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Christopher S. Axworthy

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CONSUMER CO-OPERATIVES AND
THE ROCHDALE PRINCIPLES TODAY

By CHRISTOPHER S. AXWORTHY

A. INTRODUCTION

In 1974, Canada's 2,274 co-operatives conducted in excess of $4,930,500,000 worth of business. They had 1,963,000 members and assets of $2,289,400,000.1 There is little doubt, therefore, that they are important constituents of the Canadian economic scene.

The first consumer co-operative store in Canada was opened by miners in Stellarton, Nova Scotia. The oldest consumer co-operative still in operation is also in Nova Scotia—the British Canadian Co-operative Society, at Sydney Mines.2 The most successful, however, is the Calgary Co-operative Association, with sales in 1974 of $61.5 million and more than 100,000 members.3

In spite of the obvious monetary importance of co-operatives generally, no definition appears to have universal, or even widespread, acceptance. Paul Lambert, Professor of Economics at Liège, Belgium, and a noted co-operative theorist, in Studies In The Social Philosophy of Co-operation, defines a co-operative as “an enterprise formed and directed by an association of users, applying within itself the rules of democracy, and directly intended to serve both its own members and the community as a whole.”4 This statement illustrates a number of important aspects. It is clear that co-operatives have economic functions—they are enterprises designed to confer economic and other benefits upon their members. They are formed by the members to be conducted upon a one-member, one-vote basis. To an extent, co-operatives are altruistic and should be concerned about the community in which they operate.

Co-operatives are distinguishable from profit-making businesses in a number of ways. For instance, they are not established for a speculative purpose and so are not profit-making as such. The only meaningful way in which to define a co-operative, however, is in the context of the Rochdale Principles. These are the guiding principles of the co-operative movement laid

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1 J. M. Sullivan, Co-operation in Canada 1974 (Ottawa: Communications Unit, Economics Branch, Agriculture Canada, 1974). The manner of presenting the figures does not permit a figure for consumer co-operatives to be ascertained.
2 Canada Department of Agriculture, Co-operatives in Canada 1968 (Ottawa: Economics Branch and Information Division, 1968).
down in 1844 by the Rochdale Society of Equitable Pioneers. The Society consisted originally of twenty-eight people who were all tradesmen, mostly working as weavers in the cotton mills which were the mainstay of the Rochdale economy at the time. When the weavers were refused a wage increase which they requested in 1843, they decided to attack the problems they faced from another angle and to make the most effective use of their resources by forming a consumer co-operative to supply their needs. They subscribed very small sums of money to a fund on a weekly basis, and when the fund totalled £28, the Equitable Pioneers registered their Society and opened their shop in Toad Lane, Rochdale. The principles upon which they conducted their operation have to a very large degree governed co-operative activity ever since — not only in the United Kingdom, but all over the world, including Canada.

These principles were that membership in the Society would be open to all — it would be controlled democratically. A limited amount of interest was to be paid on capital, and, in the event of a surplus in any trading period, this was to be distributed to the members in relation to their purchases. Goods were to be sold on a cash basis solely, because of the difficulties caused by credit, and were to be sold at the current retail price.

These last two mentioned principles were included because many earlier ventures of a type similar to that of the Rochdale Pioneers had ceased business as the result of liquidity problems caused by granting too much credit and because they attempted to pass on savings to their members as early as possible in the form of lower prices. The goods sold were to be of good quality reflecting the need to counter certain contemporary business practices of doubtful merit. There was to be a reserve fund set aside for educating members and non-members in the ways of the Society, and political and religious neutrality was to be observed.

The passage of time has seen attempts to reformulate these principles, most notably by the International Co-operative Alliance in 1937 and 1966.

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The Equitable Pioneers did not form the first co-operative, but its organization has certainly received great prominence. Lord Taylor has indicated that, in fact, the village of Fenwick, Scotland, was the home of the first co-operative in 1769. See Lord Taylor, *Scottish Co-operatives Wholesale Society Centenary* (1968), 11 No. 3 Canadian Co-operative Digest 28.

The Report on Co-operatives by Select Committee on Company Law (Toronto: Queen’s Printer, 1971) at 1 (hereinafter referred to as Ontario Co-operatives Report) specified the following as Rochdale Principles:

1. Open membership
2. Democratic control (one-member, one-vote)
3. A fixed low rate of interest on capital
4. Distribution of surplus, after payment of interest and expenses, to members in proportion to their purchases
5. Cash trading
6. Sale of goods at retail prices
7. Provision for education
8. Selling only pure and unadulterated goods
9. Political and religious neutrality.
In 1937, for instance, the Alliance\(^7\) (which is the international organization of co-operative associations) felt that only democratic control, open membership, limited interest on capital, and the distribution of the surplus by means of a patronage dividend, were essential characteristics of a co-operative.\(^8\)

By September, 1966, the International Cooperative Alliance formulated the following set of Essential Principles of Co-operative Organizations:

1. **Democratic Control**
   Co-operative societies are democratic organizations. Their affairs should be administered by persons elected or appointed in a manner agreed by the members and accountable to them. Members of primary societies should enjoy equal rights of voting (one member, one vote) and participation in decisions affecting their societies. In other than primary societies, the administration should be conducted on a democratic basis in a suitable form.

2. **Open and Voluntary Membership**
   Membership of a co-operative society should be voluntary and available without artificial restriction or any social, political, or religious discrimination to all persons who can make use of its services and who are willing to accept the responsibilities of membership.

3. **Limited Interest On Shares**
   Share capital should receive only a strictly limited rate of interest, if any.

4. **Return of Surplus To Members**
   Surplus or savings, if any, arising out of the operations of a society belong to the members of that society and should be distributed in such manner as would avoid one member gaining at the expense of others. This may be done by decision of the members as follows:
   
   (a) by provision for development of the business of the co-operative;
   (b) by provision of common services; or
   (c) by distribution among the members in proportion to their transactions with the society.

5. **Co-operative Education**
   All co-operative societies should make provision for the education of their members, officers, and employees, and of the general public, in the principles and the techniques of co-operation, both economic and democratic.

6. **Co-operation Among Co-operatives**
   All co-operative organizations, in order to best serve the interests of their

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\(^7\) The aims of the International Co-operative Alliance are contained in article 3 of its rules, thus:

(1) To be the universal representative of co-operative organisations of all types which in practice observe the co-operative principles.
(2) To propagate co-operative principles and methods throughout the world.
(3) To promote co-operation in all countries.
(4) To safeguard the interests of the co-operative movement in all its forms.
(5) To maintain good relations between its affiliated organisations.
(6) To promote friendly and economic relations between the co-operative organisations of all types, nationally and internationally.
(7) To work for the establishment of lasting peace and security through co-operative efforts.

\(^8\) The I.C.A. felt, in 1937, that the principles of cash trading, promotion of education, and political and religious neutrality were of lesser importance.
members and their communities, should actively co-operate in every practical way with other co-operatives at local, national, and international levels.⁹

It is clear that the 1966 reformulation of the principles is less precise. This is probably due to a desire by the Alliance to bring under its wing all types of co-operatives encouraged by its strongly-felt need to be completely neutral.¹⁰ Another reason for the vagueness is its desire to give co-operatives as much scope as possible in the administration of their affairs and to encourage the growth of the co-operative sector in both size and importance.

These principles are primarily designed as a litmus test to ascertain whether or not any particular organization should be permitted admission to the International Co-operative Alliance as a member. The vagueness does not aid those responsible for administering co-operative legislation in performing their tasks; many provincial legislatures in Canada have, therefore, specified that associations are registerable under co-operative legislation if they operate on a "co-operative basis."¹¹ This term has not been defined in a uniform manner.

Some provincial statutes¹² neglect to define the term at all, and one can only assume that officers responsible for the operation of such statutes have the task of deciding what is, and what is not, a co-operative on general principles. Of those provincial statutes containing a definition of "co-operative basis" there is, however, a great deal of uniformity. The Co-operative Associations Act¹³ of Saskatchewan provides in s. 2(d):

2(d) "Co-operative basis" means the carrying out of an enterprise organized, operated, and administered in accordance with the following principles and methods:

(i) each member or delegate, one vote;
(ii) no voting by proxy;
(iii) race, creed, or political beliefs no bar to membership and subject to this Act membership is open to all who can use the services of the association;
(iv) services primarily for members;
(v) interest on share capital not to exceed five per cent (5%) per annum;


¹⁰ Ontario Co-operatives Report, supra, note 6 at 4. However, a recent pamphlet produced jointly by the three Maritime provincial governments specifically states the principles of co-operative activity in terms of the 1966 reformulation by the Alliance.

