thus it aims to end capitalism and competitive economy. The cooperative system claims to abolish capitalism but recognises individual ownership of property with a new significance. Cooperation seeks to retain individual freedom and initiative. The cooperative system claims to abolish capitalism and to substitute for it a new social order and economic organisation which grow within the frame work of capitalism itself. The cooperative economy starts with the society as it is. It welcomes competition and thrives in a free economy, while generating new forces which gradually tend to push aside the capitalist system.
Thus it may be noted that though the aims and objectives of cooperation and socialism are similar their methods of achieving the same are varying. Socialism attempts to abolish capitalist system through the capture of political power by the labouring class and through the deprivation of economic privileges of the exploiting class.¹ One can say that socialism is a political remedy for economic ills while cooperatives are a non-political and economic remedy.² However, the trend of thought among the socialists is to favour cooperation as a first step towards socialism. In fact socialism can come only via the road of voluntary cooperation in the economic sphere.³

One important point strikes the basic difference between cooperation and socialism i.e. Retention of right to private property and the principle of voluntary association, upheld by cooperatives but not tolerated by Socialism. Socialism in its ultimate form ends the private property right and cannot tolerate the existence of voluntary cooperation in the economic sphere.⁴ Cooperation is, therefore, likely to be preferred by farmers to Socialism, since it provides them with the system of safeguarding their private property rights, while socialism would confiscate property for the state in which case, control would be in remote

1. Of course, various schools of socialist thought differ as to the methods of eliminating the capitalist class. Some favour a complete expropriation of the capitalist class without any compensation, whereas, others favour payment of compensation. Some advocate gradual abolition of capitalism through decrees of the state, whereas, some favour a sudden and violent overthrow of the capitalist system. But in general it emphasises the abolition of the capitalist system by political methods.


hands rather than in that of the individual farmer as it is to-day.

Under full-fledged socialism, the problem of distribution, such as we are considering here, is hardly likely to arise. Taking the case of commodity like Raw Cotton itself, its output will be entirely controlled by the state, under socialism. Similarly, the production under socialism will be for use rather than for profit. Since the entire textile industry will be managed by the state, with the motive of catering to the people's need for cloth it is highly improbable that the state will permit the growth of Cotton beyond the needs of the state-managed textile mills. The entire output will be appropriated to the textile units worked for the planned targets. The Cotton growers will be paid the wages for working on the state farms rather than leaving them to bother about the price for their produce.

Thus, the entire problem of distribution of raw materials will be handled by economic planners under socialist state. Virtually cooperation ceases to be a voluntary action on part of a citizen in the socialist state. On the other hand, the entire society works as one cooperative unit. Mean while, till the accomplishment of an ideal socialism, countries U.S.S.R. and the Chinese Republics are likely to favour for distribution, cooperative bodies rather than capitalist firms.¹

1. In China, the constitution of 1946, included in its chapter on the fundamental policy of the nation, a provision that "Cooperative enterprises shall be encouraged and protected by the Government." Even during the war a triennial plan for the development of cooperation had been set up, followed from 1947 onwards by a quinquennial plan. With a view to promoting cooperative organisation at all times, legislation assigns to the agricultural associations, the duty "to encourage and assist in the establishment of village cooperatives." (cf. - Article 4 of the amended Act on agricultural associations issued on 28th Dec. 1948,) and also to create cooperative societies for the exploitation of the land. I.L.O. The Development of the Cooperative Movement in Asia - 1949. P. 11.
In India where the aim of the Indian National Congress, has been declared to be to create a Socialist Pattern of Society, cooperation has been allotted a great role in National Economic Planning. All the Asian Countries have more or less given the emphasis on the development of cooperative movement in their respective countries, to increase production with special regard to immediate requirements of their increasing population and to promote a rise in the standard of living of agricultural producers.

