

# **Co-operative Development and the State**

VOLUME I

PARTS ONE AND TWO

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This publication contains parts one and two of a larger study entitled *Co-operative Development and the State: Case Studies and Analysis*, a joint project by the Co-operatives Secretariat, Government of Canada, and the Centre for the Study of Co-operatives at the University of Saskatchewan.

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PART ONE

*Summary, Observations, and Conclusions  
about Co-operative Development*

Brett Fairbairn  
Centre for the Study of Co-operatives  
University of Saskatchewan

PART TWO

*Issues in Co-operative Development  
and Co-operative–State Relations*

Brett Fairbairn

PART THREE

*Co-operative Development and  
Sector–State Relations in the U.S.A.*

Brett Fairbairn and Lauren Gatin

PART FOUR

*A Study of Co-operative Development  
and Government–Sector Relations in Australia*

Garry Cronan and Jayo Wickremarachi  
Australian Centre for Co-operative Research and Development

# **Co-operative Development and the State**

## **Case Studies and Analysis**

PART ONE

**Summary, Observations, and Conclusions  
about Co-operative Development**

PART TWO

**Issues in Co-operative Development  
and Co-operative–State Relations**

BRETT FAIRBAIRN



**Centre for the Study of Co-operatives  
University of Saskatchewan**



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## PART ONE

# Summary, Observations, and Conclusions about Co-operative Development

## Introduction

Systems of co-operatives and policies of states both evolve to meet the needs of populations in particular political, economic, and social contexts. The relations between co-operatives and the state are as varied between countries and regions as any other aspect of culture or institutions. The variety of situations makes it informative to compare different countries as a way to identify common principles as well as to consider alternative possibilities for the state–co-operative relationship. We may not wish or be able to copy exactly what is done in another setting; but we can learn from it.

This report is a contribution to the understanding of state–co-operative relations. It combines theory, case studies and analysis of co-operative development in the federal systems of the United States and Australia, comparisons to Canadian examples, and observations about relevant alternatives. The report comes in four parts:

- part one summarizes the relevant theory and the case studies, draws comparisons to Canada, and makes a number of observations about possibilities for policy and strategies around co-operative development

- CO-OPERATIVE DEVELOPMENT AND THE STATE
  - a background paper on theory and concepts deals with questions of definition and outlines general issues in co-operative–state relations
  - the case study of co-operative development and sectoral relations in the United States highlights the supportive and proactive role of agencies of the United States Department of Agriculture (U.S.D.A.) within the country’s federal political system
  - the case study of co-operative policy and government-sectoral institutions in Australia stresses the significance of basic policy choices by the Australian federal and state governments

## Summary of Findings

**B**ased on theory, examples, case studies of the United States and Australia, and selective comparisons to Canada, this study concludes that:

- Basic state policy and programme decisions make a large difference to co-operative development.
- Governments may choose to support co-operatives out of wider public interests related to economic, social, regional, and rural development. The concept of social economy may be one new way to articulate such a wider public interest.
- Interest by governments can be harmful unless co-operative autonomy and democracy are respected; but there is a median position between hostility or indifference on one hand, and excessive control on the other, within which governments can play a positive role.
- Where government agencies are pro-active while also respecting co-operative autonomy, as in the case of the United States Department of Agriculture (U.S.D.A.) or some Australian state governments in certain periods, the result is larger numbers and new types of co-operatives.

- Weak government support, or government hostility, appears to correlate with weakly developed co-operative sectoral and apex organizations. In both Australia and the U.S.A., co-operative federations and apex organizations have been the keys to effective articulation of co-operative needs and interests, and communication between the sector and government. Both countries have such organizations at the state level, but Australia lacks a strong national co-operative organization. This has contributed to the neglect of co-operatives in Australian national public policy.
- The legislative and regulatory role of government in providing an appropriate environment for co-operative formation is only one role and is not the most pro-active. A second important dimension is the active provision of development services and technical assistance.
- The case of the U.S.D.A. shows that there can be a role at the federal level for active co-operative development, working at the same time through regional and state partnerships. Rural Business-Co-operative Services (R.B.S.), an agency within the U.S.D.A., illustrates the importance of having a specific unit whose mandate is co-operative support and development.
- The network of Co-operative Development Centres created in the U.S.A. during the 1990s provides one model for federal/regional and state/co-operative partnerships.
- In both Australia and the U.S.A., state governments have tended to see their role with respect to co-operatives as largely passive and regulatory in nature. In both cases, national governments set the tone with more visionary approaches, either hostile to or supportive of co-operatives.
- The Co-operative Development Unit of the New South Wales government, 1988–96, offers an example of a state-level development agency that appears to have had measurable success.
- Communication between governments and the co-operative sector usually occurs through contacts between government officials and

officials of representative co-operative organizations; however, formal mechanisms such as the ministerial advisory council in the 1992 New South Wales co-operative act can also be considered.