¹¹ E.g., Co-operative Associations Act, R.S.B.C. 1965, c. 77, s. 2, (as am.); Co-operative Societies Act, R.S.N. 1970, c. 65, s. 5; Co-operative Associations Act, R.S.S. 1965, c. 246, s. 2(d). See also Canada Co-operative Associations Act, R.S.C. 1970, c. C-6.

¹² E.g., Co-operative Associations Act, R.S.A. 1970, c. 67; Co-operative Associations Act, R.S.P.E.I. 1951, c. 32; Co-operative Associations Act, R.S.N.B. 1973, c. C-22; Co-operative Associations Act, R.S.N.S. 1967, c. 57. But see Co-operative Syndicates Act, R.S.Q. 1964, c. 294, s. 6.

¹³ R.S.S. 1965, c. 246.
(vi) services to members and patrons as nearly as possible at cost in
that, except as otherwise provided in this Act, savings and sur-
pluses arising from yearly operations are paid to members or
members and patrons in proportion to patronage, use, or contri-
bution, after provision for operating expenses and valuation
reserves, subject to the bylaws.

Section 2 of the *Co-operative Associations Act*\(^{14}\) of British Columbia is es-
tentially the same, except that there are provisos with regard to both the
one-member, one-vote principle and to the preclusion of proxy voting. Section
26(5) of the British Columbia Act provides that with the consent of the
Supervisor of Co-operatives, the bylaws of a co-operative can provide for
co-operative associations in which members of the co-operative can be given
more than one vote. Section 24 permits proxy voting in certain circum-
stances.\(^{15}\) Interest on capital is limited to eight per cent by s. 12(1)(b).

The Canada *Co-operative Associations Act*\(^{16}\) also has similar provisions
except that there is no statement with regard to open membership or to
services being primarily for the members. Also, proxy voting and multiple
voting are provided for in certain circumstances, and the dividend payable
on share capital is merely stated to be limited to the percentage provided for
in the articles of incorporation or bylaws.\(^{17}\) The Newfoundland *Co-operative
Societies Act*\(^{18}\) defines co-operative principles as including open membership,
one-member, one-vote, with no proxy voting, low interest on capital, and
surpluses being distributed to members in proportion to their patronage after
provision for reserves. No mention is made of services being primarily for
members. This is similar to the Quebec Act,\(^{19}\) and the *Co-operative Corpora-
tions Act*\(^{20}\) of Ontario. It can be seen, then, that there is a good deal of uni-
formity of definition.

The important question now is what do these basic principles mean. It
is necessary, in order to deal with the problems of the development of co-
operative activity, to ask how necessary and relevant these principles are,
whether they are being followed, and whether strict adherence to them is
beneficial or advisable. The corollary of this approach is to establish those
principles which can be omitted without destroying the co-operative identity.
With this in mind, it is possible to consider the implementation of statutory
changes. Perhaps a review of the thoughts of prominent co-operators is a
useful starting point for considering the implications of co-operative de-
velopment.

Jerry Voorhis, who is an ex-U.S. Congressman and former Executive

\(^{14}\) R.S.B.C. 1960, c. 77, as am. by S.B.C. 1963, c. 10, s. 2.

\(^{15}\) Proxy voting is allowed in the case of corporate members and of members who
reside more than 50 miles from the place of business of the co-operative.

\(^{16}\) R.S.C. 1970, c. C-6, s. 3(1)(d).

\(^{17}\) Id., s. 3(1)(d)(iii).

\(^{18}\) R.S.N. 1970, c. 65, s. 5(2).

\(^{19}\) Co-operative Associations Act, R.S.Q. 1964, c. 292, s. 5.

\(^{20}\) S.O. 1973, c. 101, s. 6.
Director of the Co-operative League of the U.S.A., has indicated the importance of the co-operative movement's expanding in a qualified fashion.

Growth is the prime necessity of the next 50 years in co-operative development. But growth is not enough — not if it is simply growth in SIZE. There must also be growth in vision, growth in participation by members, and growth in eagerness to emphasize not the sameness of co-operative business with ordinary commercial business, but its unique differences and its unique values. 21

There exists in the North American co-operative movement a considerable amount of friction between those who are concerned solely with economic and business advancement and those who advocate a fairly strict adherence to co-operative principles. 22 Alex Laidlaw sees this as a continuing phenomenon.

But one tension, I expect, will remain — that between the reforming element and the more conservative. For the co-operative movement leads a sort of double life: it has a mission to reform, but it also has a big stake in business institutions and substantial vested interests to protect. There will always be some tension between the two elements and in Canada the aim seems to be to maintain them in an uneasy balance.

But in truth it is only in times of great economic stress, as during the severe depression of the 30's, that the reformers play a dominant role, for the co-operative movement is pretty firmly based on business mentality rather than philosophic principles. In the final analysis important policy decisions are generally dictated by the balance sheet — and moreover the type of balance sheet that is closer to the commandments of orthodox capitalism than any notions of social reform or even services at cost.

This explains why perhaps the majority of co-op leaders and certainly the majority of credit union officers feel more comfortable in Canadian business and financial circles and how the management group especially can mix easily with their fellows at seminars of business executives and Rotary Club luncheons, and indeed at any gathering where left-of-centre politicians, trade unionists, reformers, and social planners are analyzed and duly cut to pieces along with the filet mignon. 23

As a result, co-operative activity is too often seen as an end in itself rather than as a means to an end. 24 The business approach is generally considered to be in the ascendancy. The original elected leaders are retiring and taking their ideals with them, with the result that “effective leadership is moving out of the hands of those who represent the fundamental socialist aspiration, which was co-operatism, into the hands of those who represent the practical


22 That this is recognized in co-operative circles can be seen from the following statement: “... [T]here has always been a certain amount of tension between the 'business types' of the movement and the education workers, the farmers, supposedly, having their feet always on solid ground and the latter allowing their heads to get into the clouds of theory and ideology.” Laidlaw, A Decade with the C.U.C. 1958-1968 (1969), 12 No. 1 Canadian Co-operative Digest 14 at 19. See also Taylor, Co-operatives in a Changing World (1969), 12 No. 1 Canadian Co-operative Digest 21 at 26; L. M. Switzer, What Future for Co-operatives (1966), 9 No. 2 Canadian Co-operative Digest 2.

23 Laidlaw, id.

24 Hamilton, A Look at Some Requirements for Co-operative Services for the 70's (1969), 12 No. 1 Canadian Co-operative Digest 33 at 35.
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objectives of capitalism." The 'means-men' are taking over from the 'ends-
men'. Just as in private enterprise, management is extremely powerful and
persuasive when policy questions are dealt with in co-operatives. Due to the
nature of their position, the concern of managers is likely to be much more
business-oriented than ideology-oriented.

Even in the best-intentioned co-operatives there is difficulty in adhering
to the ideology. In large successful co-operatives it is even more difficult,
and the democratic nature of the organization especially becomes very hard
to retain. One of the main reasons for this movement away from principle
is that the educational function of co-operation is not effectively performed.
Members are not involved sufficiently in the co-operative. Insufficient re-
sources are utilized to educate, inform, and involve the member. Without this
knowledge and involvement, the co-operative becomes little more than a
discount store. It is essential that more time and effort be utilized to develop
the personal and social aspects of co-operation, instead of concentrating on
economic considerations. It is not only the members, however, who are in
need of educating in this respect; both management and the elected leadership
could benefit from a re-assessment of their approach. J. P. Phalen, a senior
co-operator, has written:

Unless we are merely giving lip service to an ideal, it is time co-operative leaders
turned a substantial portion of their efforts to exploring and understanding the
deepest meaning of the co-operative ideal.

This attitude on the part of management and the leadership is to some extent
understandable. Economic results are readily demonstrable, whereas the social
and personal implications of co-operative activity are much more difficult to
illustrate. Those concerned with re-election or promotion might, therefore,
be excused for neglecting the social and personal side of the operation and
stressing the business side, where their activities and achievements can be
proved. What has tended to happen is that the business side has received all
the real attention while the attention given to the social side has been "more
in the realm of good intentions than in concrete action." It is essential for
leadership and management to recognize that co-operative activity is the "sort
of business in which you can make all the money in the world and still be a

25 W. Harding, Youth and Power in Co-operatives (1969), 12 No. 2 Canadian Co-
operative Digest 2 at 3. See also E. K. Turner, Co-operatives and their Role in Society
(1969), 12 No. 3 Canadian Co-operative Digest 18 at 24; Phalen, Member Involvement
and Leadership (1968), 11 No. 2 Canadian Co-operative Digest 27 at 29.