Cooperative Versus Communist Trading:

It has been shown how the doctrines of cooperative marketing institutions differ from those of Socialism. In place of competition which is the regulating force to-day in production and distribution, the socialistic state would exercise supreme control, and the capitalists as a class would be eliminated. Wages, rather than interest, rent, or profits would be the chief monetary income under socialism; and wages will be paid according to the needs of the workers. A still greater difference, however, exists between this philosophy and the economic doctrines of communism. Under Communism, production goods as well as consumption goods are to be owned collectively by the State. The collective ownership and management of producer's goods and consumer's goods, apparently means the vesting in society, the powers to make decisions relating to the use thereof. The amounts and kinds of

1. And also to carry out their industrial programme in which a large share is assigned to handicrafts and cottage industries, to be reorganised on cooperative lines - I.L.O. - The Development of Cooperative Movement in Asia. P. 12.
goods awarded to each will be in accordance with individual 'needs'. In short, the production will be regimented, and the articles of consumption will be rationed out to each member according to his needs. Under socialism at least, the economic motivation of the individual is not to be materially modified. Personal income would largely determine the kinds and quantities of consumer's goods one would have to use and one's income, in turn, would depend upon differentials in wages and salaries, designed to evoke the total human effort desired by society. Communism relies much less upon individual economic motivation and much more upon some non-economic social motivation, to induce persons already supplied with goods in accordance with their needs, to put their efforts into productive process in accordance with their abilities. Thus the socialist formula is "Effort from each according to his desire for compensation; goods to each according to his productivity." In contrast to this, the communist formula is "Effort from each according to his ability; goods to each according to his needs."


Dr. Blodgett, professor of Economics at the University of Illinois, says in his book 'Comparative Economic Systems', that..." the question of exchange under ideal communism can be disposed of briefly. In this system, we are told, commodities and services would be produced and (in a sense) exchanged, but buying and selling activities would be completely eliminated... Prices and money, along with buying and selling, having been eliminated, there would be no question of controlled prices or any other prices..." See 'Exchange Activities under Communism' in his book, Page. 302.

2. Loucks and Hoot - op. cit. - Page. 267.
This comes much closer to the basic formula of cooperation: "Each for All and All for Each." But the most important difference between the communist ideology and cooperative ideology is one of regimentation of human activities. Cooperation seeks to preserve human values. It seeks to put the so-called market values in a wider and more human setting. Communism leaves nothing for an individual initiative. It plans to end the price mechanism by laying down a direct link between production and consumption on a collective basis. Communism works under the centralised machinery and concentration of authority which replaces the concentration of power and wealth under capitalism. Cooperation seeks to eliminate both, concentration of wealth as well as authority. On the contrary it favours decentralisation of authority, diffusion of power, and more equitable distribution of wealth. Cooperation harmonises the interests of all, and brings individual and groups into closer harmony on the basis of self-help and mutual understanding as contrasted with regimentation imposed on man by force under communism.

Farmers are likely to favour individual freedom rather than the radical change in their mode of living. Through economic and social improvements they will like to lead a richer and more natural life. They will love to run the institution, governing themselves rather than becoming a mere clog in a gigantic state machinery.  

2. In Soviet Economy, Union Republic Ministries control regional agriculture and textile, while Union Ministry of Industrial Crops is responsible for expanding the production of raw materials of agricultural origin ... Loucks and Hoot. P. 460-461.

The cooperative are permitted in the U.S.S.R., only for the distribution of Consumers' goods. The pre-war share in the retail trade was 25% and they are considered as a important distributive agency for handling the increased output of Consumer's Goods, expected in the post war period...Rabinowitch G. "Coop. in the U.S.S.R." The American Review on the Soviet Union. May, 1946 P.40-5 See also, the Information Bulletin of the Embassy of the U.S.S.R.194. The cooperatives have to deal only in food stuffs and have to sell at state-fixed prices, and are otherwise closely controlled. See Blodgett. op. cit. P. 303.
Cooperatives - a Via Media.

From the brief analysis, given above, it is apparent that cooperativism is not capitalism, socialism, or communism. It is as if a synthesis of several plans of economic organisation. It thrives in a laissez-faire capitalism, while seeks to serve the ideal of socialism. But it differs from both of these sufficiently to make it a distinct and independent system. It proclaims to retain individual freedom and private property as in capitalism where as, it seeks to abolish the profit-motive and aspires to give to the members a larger share of the consumers' price as in Socialism. By introducing certain important changes in the joint stock organisation, cooperatives bring themselves in conformity with their economic objectives. Thus cooperatives do away with the extremes of Capitalism, Socialism, and Communism and present a Via Media which is neither orthodox nor radical. It is liberal movement, practical in application and idealistic in purpose. It is not 'just another business' or 'a half-way house' as is erroneously believed. It has an ideological foundation, which in its ultimate effect, evolves a real democratic social order. If properly organised and honestly worked, it is likely to prove as a real planned economy.