The preceding observations have direct practical implications for roles and models that can be considered in Canada.

## Theory and Definitions

Following is a summary of Brett Fairbairn, “Issues in Co-operative Development and Co-operative–State Relations,” *Co-operative Development and the State: Case Studies and Analysis*, Part Two.

A **co-operative** is an autonomous association of people who own and control an enterprise democratically for their own use. Co-operatives can exist in many different forms of incorporation, not only under co-operatives legislation. An association, business corporation, or partnership can be a co-operative if it exhibits the reflexivity that the owners are also the users or the employees; and if control is democratic. Co-operatives are both voluntary associations of people and market-oriented enterprises; they need to be healthy in both aspects (as associations and as enterprises) in order to thrive.

**Co-operative development** typically refers to the creation and growth of new co-operatives, but also includes the strengthening or growth of previously established co-operatives, and the strengthening and development of communities based on co-operative principles. Co-operative development is open-ended and involves education of members, officials, managers, and staff to fulfill their respective roles. Such development and education builds social capital and cohesion within communities. Often, co-operatives require the assistance of external agents to facilitate their development. Co-operatives have different needs at different stages of growth, but in general a key concern is the development of federations and central organizations for mutual support.

**State policy** toward co-operatives can be destructive, neutral, support-

ive, participating, or controlling. Overly intrusive and controlling state policies can be as harmful to co-operatives as state hostility; the fundamental independence and autonomy of co-operatives must be respected if they are to function effectively.

States have frequently decided to adopt a supportive stance toward co-operatives because it was judged to be in the public interest to address concerns with market problems or with regional or social disparities in development. Co-operatives have been accepted by governments as tools to improve national economies, to assist primary producers to market (especially) agricultural commodities, to reduce unemployment, to reduce dependency on the state, and to provide services to rural areas, among other purposes.

States can create a positive framework for co-operatives through legislation, targeted development programmes, general incentives, competition policy, state contracting, education and training, development partnerships, and through establishment of formal communication mechanisms with co-operatives, as well as by ensuring that co-operatives are widely represented within government decision-making. A simple practical model for conceptualizing typical state roles is to focus on two dimensions: legislative recognition, and active development programmes.

## **Case Study Summary: Co-operative Policy and Institutions in the U.S.A.**

The following is a summary of Brett Fairbairn and Laureen Gatin, “Co-operative Development and Sector–State Relations in the U.S.A.,” *Co-operative Development and the State: Case Studies and Analysis*, Part Three.

The co-operative sector in the United States is large and diverse. It is difficult to generalize about American co-operatives because of the differences between sectors and regions. It is clear, however, that credit unions

have the largest membership of any branch of the U.S. co-operative movement (70 million members), while agricultural co-operatives have the largest market share (one-third of the overall agricultural market, higher for particular commodities). This pattern is similar to the Canadian one. However, some distinctive and interesting co-operatives have also emerged in the U.S.A. that are different from those on the Canadian side of the border: these include one thousand rural electric co-operatives, New Generation Co-operatives for agricultural processing, and community-development credit unions. The existence of these distinct models in the United States can be linked, at least in part, to supportive government policies.

It appears that policy towards co-operatives in the U.S.A. is considered consistent with support for “private” enterprise. Indeed, co-operatives are in some cases conceptualized as part of the private sector. While government appears generally supportive of co-operatives, policy varies by sector, by level, and by mode of intervention.