26 See e.g., Reich, "The Student Union Food Co-op," in A. E. Dreyfuss, ed., City

27 See e.g., B. J. Rose, Consumer Co-operatives in America (Loughborough: Co-
4 Canadian Co-operative Digest 2.

28 Phalen, supra, note 25 at 30.

29 Id.

30 Id.
failure. It is also a business in which you can break even and still be a crashing success.”

Within an organization containing opposing forces, such as the co-operative movement in Canada, it is essential for all concerned to conduct research with the aim of clearly defining objectives and goals and then organizing activities so as to attain them. As the movement is largely made up of producer co-operative interests, these will have to be persuaded of the importance of a healthy consumer co-operative movement. At present, this would not appear to have occurred, despite the expressed desire of managers of producer-dominated co-operatives to aid society as a whole.

Producer co-operation, however, scarcely benefits consumers at all. Although producers obtain more for their labours through the elimination of middlemen, little or none of the savings appears to be passed on. By their nature, producer co-operatives push the producers’ interests, not the interests of consumers. The interests of these two sectors are, to all intents and purposes, irreconcilable. This irreconcilability has to be resolved if a strong consumer co-operative movement is to be obtained in Canada. The only solution appears to be for consumer co-operatives to integrate back into food processing and other aspects of production so as to gain the benefits presently experienced by producers for consumer members in the form of lower prices.

Apparently, while the co-operative movement is no longer dominated by producer co-operatives, many of the old ideas remain. For instance, the reason consumer co-operatives have not integrated back into processing and production is that those activities are considered by the co-operative movement to be within the farmers’ or producers’ area and therefore reserved for them. The British-Canadian Co-operative in Sydney Mines, Nova Scotia, appears to be the only association in the Maritimes which has any processing functions. These exist because the typical British pattern, which was brought from England by immigrant workers, was followed when co-operative activity began here.

While the avenues available to the co-operative will not be discussed

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31 Laidlaw, *The Wide and Narrow View* (1968), 11 No. 2 Canadian Co-operative Digest 36.


33 Turner, *id.* at 25.


35 See Dept. of Co-operative Development, *Manitoba Co-operatives in the Food Industry* (Manitoba: Dept. of Co-operative Development) at 3. See also Beatrice Webb, *The Discovery of the Consumer* (New York: National Co-operatives Inc., 1947); Surridge and Digby, *A Manual of Co-operative Law and Practice* (3rd ed. Oxford: Plunkett Foundation for Co-operative Studies, 1972) at 68ff. R. H. Boyes has said that “at some time in the future the consumer co-op movement will find its most effective course lies in the creation of a single consumer-owned system extending from Atlantic to Pacific — a system that serves enough members that it can gain the control it now lacks, build the factories it needs, and serve both urban and rural people wherever they may be.” *An Attitude for Progress* (1968), 11 No. 2 Canadian Co-operative Digest 16 at 20.
here, it is well to bear in mind that what has proven to be successful in one
country at one point of time may not be beneficial for Canada in the 1970's.
There is considerable concern over the future within the co-operative move-
ment.30 It remains to be seen whether this concern will give rise to changes.

Crucial to the advancement of consumer co-operation in Canada is a
recognition of the importance of co-operative principles and a changing
attitude towards the purpose of co-operation — a recognition that it is no
longer acceptable to make broad statements about benefiting society at large
without backing them with action. This can be achieved only by careful
planning and administration.

The basic co-operative principles are crucial because they are all that
guarantee co-operatives a separate existence apart from private enterprise.
Without these principles, there is no necessity for, or purpose served by,
distinguishing co-operatives from other profit-making businesses in the legal
sense. Many provincial statutes recognize that the adherence to co-operative
principles can be so tentative in some situations that they provide for co-
operatives to be changed into business corporations by the appropriate au-
thority.37 If special treatment is to be available to co-operatives by statute,
it is essential to distinguish co-operatives from other business associations,
to assess their different needs, and to consider them in drafting legislative
proposals. The only way to define a co-operative is by reference to these
underlying principles. These are, therefore, discussed in some detail. New
uses for, and adaptations of, the principles must also be taken into account.
It is also necessary to discuss the overall co-operative organization in order to
decide what and how much governmental involvement is required. This, how-
ever, will not be attempted in this article.

There are some very successful consumer co-operatives, especially in the
western part of Canada. The Calgary co-operative is extremely successful,
with sales of approximately $60 million annually and a surplus in excess of
$1 million. It controls almost 20% of the Calgary food market from only
six stores. The movement would appear to have within it the resources to give
rise to the development of consumer co-operatives. There is a growing recog-
nition of this need,38 especially among young and aspiring co-operators, and
the expansion of Westland Co-operatives Limited in the West is testimony
of the fact that such aspirations are being put into practice. It is also evident
that many new consumer co-operatives have been set up with little or no
assistance from the organized co-operative movement,39 although much more
assistance is now available.40 It would be preferable, however, if the move-

30 E.g., Laidlaw, A Call for Integration (1965), 8 No. 4 Canadian Co-operative
Digest 38.
37 See e.g., Co-operative Corporations Act, S.O. 1973, c. 101, s. 143.
38 See e.g., L. B. Siemens, Meeting Relevant Human Needs (1968), 11 No. 2 Cana-
dian Co-operative Digest 7; Boyes, supra, note 35; Laidlaw, supra, note 22; Morris Jevne,
The Art of Co-operation (1969), 12 No. 2 Canadian Co-operative Digest 10.
39 Hamilton, supra, note 24 at 38.
40 Id.
ment itself studied what needs to be done and then encouraged co-operatives to be established instead of leaving it to individuals which results in a rather haphazard pattern. What is needed is a plan of approach. William Hamilton has said:

... [If] there is support for a joint approach to tackling new developments, there is then the need to develop the kind of central agency, either at the regional or national level, which can undertake the study of new development potential and reliably commit support assistance from the established movement. Such an approach would require much more precise direction and commitment to common goals than now exists.41

With a much more aggressive approach on the consumer front, co-operatives can regain their crusading role and become a vibrant force in society. Developments have occurred in recent years, but a more progressive attitude is necessary. Assessments, such as the following one made by Dr. John Deutsch, when he was Chairman of the Economic Council of Canada, indicate the rather ineffectual picture painted by co-operatives. While talking to co-operators, he said:

Co-operatives are a means by which we maintain adequate levels in our society ... a means which is in the interests of consumers in general. We look on co-operatives to provide an adequate level of competition in a society constantly tending toward bigness. You are helping the economy. Co-operatives are one of the forces that a free society developed to take care of its problems and to protect its freedoms.42

The original aims of co-operators as evidenced by the Rochdale Principles, were to achieve so much more than this.

One other aspect of the desirability of co-operation is that co-operatives are not only completely owned by Canadians but are owned by people living in the area in which the co-operative operates.43

B. THE ROCHEDALE PRINCIPLES

1. Democratic Control

With the desire to play a significant role in controlling their own economic environment and prospects, and in order to escape the worst excesses of the capitalist system, as illustrated in nineteenth century Britain, the Pioneers, with good reason, chose the concept of one-member, one-vote to control their association. Co-operatives, both before and after them, have used this same principle of emphasizing the importance of people. Rather than giving a large shareholder more votes, and therefore more influence in operating the organization, the co-operative provides for shareholders as members to have one vote — irrespective of their capital holdings. People, rather than capital, control. A co-operative is therefore run for the benefit of all those who use its services.

41 Id. at 39. This is discussed infra. See also Phalen, Co-operation in Canada 1971 (1972), 15 No. 2 Canadian Co-operative Digest 2 at 18.
42 Quoted by Jevne, supra, note 38 at 15.
43 Id. at 16. See also H. C. Pentland, To Preserve Canadian Ownership (1965), 8 No. 1 Canadian Co-operative Digest 32.
It appears unlikely that democratic control of consumer co-operatives will ever be displaced. It is an essential point of divergence between co-operatives and other business associations which operate on a profit basis. In producer co-operatives, however, there are occasionally heard suggestions that big producers should have more say in the organization of co-operatives than small producers — in other words, that trading volume should regulate the number of votes possessed. The regional co-operative wholesalers are operated on this basis.

Voorhis, in a discussion of co-operative principles, dealt with the democratic control aspect in the following manner:

One of the great sources of strength inherent in the co-operative form of the economic organization has always been its practical emphasis on the primacy of people. In co-operatives each member has been regarded as of equal worth with every other member.