Marketing cooperatives and Private Middlemen:

Private middlemen have always opposed the advance of the Cooperative movement and have frequently taken the active steps to retard its progress. Forming of associations and pools, condemning the management of cooperatives and other similar means

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have been used to defeat the farmer's efforts. For instance, in case of cooperative cotton sale societies of South Gujarat, when the cotton growers were getting organised into cooperatives the owners of ginning factories, who are often dealers in cotton too, refused to gin the cotton crop of societies. Not infrequently the prominent dealers in cotton carried on a propaganda against cooperatives by distributing circulars among the public, pointing out how traders paid more price to cotton growers than what the latter used to receive from their societies. The competition from independent middlemen was found to be one of the causes of failure or weakness of the cooperative Marketing abroad.  

It is but natural that independent middlemen should feel particularly antagonistic towards cooperative societies, because, the success of cooperative methods in marketing may well mean the complete elimination of the independent dealers. Their very existence is threatened. It is, in itself, a prima-facie evidence that private traders recognise the cooperative as a powerful competitor.

The difference between a marketing cooperative and a dealer can be summed up in the concept that a cooperative society returns to farmers all it can, while a private dealer pays only as much as competition forces him to pay. As a result many private dealers have been forced to narrow their margins of profit or abandon their business. However, the business efficiency is the main consideration and sometimes cooperatives have also been forced out of business by more efficient private dealers. But, cooperatives are not competitors of all private businesses nor should they be operated in that spirit. The ambition of cooperatives should be

more to emancipate the grower-member from the exploitation by the middlemen, that to fight the battle with a view to eliminating operators in market. Marketing risks are manifold. All cannot be successfully borne by the primary producers. In words of Mr. Charles Teague, once, President of the California fruit growers Exchange and of the California Walnut growers' Association, Cooperative marketing units need private marketing agencies to get the widest distribution for their products. Some one must perform the warehousing function and the jobbing function. 1

The ultimate object of cooperatives is to give a fair return to the grower. Unless the sale price is maintained at a high level, margin that a farmer expects will not be high. The sale price can not be sealed at a favourable height, unless all the trade risks are successfully borne. As we shall prove in this work, trader is essential in maintaining a firm tone of market. Mr. Teague was, therefore, justified when he opined that traders should be considered as allies rather than as competitors,—the most important aspect of relationship between a trader and a cooperative marketing society.

Leaving aside the problem of elimination of a private trader, who has more than one reason to stay on, one observes that the growth of marketing cooperatives as a formidable competitor, has cast its repurcussions on the morals of trade. It has conclusively proved that trader can no longer earn by minimising the price,

1. He said "we do not believe that the cooperative marketing organisation could itself perform either one as well or as cheaply as it is now being done by jobbers — Teague C. C. Management Relationship. P. 115. "American Cooperation" 1936. Washington. S.C.
to be paid to farmer, or by exploiting him for his ignorance about the business of marketing. Trader can claim a legitimate gain by performing the service which the farmer, as an agriculturist is not well situated to perform. Besides, there are certain economic consequences of cooperative efforts which open a scope for traders to function. The reason is that higher net returns received by farmers may lead to larger production; and larger production in turn to lower prices, until the market demand is again broadened to absorb such increased output at higher prices. In most manufacturing industries the production is adjusted to demand at a certain administered price, but in agriculture production respond to competitive prices and is not regulated.¹

The prices for agricultural produce, particularly for commercial crops, are determined mostly by the demand from the manufacturers who utilise these crops for manufacturing purposes and who fix price for them by looking to the factors operating in the market for finished goods made of such raw produce. The trader's agency is very important to coordinate the various services needed to bear the risk in such a complex and voluminous distributive system. The grower is more a cultivator than a businessman. In their respective spheres, these two elements of personnel in marketing must meet at some convenient point.

The study of Cotton Cooperatives of South Gujarat is likely to enlighten us on this problem.

¹. Unless the price pegging schemes are in operation in the U.S.A. and Egypt, are adopted.