### *Role of the State by Sector*

In terms of sectors, government support for co-operatives is greatest in the **rural/agricultural** area. The United States Department of Agriculture (U.S.D.A.) supports rural and agricultural co-operatives through research, education and publications, technical assistance, grants, and loan guarantees. While a variety of U.S.D.A. agencies and programmes are relevant, the largest role is played by the Rural Business-Cooperative Services (R.B.S.) agency of the department. Technical assistance, direct aid to individual co-operatives, and publications in support of co-operatives are concentrated in R.B.S. The department’s Cooperative Extension Service and associated researchers and educators in land-grant universities have also played a role in supporting rural co-operative development, though this role is less than it once was. The U.S.D.A. has provided support to rural utility co-operatives and to New Generation Co-operatives which helps explain the success of these co-operative models.

The second-greatest involvement of government with respect to co-operatives is in the area of **finance and credit**. For lending to farmers and

farm co-operatives, the federally regulated Farm Credit System (F.C.S.) provides a network of local co-operative borrowing associations supported by central banks. The F.C.S. serves every part of the country and provides long- and short-term credit for farmers, farm co-operatives, farm-related businesses, fisheries, rural housing, rural utilities, and agricultural exports. The National Cooperative Bank, created by Congress in 1978, is a leading provider of financial services to co-operatively structured, democratically owned and controlled enterprises throughout the United States. Co-operative officials attribute much of the growth of consumer co-operatives in the last two decades to the bank.

Local credit unions are encouraged by tax incentives and by the National Credit Union Administration (N.C.U.A.), an independent federal regulatory agency which also has a development role. N.C.U.A. employs economic-development specialists, administers a revolving-loan fund for credit unions, provides technical assistance to low-income credit unions, and has a separate Office of Community Development Credit Unions for the encouragement of that form of co-operative.

Outside of these two sectors, the role of the state in encouraging co-operatives appears to be much less. Housing co-operatives and consumer co-operatives, for example, appear to receive little specific support except to the extent that they can access capital from the co-operative financial institutions. Worker co-operatives can benefit from substantial federal income-tax subsidies designed to benefit Employee Stock-Ownership Plans (E.S.O.P.s), but most E.S.O.P.s are not co-operatives.

### *Role of the State by Level*

As is apparent from the above discussion, the **federal government** plays a strong role in the promotion of agricultural and rural co-operatives, and in the creation of a national network of co-operative financial institutions. Federal legislation and regulation have been significant for farm and credit co-operatives, but interestingly the more important federal roles have probably been, first, in research, education, information, and delivery of technical assistance to co-operatives and communities, primarily

through the U.S.D.A.'s Rural Business-Co-operative Services; and second, in organizing co-operative finance through the Farm Credit System and central co-operative banks.

The role of **state governments** appears generally to be less proactive. States have the primary responsibility for ensuring an appropriate legislative framework for co-operatives, and the vast majority have passed, and continue to update, legislation to facilitate incorporation of co-operatives. Those we consulted for this study could not point to many state programmes specifically designed for co-operative development. However, a number of broader rural- or community-development programmes launched by particular states incorporated co-operatives as an important aspect. Such state programmes contributed, for example, to the creation of New Generation Co-operatives in North Dakota and Minnesota.

The involvement of **local governments** in co-operative development is difficult to gauge from a national-level study such as this one. However, one interesting phenomenon is the creation of co-operatives of local governments for common purchasing and services.

### *Role of the State by Type of Intervention*

There are a variety of issues with respect to different modes of government intervention.

**Legislation and regulation.** State governments play the most important role in this regard. Our research uncovered few major issues, but two that did emerge are, first, the development of a relatively new legal form, the limited-liability company or L.L.C., which may compete with co-operative models or offer a new form under which co-operatives can incorporate; and, second, the issue of credit-union legislation, which has restricted growth of credit unions through a narrow definition of the required common membership bond. The federal Credit Union Membership Access Act of 1998 resolved this problem for federally chartered credit unions and has enabled substantial membership expansion; the federal law may exert an influence on future state legislation. The federal legislative role has also involved the historic Capper-Volstead act of 1922, which exempted far-

mers' marketing organizations from antitrust challenges; and the Cooperative Marketing Act of 1926. These two pieces of legislation legitimized an active federal role in support of agricultural co-operation.