Here, in co-operatives, has been one place in our great free-enterprise economy where real democracy has existed — and has been proved practical as a method of control. It would be a mistake to destroy this value.

It would also, I am convinced, be dangerous to the future success of co-operatives. It is altogether obvious that realistic economic practices must be followed by co-operatives. It costs less per ton to deliver large quantities of fertilizer than to deliver small quantities. A price-differential on the larger quantity orders may well be justified.

And it is a basic principle of all co-operatives that the farmer or other member who does the most business with the co-operative receives automatically the largest patronage refund. This principle is followed, in part at least, to recognize the greater interest of the larger user and patron.

But it does not follow from these economic policies that control over the government of the co-operative should be given over to the large operators along with their recognized and wholly justified economic advantages.  

The importance of democratic control is clear and will remain so, particularly as far as consumer co-operatives are concerned. Every provincial statute accepts the principle as paramount.

In large co-operatives the problem of democratic control is acute, and with the increase in size comes a commensurate increase in the difficulty of maintaining this essential characteristic. Most active participants in co-operatives would agree that in large co-operatives membership meetings do not, or cannot, represent the members. In an association of 5,000 or 10,000 members, the few hundred who actually go to the meetings can represent no one but themselves. It is quite easy to envisage an organized status quo or other minority passing resolutions which the majority of members, were they present, would oppose. Once a resolution is adopted, however, there is little the opposing members can do, for to resign or organize protests will only disrupt the co-operative from which they wish to benefit and which they wish to maintain.

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45 R.S.A. 1970, c. 67, s. 28(4)(a); R.S.B.C. 1960, c. 77, s. 2 (as am.); R.S.M. 1970, c. C160, s. 411(a); R.S.N.B. 1973, c. C-22, s. 45; R.S.N. 1970, c. 65, s. 5(2)(b); R.S.N.S. 1967, c. 57, s. 32(1); S.O. 1973, c. 101, s. 76(1); R.S.P.E.I. 1951, c. 32, s. 16; R.S.Q. 1964, c. 292, s. 5(b); R.S.C. 1970, c. C-6, s. 3(1)(d).
When the co-operative becomes a multi-unit association the meetings become even less representative and are often dominated by members of the unit at which the meeting is held. The need is therefore felt to develop a workable representative system of control of the co-operative so as to ensure that the policies adopted conform to the desires of the majority of members.\[46\]

A number of provinces have provided for delegate-voting in order to improve the representative character of the meetings of the co-operatives in their respective jurisdictions. Section 24 of the Co-operative Corporations Act\[47\] of Ontario is typical. It provides that directors may pass by-laws providing for the division of members into groups, and for directors and delegates of the co-operative to be elected by the groups.\[48\]

In addition to Ontario, several provinces have provided for delegate-


\[48\] Section 24 provides as follows:

24. (1) The directors may pass by-laws providing for:

(a) the division of its members into groups, either territorially or on the basis of common interest;

(b) the election of some or all of its directors,

(i) by such groups on the basis of the number of members in each group or the volume of business done by each group with the co-operative, or both, or

(ii) for the groups in a defined geographical area, by the delegates of such groups meeting together;

(c) the election of delegates and alternate delegates to represent each group on the basis of the number of members in each group or the volume of business done by each group with the co-operative or both;

(d) where all of the members are co-operatives, the election of delegates and alternate delegates to represent such co-operatives on the basis of the number of members in each co-operative or the volume of business done with each co-operative, or both;

(e) the number and method of electing delegates;

(f) the holding of meetings of delegates;

(g) the authority of delegates at meetings or providing that a meeting of delegates shall for all purposes be deemed to be and to have all the powers of a meeting of the members;

(h) the holding of meetings or delegates territorially, or on the basis of the common interest;

(i) the payment of remuneration and expenses of delegates attending meetings.

(2) A delegate has only one vote and shall not vote by proxy.

(3) No person shall be elected a delegate who is not a member, officer, or director of the co-operative.

(4) No by-law under Subsection 1 shall prohibit members from attending meetings of delegates and participating in the discussion at such meetings.

See the criticism of the provision contained in s. 24(1)(a)(i) by Voorhis, supra, note 21.
voting at some length,\(^49\) others make passing reference to it,\(^50\) and still others make no reference to it at all.\(^51\) Thus, the problem of big co-operatives has been handled in some Canadian jurisdictions by providing for the delegation of voting powers.

In Britain, the solution attempted was the division of the general meeting into several area meetings and the holding of them as nearly as possible at the same time. Each area meeting had the same agenda to ensure a discussion of the same topics. The agenda could not be altered. With rigid, often unresponsive, agendas and large unwieldy meetings at which individual participation was difficult, this did not prove to be the answer.\(^52\)

Swedish co-operatives utilized the representative-assembly technique whereby individual members choose delegates to represent them at the assembly. At the same time, they discuss the various issues before the co-operative and recommend policies to the assembly. The delegates also perform a number of local functions. They are elected normally for one year and, in turn, elect the board members, who are responsible for the operation of the co-operative through the employees. The representative assembly replaces the general meeting as the supreme decision-making body of the co-operative.\(^53\) It has been said that with “this structure, you combine opportunity for effective statement of member opinion, through their representatives, with the centralized management which you need to make rapid, competitive decisions.”\(^54\) The Red River Co-operative in Winnipeg has followed a similar pattern by electing a ‘parliament’ to control it.\(^55\)

Proxy voting is a further aspect of democratic control. It was originally considered that proxy voting should not be permitted because it was thought that “democratic control involves the making of decisions by a majority of members after a full discussion and that this requires voting in person and not by proxy.”\(^56\) In other words, in order for democratic control to be effective, the voter had to be present to cast his ballot after appreciating the arguments presented. Following this line of reasoning, most jurisdictions preclude proxy voting unless the Act or the by-laws of the co-operative provide for it.

\(^{49}\) E.g., R.S.A., 1970, c. 67, s. 18; R.S.B.C. 1960, c. 77, s. 26; R.S.C. 1970, c. C-6, s. 59; R.S.Q. 1964, c. 292, s. 44, where it is provided that co-operatives with more than 100 members in any electoral district can institute a delegate system of voting and give the delegates more than one vote dependant upon the number of members they represent. This last provision is in direct contrast to Saskatchewan, where only one vote is available to each delegate (R.S.S. 1965, c. 246, s. 63).

\(^{50}\) R.S.S.N. 1967, c. 57, s. 32; R.S.S. 1965, c. 246, ss. 55, 62, 63.


\(^{52}\) A similar procedure is possible in B.C. See R.S.B.C. 1960, c. 77, s. 28(3).

\(^{53}\) See, on these problems, R. Cujes, Democracy and Business Efficiency (1972), 15 No. 4 Canadian Co-operative Digest 36. This article also contains a discussion of the Swedish approach.

\(^{54}\) Co-operative League of the U.S.A., supra, note 46 at 4.

\(^{55}\) See F. Syms, Red River Co-op Parliament (1968), 11 No. 3 Canadian Co-operative Digest 24.

\(^{56}\) W. B. Francis, Canadian Co-operative Law (Toronto: Carswell Co., 1959) at 39.
This conveys the impression that the legislators felt that it would be better not to permit proxy voting but that contemporary trends may well require it. For instance, s. 2 of the British Columbia *Co-operative Associations Act*\(^{57}\) provides that there will be no voting by proxy "save as permitted by this Act," and s. 24 specifies that corporate members of co-operatives can vote by proxy, as can members living more than 50 miles from the place in which the operations of the business are carried on. The section also contains certain limitations on proxy voting. Newfoundland,\(^{58}\) Prince Edward Island,\(^{59}\) Quebec,\(^{60}\) and Saskatchewan\(^{61}\) expressly exclude the availability of proxy voting.

Plurality of share types would appear to have no place in co-operative associations, and yet statutory provisions permitting the issuance of more than one class of shares can be found. Alberta,\(^{62}\) Nova Scotia,\(^{63}\) and Ontario,\(^{64}\) for instance, have such provisions. At first glance such a provision might appear to be anti-democratic and, in fact, it is difficult to argue otherwise. On the other hand, it may well operate to attract capital to co-operatives, and as the investors with "preferred or deferred shares or shares with other special rights or with such restrictions as the association decides"\(^{65}\) will have only one vote each, and not one vote per share, democratic control should not be unduly interfered with.

The concern to keep associations democratic is, of course, quite alien to normal business corporations. The democratic nature of co-operatives is an essential distinguishing feature\(^{66}\) and must be maintained at all costs. It is to be hoped that practical necessities will encroach as little as possible on the principle of one-member, one-vote.

2. **Open Membership**

The principle of open membership means that "anyone who can, and desires to, make use of the services of a co-operative can do so by the purchase of one share at very small cost . . . . "\(^{67}\) As this definition indicates, there is a natural limitation on membership in that to be a member one must be in a position to benefit from a co-operative; thus an urban tenant with no farming interests of any sort would not be permitted membership in a farmer co-operative. From the consumer co-operative viewpoint, however, the only

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\(^{57}\) R.S.B.C. 1960, c. 77. See also R.S.A. 1970, c. 67, s. 28 (4)(b); R.S.N.B. 1973, c. C-22, s. 46; R.S.N.S. 1967, c. 57, s. 32; S.O. 1973, c. 101, s. 76 (2).

\(^{58}\) R.S.N. 1970, c. 65, s. 5(2)(b).

\(^{59}\) R.S.P.E.I. 1951, c. 32, s. 25(1).

\(^{60}\) R.S.Q. 1964, c. 292, s. 42.

\(^{61}\) R.S.S. 1965, c. 246, s. 2(d)(ii).

\(^{62}\) R.S.A. 1970, c. 67, s. 19(2).

\(^{63}\) R.S.N.S. 1967, c. 37, s. 18(1).

\(^{64}\) S.O. 1973, c. 101, s. 60(2).

\(^{65}\) R.S.A. 1970, c. 67, s. 19(2); cf. R.S.N.B. 1973, c. C-22, s. 44.

\(^{66}\) See Lambert, *supra*, note 4 at 64.

\(^{67}\) Voorhis, *supra*, note 44 at 6.
qualification would be geographical. The principle is an underlying one in all provincial statutes, although it is not always expressed. The Saskatchewan Act does expressly and comprehensively state it.\textsuperscript{68} In other statutes, however, it is merely provided that in order to qualify as a co-operative the association must possess the characteristic of ‘open membership’.\textsuperscript{69}

The reformation of the \textit{Essential Principles of Co-operative Organizations} in 1966 by the International Co-operative Alliance and the Saskatchewan open-membership provision both specify that membership shall be available to anyone who can use the co-operative’s services without discrimination of, \textit{inter alia}, a political kind.\textsuperscript{70} A comment is required on this point because of the interpretation placed upon political neutrality in North America. It is submitted that all the requirement of political neutrality means is that a co-operative would never preclude anyone from membership because of his or her political beliefs. This is an essential aspect of an open membership policy, but it has come to have greater significance. In s. 14 of the Nova Scotia \textit{Co-operative Associations Act},\textsuperscript{71} for instance, it is provided that:

\begin{quote}
No association may make any contribution either in money or in kind, either directly or indirectly, to any association or organization of any description which has for its objects or one of its objects the furtherance of the interests of any political party.\ldots\textsuperscript{72}
\end{quote}

It has long been the case that British co-operatives have contributed part of their surplus to political parties. In 1937, the right to make political contributions was tested and resolved in \textit{Cahill v. London Co-operative Society}.\textsuperscript{73} The statute under which the Society was incorporated\textsuperscript{74} provided for any surplus to be appropriated as determined by the rules of the Society.\textsuperscript{75} The rules provided for five per cent of net profits to be set aside in an educational and political fund. This was done, and some of the money in the fund was used for political purposes. It appears that this very wide power contained in the statute was designed to avoid the decision of \textit{Warburton v. Huddersfield Industrial Society}\textsuperscript{76} where it was held to be \textit{ultra vires} the society to contribute to a strike fund for Huddersfield workers. In the \textit{Cahill} case, Mr. Justice Luxmoor had, after examining the statute and the rules of the society, “no hesitation in holding that the allocation of one-half of five per cent of the profits of the Society to the political fund, and the devotion of that fund to

\textsuperscript{68} R.S.S. 1967, c. 246, s. 2(d)(iii).
\textsuperscript{69} See e.g., R.S.N. 1970, c. 65, s. 5(2)(a); R.S.B.C. 1960, c. 77, s. 2.
\textsuperscript{70} It should also be noted that the 1937 reformulation specifically stated that political and religious neutrality was not a condition for membership in the I.C.A., in other words, was not an essential characteristic of co-operative enterprises.
\textsuperscript{71} R.S.N.S. 1967, c. 57.
\textsuperscript{72} Exactly the same provision appears in R.S.A. 1970, c. 67, s. 15.
\textsuperscript{73} [1937] Ch. 265.
\textsuperscript{74} \textit{Industrial and Provident Societies Act}, 56 & 57 Vict. c. 39.
\textsuperscript{75} Id., s. 10(6).
\textsuperscript{76} [1892] 1 Q.B. 817 (C.A.).
the political activities described [were] valid and neither of them [were] ultra vires the society."

Not only are British co-operatives able to contribute part of their surplus for political purposes, they also have their own political party — the Co-operative Party — which was founded in 1917 to defend co-operative rights, to represent and promote consumer interests, and "to ensure that the experience of the Co-operative Movement and the principles of Co-operation are widely used in the building of the new Society." The aim of the Co-operative Party, herein quoted, indicates the idealist content of the British co-operative movement. Many co-operative societies have a similar clause as one of their objects. The relations between the Co-operative and Labour Parties are defined in an agreement made in 1957 to promote goodwill and neutral respect and understanding between the two parties. The Co-operative M.P.'s vote as if they were Labour Party M.P.'s. The co-operative movement also has close ties with the trade union movement, and all three meet together as a consultative committee called the National Council of Labour.

The British co-operative movement is quite heavily politicized, showing a considerable contrast to the Canadian movement. Since co-operatives have as an object the expansion of co-operative ideals and the support of organizations who have this as their goal, such as federations of co-operatives like the Co-operative Union of Canada and the International Co-operative Alliance, it would appear only natural for support to be given to political organizations which also have the interests of co-operatives at heart. Business corporations contribute to political parties as a method of gaining support for their interests, and it is submitted that co-operatives should be permitted to do the same and should take advantage of such permission. It is further submitted that failing to do so can only hinder development of the co-operative movement in Canada.

Political neutrality, in the Canadian sense, was practiced in Britain from 1831 until 1918. It came about because the co-operative movement did not want to be the instrument of Robert Owen. The resolution declaring political neutrality is interesting and reads as follows:

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77 Supra, note 73 at 272. See also Lafferty v. Barrhead Co-operative Society Ltd. (1919), 1 S.L.T. 257 at 259 (Ct. Sess. O.H.) per Lord Ormidale.


79 See e.g., Cahill v. London Co-operative Society, supra, note 73.

80 The labour and co-operative movements in Canada have a National Labour Co-operative Committee which maintains a liaison between the two. See Hamilton, supra, note 24 at 37.

81 See e.g., Co-operative Union of Canada, Information Leaflet (Ottawa: Co-operative Union of Canada).

82 Robert Owen (1771-1858) was a successful businessman turned social reformer and socialist who actively espoused co-operative socialism and in pursuance of his ideals established co-operative communities both in Britain and at New Harmony in the United States. Owen objected to capitalism and competition because they were not conducive to happiness and promoted those aspects of the human character he felt to be distasteful, and also because it created unemployment. Owen's views are summarized in A. Bonner, British Co-operation (rev. ed., Manchester: Co-operative Union Ltd., 1970) at 9-21.
Whereas the co-operative world contains persons of every religious sect and of every political party, it is resolved that co-operators as such, jointly and severally, are not pledged to any political, religious, or irreligious tenets whatsoever; neither those of Mr. Owen, nor of any other individual.83

In 1918, the first co-operative parliamentary candidate stood unsuccessfully for election.84 In 1926, the Co-operative Congress, by a narrow margin, authorized the movement to negotiate with the Labour Party. Links have existed between the two since that time although, in periods of Labour government, the relationship has been a far from happy one. It is fair to say that the connections that exist have brought little benefit to the co-operative movement. Such a link would not appear to satisfy the expectations of the co-operative movement, and no such relationship is recommended for Canadian co-operators. The point nevertheless remains that co-operators in Canada exercise little or no political power, while their economic rivals exercise a considerable amount.

It has been said recently that “[i]f they are to be successful, co-ops must be political.”85 Perhaps it can be said that there is a move towards more social and political activism among younger and college co-operators, but the present managers and directors do not favour such a development.

Political neutrality would appear to be almost completely respected in Canada and it is often advocated by co-operators. For instance, Voorhis has said that the open membership principle “means that co-operatives cannot be controlled by, subservient to, or even closely related to, particular political parties. For where such a condition exists it becomes either impossible or extremely difficult for people otherwise perfectly qualified to become or remain members.”86 It is respectfully submitted that political involvement cannot be the barrier Voorhis attempts to portray it as. For if that were the case, how can the extremely large British co-operative movement be explained? It is also sometimes said that since contentious issues are potentially disruptive, it is better to avoid them, and political neutrality is the way to avoid contentious political issues.87 This is a more valid objection, but still not a very strong one. Once again, since ordinary profit-making business associations can deal with the difficulties, it is hard to see why co-operatives could not do so as well. It surely cannot be a very strong co-operative if members with differing political opinions cannot work together.

It is, therefore, submitted that in those provinces where political contributions are prohibited, the sections concerned should be repealed. The most valid principle of open membership would not appear to require political

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83 Bonner, id. at 30.
84 Id. at 143.
86 Voorhis, supra, note 44 at 6. See, however, Chisholm, id. at 170 where he states that if consumer co-operatives are to be successful they "must be political."
87 See e.g., Maritime Co-operative Services Limited, You and the Co-op (Moncton: Maritime Co-operative Services Ltd.) at 7.
neutrality. Perhaps, as Charles Gide, the famous French co-operative theorist, suggested, if neutrality was thought of as 'independence' rather than actual 'neutrality', much of the difficulty would be removed. Lambert concludes his short discussion of political neutrality thus:

... [N]eutrality is not a hard and fast principle. There are neutral co-operative movements throughout the world as everybody knows. There are also co-operative movements which from the start show a distinct political or religious leaning — as they are perfectly entitled to. Only the International Co-operative Alliance has a duty to remain neutral.

3. Limited Return On Capital

Co-operatives are established to satisfy the needs of people for goods and services, not to make money for investors. As a result, return on capital is deliberately de-emphasized. Many provincial statutes therefore provide for interest on share capital to be limited. Saskatchewan limits interest to five per cent per annum, Prince Edward Island and Quebec limit it to six per cent, and in Quebec it is limited to seven per cent on preferred shares. The limit is seven per cent in Newfoundland and eight per cent in Ontario and British Columbia. The other jurisdictions make no specific provision, but some of those indicate that interest is limited to the percentage prescribed in the by-laws of the co-operative.

The need for capital in co-operatives is a constant problem, and, of course, the low return on shares does not encourage its acquisition. Democratic control is also an important reason for lack of capital from investors who wish considerable control in the business receiving their investment. The low return and non-increase in votes mean that only persons dedicated to co-operative principles will be likely to invest in co-operatives.

As the members are both the investors in, and the users of, their co-operative, the low return on interest can be seen as a cost of purchasing from the association. In other words, the difference between the interest on capital invested in a similar type of investment property, having regard to stability and ease of withdrawal, and the interest earned from capital invested in the co-operative should be deducted from the patronage return received from a traditional co-operative or added to the direct charges levied by direct charge co-operatives in order to compute a member's real savings as the result of his use of the co-operative.

88 See Lambert, supra, note 4 at 86.
89 Id.
90 R.S.S. 1965, c. 246, s. 73(b).
91 R.S.P.E.I. 1951, c. 32, s. 30(1)(c), as amended.
92 R.S.Q. 1964, c. 292, s. 31.
93 Id., s. 37.
94 R.S.N. 1970, c. 65, s. 43(2).
95 S.O. 1973, c. 101, s. 54(b).
96 R.S.B.C. 1960, c. 77, s. 12(1)(b).
97 E.g., R.S.C. 1970, c. C-6, s. 3(1)(d).
In traditional co-operatives the capital investment is often ridiculously small. The British-Canadian Co-operative in Sydney Mines, Nova Scotia, for instance, has a $1 capital requirement. The impact of the low rate of return on capital in such a case will clearly be of no consequence. The highest capital requirements of co-operatives would appear to be $200 to $250. Saskatchewan co-operatives, governed by the lowest prescribed rate of return on capital in Canada of five per cent per annum, would thus pay $10 interest on $200. Approximately nine per cent per annum could be obtained on deposit accounts in banks and trust companies and that rate would return $18 interest per annum. The co-operative investor in this example would thus receive $8 a year less, or, conversely, his total consumption bill from the co-operative each year would be $8 more, or $0.15 a week — again, a negligible amount.

Any arguments relating to the low rate of return on capital based on such grounds would, therefore, appear to be of little importance. Inflation has, of course, taken its toll and it could be that the rates prescribed by the statutes should be raised. The Victoria Farmers’ Co-operative in Baddeck, Nova Scotia, illustrates what would appear to be a trend in those jurisdictions which do not lay down upper limits on interest on capital. That co-operative pays interest on its capital at the same rate as the banks pay on deposit accounts.

4. Patronage Dividends

It is an essential co-operative principle that any surplus existing after the payment of all expenses, and the provision of permissible reserves, is the property of the users of the co-operative, and they receive their portion of the surplus according to the extent of their patronage. Consequently, the greater the use the member makes of the co-operative, the greater will be his share of the surplus. The term ‘patronage refund’ is used in the Saskatchewan statute and is defined as “an amount allocated or paid in proportion to patronage to the members or members and patrons out of savings or surpluses arising from the operations of the association.” The British Columbia statute talks of ‘distributing’ the surplus.

By its very nature, the patronage dividend serves three particular functions for the co-operative and its members:

1. It enables the surplus experienced in any given trading period to be distributed to the members in an equitable manner, i.e., according to the extent of the member’s patronage.

2. It acts as a financial incentive to the members to continue to support the co-operative. Without this incentive, of course, it is very difficult for the co-operative to expand, or, in some circumstances, to continue its operation.

3. It acts as an important source of capital to the co-operative through various statutorily sanctioned devices which provide that the patronage dividend need not be paid in cash to the members or patrons but can be

98 R.S.S. 1965, c. 246, 2.2(n).
99 R.S.B.C. 1960, c. 77, s. 12(1)(c).
retained in the co-operative and distributed on paper only to the member in the form of a book credit.

It is clear, therefore, that the patronage dividend need not actually be paid to the member. This obviously gives rise to a conflict between the second and third points above. If capital investment is required, and as patronage must be encouraged, a co-operative will find itself in a difficult position. If too much of what represents the patronage dividend is retained in the co-operative, the patrons may not receive sufficient immediate return on their use of the co-operative to make it worthwhile to continue using it. If the co-operative is charging the market price for its products, as is normally the case in all except direct charge co-operatives, and each member's proportion of the surplus is invested in the association, there will be no immediate benefit to that member in using the co-operative's services. In fact, due to certain non-pecuniary aspects, such as having to do more of the packing, pricing, and transporting of the purchases, and perhaps also having to drive farther to the co-operative store than to the closest chain-store, the member may feel he has 'paid' to 'shop at the co-op'. In such circumstances, considerable devotion to the co-operative will be required to maintain faith and interest in it.

Capital is almost always a problem in the co-operative movement which the patronage dividends can partially solve, but the use of these patronage dividends must be carefully considered. Three topics in this area require attention. The first involves the machinery for retaining patronage dividends within the co-operative. Essentially, there are three methods. First, shares can, be allotted to members in lieu of patronage dividends, so that the members' share capital is increased.\(^{100}\) Secondly, the co-operative can also provide for compulsory loans from the members to the co-operative representing part, or all, of their patronage dividend.\(^{101}\) Thirdly, a revolving account can be established whereby patronage dividends are paid into the account and become payable to the member in a stated number of years.\(^{102}\) This is another form of compulsory lending.

The second point in this area is that reserves are taxable, while patronage dividends are deductible from taxable income.\(^{103}\) As a result, patronage dividends are very effective for capital-forming purposes.

The third point deals with the computation of patronage dividends. Section 3(1)(d)(iv) of the Canada Co-operative Associations Act,\(^{104}\) for instance, provides that "any reasonable method" of computation can be used, and the Quebec statute\(^{105}\) states that the rate of patronage dividend can vary

\(^{100}\) R.S.S. 1965, c. 246, s. 75(1)(a); R.S.C. 1970, c. C-6, s. 54; R.S.Q. 1964, c. 292, s. 85(1)(a); S.O. 1973, c. 101, s. 56(1).

\(^{101}\) R.S.S. 1965, c. 246, s. 75(1)(b); R.S.C. 1970, c. C-6, s. 85; R.S.Q. 1964, c. 292, s. 85(1)(b); S.O. 1973, c. 101, s. 57.


\(^{103}\) R.S.C. 1970, c. 148, s. 135.


\(^{105}\) R.S.Q. 1964, c. 292, s. 84.
with the quantity, quality, or value of products or services purchased. It would appear that any reasonable valuation system contained in the by-laws of the association is acceptable. It can also be provided that no patronage dividend will be paid unless a specific minimum value of products or of services have been purchased by the member.  

The position with direct charge co-operatives is that the patronage refund is received by the member each week automatically in the form of reduced prices. A weekly fixed charge is paid by each member to cover the administrative costs of operating the co-operative, and goods are sold at prices as near as possible to wholesale ones.

Although at the beginning of this section it was stated that the disbursement of any surplus to the members in proportion to their patronage is an essential characteristic of co-operatives, the existence of direct charge co-operatives illustrates that this can be achieved in different ways.

It has been illustrated, especially in consumer co-operatives in America, that more important than large patronage dividends are low prices. In effect this means that consumers prefer their savings sooner rather than later. This is not a surprising phenomenon. It would seem that the growth of direct charge co-operatives is a symptom of this circumstance.

Lambert, who downplays the dividend principle, sees its main purpose as negative — "the ban on any distribution of the net surplus in proportion to the capital contributed." Needless to say, it is perfectly acceptable for a co-operative to have a trading surplus and yet distribute nothing in the form of patronage dividends. The surplus can be used for investment purposes or utilized to further the educational or charitable aims of the co-operative.

A related problem deals with the distribution of co-operatives' net assets upon dissolution. Although the Rochdale Pioneers did not provide for this in their original set of principles, in a revision in 1854, it was provided that once the debts to both members and non-members were accounted for, the remainder "shall be applied by the trustees for the time being of the society to such charitable and public purposes as they think fit." In other words, the net assets were not considered to be the property of the members. In a normal business association, where capital is all-important, the shareholders are entitled to the net assets upon dissolution, but it is argued that in a co-operative, where capital plays such a minor role, the members qua investors should receive only that which they contributed, together with any accrued interest, and they have no claim to any of the assets of the co-operative beyond that contribution. This view has received widespread acceptance from co-operative theoreticians. For instance, A. Hirschfeld said:

When a co-operative society is dissolved, the surplus assets, after repayment of the shares, must be transferred to other co-operatives or to bodies serving the

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106 See e.g., R.S.C. 1970, c. C-6, s. 55, where the minimum is $250.
107 See e.g., Rose, supra, note 27.
108 Supra, note 4 at 75.
109 Quoted in Lambert, supra, note 4 at 81.
community, and in no circumstances may the refunded value of the shares exceed their face value.\textsuperscript{110}

Most provincial statutes ignore the impact upon dissolution of this essential distinction between co-operatives and other business association. The Saskatchewan \textit{Co-operative Associations Act},\textsuperscript{111} however, provides as follows:

104(3) The undistributed surplus shall . . . be paid either:

(a) if the amount is $5000 or less, to one or more local organization(s) or association(s) established for the purpose of promoting the welfare of the community in which the association is located by providing services for social welfare, health, civic improvement, education, or for other objects of a benevolent or charitable nature, or

(b) if the amount is more than $5000, to one or more trustees . . . provided that the trust, both as to income and principal, shall be expended, within a period of twenty years from the establishment of the trust, for the purposes designated by the resolution which shall be in accordance with clause (a) or for educational purposes of a province-wide nature.

Similar provisions should be contained in all statutes regulating co-operative activity. Non-inclusion would appear to be as a result of considering co-operatives to be similar to other business associations, rather than distinct from them. As co-operators are usually involved in framing co-operative legislation, this is rather worrisome.

5. \textit{Cash Trading}

Both before and since the 1840's, credit has proven to be the downfall of many. With extremely high, almost usurious interest rates, borrowers were tied into debts, sometimes forever. To counter this, the Rochdale Pioneers provided that all transactions by the co-operative were to be on a cash basis. This example was followed quite consistently until recently, when changing economic conditions resulted in credit sales and purchases being acceptable. Indeed, the 1966 reformulation of essential principles by the International Co-operative Alliance omits any reference to requiring cash trading to the exclusion of credit transactions. The 1937 reformulation specifically stated that cash trading was not a "condition for membership of the I.C.A."\textsuperscript{112}

Cash trading, nevertheless, appears as a general principle in most of the provincial statutes, although most also provide for exceptions.\textsuperscript{113} The \textit{Co-operative Associations Act}\textsuperscript{114} of Alberta, for example, provides in s. 34 that all sales are to be cash sales except as provided for in the Act, and ss. 35 and 36 provide for the exceptions as follows:

35. An association may sell goods, wares or merchandise on credit,

(a) if pursuant to a written agreement the property in the goods, wares, or merchandise remains in the association until the purchase price is paid and

\textsuperscript{110} Id. at 82.
\textsuperscript{111} R.S.S. 1965, c. 246.
\textsuperscript{112} See \textit{Ontario Co-operatives Report}, supra, note 6 at 102.
\textsuperscript{113} For a historically oriented discussion of the cash trading requirements see Francis, \textit{supra}, note 56 at 132-42.
\textsuperscript{114} R.S.A. 1970, c. 67.
if such agreement is taken and registered in uniformity with The Conditional
Sales Act,
or
(b) if delivery of the goods, wares, or merchandise is upon the order
of a duly authorized representative of the Government of Canada, a province
of Canada, or a municipality or an institution operated by a municipality.

36. (1) An association that has working capital in excess of five thousand dollars
may by supplemental by-law authorize the selling of goods on credit.
... (3) No association shall exercise the power conferred by a by-law referred
to in subsection (1) so as to have owing to the association at any time with
respect to credit sales an amount in excess of two-thirds of the amount of
the working capital as shown by the previous year's audited annual report.
... (5) For the purposes of this section ... “working capital” shall be construed
to include share capital, debenture or bond indebtedness, general reserve
fund, deferred dividend or participation reserves, and undistributed surplus
or deficit accounts.115

It is clear that credit-granting can still be a problem, and it has been said of
Newfoundland consumer co-operatives that “[t]oo many financial reports
show that sales of goods on credit are not being kept under proper control,
and this dangerous practice has caused most of the liquidations in the Registry
Files. The Co-op store was not set up to be a banking institution and the risk
of loss is out of all proportion to the gains.”116

This statement indicates that its author, the Registrar of Newfoundland
Co-operative Societies, did not feel that co-operatives should grant credit.
Yet, in order to compete with other stores, particularly with those in the con-
sumer durables market, credit must be available. It has already been seen that
the co-operative movement does not consider the granting of credit within
reasonable bounds as undesirable, in spite of its prohibition in the Rochdale
Principles. As the credit union has been the traditional co-operative credit-
granting agency, the problems involving credit can, to some extent, be solved
by having close links between credit unions and co-operative stores. Sales on
credit could be financed by the credit union, leaving the store to continue
selling on a cash basis.

This is a common feature of British co-operative stores where in every
large store there is a branch of the Co-operative Bank. The Co-operative
Bank has, in fact, over 5,000 banking points in co-operative stores. If credit
unions were situated in or near co-operative stores, this close liaison could be
maintained, and the credit union could handle the credit problems for which
it was designed while the co-operative stores could sell for cash. The customer
need not physically go to the credit union to obtain the cash, provided
the store and the union have an arrangement whereby the latter finances
sales on credit for the former.

Such a close relationship exists in many parts of Canada. One docu-

115 See also R.S.S. 1965, c. 246, s. 68; R.S.N.B. 1973, c. C-22, ss. 53-55; R.S.N.
1970, c. 65, s. 39; R.S.Q. 1964, c. 292, s. 106.
116 W. G. Dawe, Registrar of Co-operative Societies, 24th Annual Report of Co-
operative Societies in Newfoundland (St. John’s: Dept. of Mines, Agriculture and Re-
sources of Nfld., 1964) at 13.
mented example is in Nanaimo, British Columbia, where the local credit union was instrumental, from a financial standpoint, in the commencement and the continuation of operations of the Mid-Island Consumer Services Co-operative. Accounting equipment and offices are shared with the credit union. In one of the stores the credit union has a branch. Needless to say, the co-operative store carries on its financial activities through the credit union, having deposit and other accounts with the union. Thus, it is clear that credit unions can play an important role in keeping in check the granting of credit in the co-operative sector of the economy.

6. Goods Sold At Market Price

In order to maintain stability and to minimize the risk of paying out the profits before they were earned, for example, in the form of reduced prices, the Rochdale Pioneers decided to sell at the going market price, and then, when it was clear that a surplus had been made, distribute it in the form of a patronage dividend. The prices were, therefore, the same as competing stores'; the saving came upon receipt of the patronage dividend.

Statutes do not normally require the market price to be charged because of the development of new economic phenomena. The most important recent contribution from within the co-operative movement is the direct charge co-operative. Most co-operatives, however, would charge the market price for their goods and services. In the long run the result will be the same, no matter which system is used. In the short run it would appear easier for conventional consumer co-operatives to obtain investment through the retention of patronage refunds — a procedure not available if the direct charge method is chosen.

There is a further difficulty with the market price concept. The price at which products are sold in competing stores may have nothing at all to do with supply and demand but may, because of the control of the market by one producer or seller or by a small number of producers or sellers, be set artificially high. If this is to be the price at which the co-operative also sells, this price will be artificially high too. There is then no reason to charge that price. Because of this, Swedish co-operatives no longer use the market price guideline at all.

While selling at the market price may have been desirable in the Britain of the 1840's, it would seem to be unnecessary in Canada at the present time. It by no means provides any indication as to whether an association is or is

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117 R.S. Staples, Yes We Can, Consumerism in Action: A History of Mid-Island Consumer Services Co-operative (Nanaimo, B.C.: Mid-Island Consumer Services Co-operative, 1974).
119 But see R.S.S. 1965, c. 246, s. 2(d)(vi).
120 In fact, the Ontario Co-operative Corporations Act, S.O. 1973, c. 101, defines a direct charge co-operative in such a way as to specifically avoid any suggestion of a need to charge the market price. [s. 1(1)(10)].
Consumer Co-operatives

not a co-operative. Apparently, co-operatives can be most influential both locally and in the wider geographical context by pursuing an active pricing policy. Swedish co-operatives have consistently and successfully fought monopolistic enterprises by undercutting them. As Lambert says, "[t]he problem is no longer to find out the market price, but to decide what is the price best calculated to influence the market price in accordance with the interest of the community as a whole."121

7. Non-Profit-Making Characteristics Of Co-operatives

Section 1(1)(6)(iv) of the Ontario Co-operative Corporations Act provides as part of a definition of 'co-operative basis' that a co-operative must be "operated as nearly as possible at cost. . . ."122 Reserves can be provided for, as can interest on capital and loans, and the surplus must be distributed to the patrons but at the end of any financial period a co-operative must have no actual profit retained within the association. Any surplus is not a profit because a co-operative does not exist for its own benefit but for that of its members. Therefore, if there is a surplus in a consumer co-operative, the members have been overcharged for their purchases, and they are consequently entitled to the return of the proportion of this overcharge represented by their purchases.

8. Services Primarily For Members

As co-operatives have always been set up to satisfy certain needs common to a number of persons and organizations who become their members, it is to be expected that some would feel that, in order to retain co-operative status, an association should largely restrict itself to serving its members. This view has been given statutory authority in a number of jurisdictions.123 Under the Ontario Act,124 in order for a co-operative to maintain its status, it must not have conducted fifty per cent or more of its business with non-members over a period of at least three years. If this stipulation is not complied with, the Minister can order the co-operative to be changed into a business corporation.

Consumer co-operatives have nothing to fear from a required percentage of trading with members, even one as high as fifty per cent. As customers will know that if they are members they will receive a rebate, they will, presumably, be encouraged to join. As a traditional co-operative sells at the market price, there will be no pecuniary reason for non-members to shop there.

In situations in which co-operatives have surplus goods or services to sell, it will be advantageous to the co-operative and to the members for non-

121 Supra, note 4 at 80.
122 S.O. 1973, c. 101; see also R.S.B.C. 1960, c. 77, s. 2; R.S.S. 1965, c. 246, s. 2(d); R.S.C. 1970, c. C-6, s. 3(1)(d)(iv).
123 See e.g. R.S.B.C. 1960, c. 77, s. 2; R.S.S. 1965, c. 246, s. 2(d); S.O. 1973, c. 101, s. 144(1).
124 S.O. 1973, c. 101, c. 144(1).
member trade to be carried on. In order to maintain co-operative status, some limit must be drawn, as a co-operative association is not intended to be a profit-making enterprise.

9. Education

Education is an essential component in the growth of co-operatives. Not only is it essential for members who are going to benefit from, or take part in, the activities of the co-operative to know how their association works and what rules it has to follow, it is also important to interest non-members in the co-operative, in the hope that they might join or set up new co-operatives. This means that publications of all types have to be printed and paid for and presentations made to various groups. Also, some co-operatives undertake educational activities in the area of consumer information and attempt to inform consumers as to nutrition, the effective use of money and on other points of interest generally. As a result of the important part played by education in the co-operative movement, it is generally provided that part of any surplus may be set aside in an educational fund to be used as needed.

In the area of education, there is a close association between local co-operatives, the area wholesalers, and the Co-operative Union of Canada: for example, the Co-operative College in Saskatoon is jointly financed by the various sectors of the movement. It would seem, however, that the provision of education is a low priority in the co-operative movement in Canada. If co-operatives are not to be considered by both members and non-members to be little more than discount stores providing only economic benefits, then much more emphasis has to be placed upon education.

Co-operatives and co-operators should also not forget that one of the priorities of the movement of which they are a part is dedicated to expansion of both its scope and its influence and to a fundamental restructuring of society. Education clearly has a pivotal role to play in this process. Its de-emphasis may indicate that the co-operative movement has set aside non-economic goals to concentrate upon the monetary gains it can make for its members. It is to be hoped that this is not the case or, at least, that it is only a temporary phenomenon. Clearly the main responsibility for education rests with regional, national and international co-operative organizations, and not with the local associations.

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126 See Lambert, supra, note 4 at 66.
127 See e.g., R.S.B.C. 1960, c. 77, s. 12(2); R.S.N.B. 1973, c. C-22, s. 7(h); R.S.N. 1970, c. 65, s. 46; R.S.Q. 1964, c. 292, s. 4.
128 Most statistics, for instance, avoid any reference to the Reserve Funds for Education which exist in most co-operatives. It is, therefore, difficult to assess with any accuracy how much of the surplus is set aside for educational purposes. A rather old example is that in 1964, Newfoundland's thirty-nine consumer co-operatives set aside $4,541 out of a total surplus of $325,850 — less than $120 per association.
129 Lambert, supra, note 4 at 87.
10. *Goods And Services Of High Quality*

High prices were not the only problem which disturbed the Rochdale Pioneers; they were also concerned with the quality of the products they were able to buy. They therefore decided to make a point of selling high-quality products at as low a price as possible through the medium of patronage dividends. This is still an important consideration for the co-operative movement.

11. *The Co-operative As It Figures In The Community*

Although co-operators accept as a matter of importance that their association plays an active role in their community and that they should use their surpluses for various beneficial purposes, there is little evidence of such activities. Without performing its social functions, the only purpose for which a co-operative can exist is to save money for its members. This apparent, almost complete, avoidance of social duties makes it quite difficult to see why co-operatives should be given preferential treatment over other forms of business activity. It is to be hoped that in the future co-operatives will see their role as going beyond the provision of economic benefits and that they will begin to perform their social functions with more vigor and vitality.

C. CONCLUSION

In order to move with the times, the co-operative movement has had to adapt and to specify those principles essential to the nature of a co-operative, and those which are subsidiary. The international growth and development of the co-operative movement has necessitated a process of compromise among member national organizations.

As far as the international co-operative movement itself is concerned, democratic control, open membership, limited interest on share capital, distribution of surplus to members, provision of education, and working to expand the fields of operation of co-operatives are the most important principles.\(^{130}\)

Because of the nature of the 1966 reformulation, the principles of certain countries have diverged from those considered essential by the international movement. As has been seen in Canada, political neutrality seems to have taken on an importance beyond that accredited to the idea in other countries. There is, however, wide assent given to the stated principles.

The co-operative movement is important both as an economic and as a social force in society. What distinguishes it from other business organizations is its set of guiding principles. If it is to maintain and to strengthen its separate identity, it is necessary for it to intensify its approach to those guiding prin-

\(^{130}\) International Co-operative Alliance, *supra*, note 9.
principles. It is essential that the very difficult problem of how to maintain democracy in large societies be confronted and solved. More has to be invested in education for both members and non-members, and more has to be achieved in the area of community-oriented projects.

The non-pecuniary side of the operations of co-operatives must be strengthened if they are to fulfill their true functions, both economic and social. Only by an increased dedication to the essential Rochdale Principles can co-operatives meet the challenges they face and contribute effectively to their solution and so fulfill their important role in society.