**Programmes for co-operative development.** Programmes designed to encourage co-operative development include federal research and education programmes of U.S.D.A.; technical-assistance programmes such as those of R.B.S.; and loan-guarantee and grant programmes. The latter include the U.S.D.A.'s Business and Industry Loan Guarantee Program, about US \$1 billion annually of which US \$200 million is set aside for co-operatives. Our research did not uncover state-level programmes specifically for co-operative development.

**Incentives.** Co-operatives generally are permitted under the United States Internal Revenue Code to deduct from their income tax liability patronage refunds distributed to members. In addition, credit unions and rural utility co-operatives are exempt from federal taxes; and E.S.O.P.s (most of which are not co-operatives) receive important tax subsidies.

**Partnerships.** In general, American co-operatives guard their autonomy, and several co-operative leaders whom we consulted were proud of not being too closely involved with government agencies. However, important examples of partnerships exist. These include the Farm Credit System, in which local co-operative borrowing associations are networked with central banks in a federally regulated and guaranteed system; and the Co-operative Extension Service, in which land-grant colleges are networked for agricultural and rural research and education. Perhaps the most interesting examples of a partnership model are the Cooperative Development Centers created during the 1990s, many of which have joined together in 1999 to formalize a national network of development centres known as Cooperation Works. The centres are sponsored and funded by university, community, co-operative, and farm organizations, and a number of them receive federal funding on a competitive basis (currently US \$1.7 million annually).

**Communication mechanisms.** At the federal level, there are no special mechanisms created for communication between the co-operative sector and government. Lobbying and communications occur by way of the National Co-operative Business Association (N.C.B.A.), the National

Council of Farmer Cooperatives, the Farm Credit Council, and other trade organizations. The U.S.D.A., in particular, has staff and resources dedicated to public information and education, which facilitates relations with the co-operative sector.

At the state level, relations are conducted by way of co-operative councils, federations, or associations, which exist in the large majority of states and particularly represent rural and farm co-operatives.

### *The United States: Analysis and Conclusions*

Perhaps the most distinctive and interesting example of the state's role in American co-operative development is provided by Rural Business-Cooperative Services of the U.S.D.A. R.B.S. is active in research and education as well as in direct technical assistance to co-operatives. The network of federally funded Cooperative Development Centers is an interesting model of development partnership with nonprofit and community-based organizations. The earmarking of \$200 million for co-operatives from the U.S.D.A.'s Business and Industry Loan Guarantee Program also stands out as a significant federal financial commitment.

Also of far-reaching importance is the role of the federal state in organizing and guaranteeing co-operative credit through the Farm Credit System and through central co-operative banks like the National Cooperative Bank, originally created by federal government action.

Federal encouragement of community-development and low-income credit unions (through the National Credit Union Administration and through supportive tax policies and legislative changes) is also significant.

Support by U.S.D.A. and state governments for rural utility co-operatives and for New Generation Co-operatives is noteworthy, as these are models of co-operatives that are uncommon in Canada.

In general, it appears that the federal government has played a proactive, development-oriented role, at least with respect to rural co-operatives and to credit unions; while state governments have played the more passive but also supportive role of passing appropriate legislation. In some cases,

state governments incorporated co-operative development into wider programmes of rural or community development.

While the U.S.D.A. is not alone, then, in supporting co-operative development, it does stand out. Its effectiveness is related to several factors, which include not only the size of its budgets and its networks of co-operative and third-party arrangements, but also and perhaps most significantly the fact that it has a dedicated agency, R.B.S., whose mandate is to support co-operative development. R.B.S. does this through research, education, direct provision of services, indirect provision of services through Cooperative Development Centres, and through grants and loans. The example of R.B.S. appears to show that there can be a niche in a federal system for an active co-operative–development role at the national level; and that having an agency dedicated to this role likely makes a practical difference both to the focusing and delivery of government resources, and to the actual results in development of co-operatives and communities.

## Case Study Summary: Co-operative Policy and Institutions in Australia

The following is a summary of Garry Cronan and Jayo Wickremarachchi, “A Study of Co-operative Development and Government-Sector Relations in Australia,” *Co-operative Development and the State: Case Studies and Analysis*, Part Four.

The greatest number of co-operatives in Australia are so-called “general co-operatives”—agricultural marketing and supply, consumer, service, worker co-operatives, as well as nonprofit community organizations structured along co-operative lines. However, financial co-operatives have larger turnover and membership. Australia has 237 credit unions with over 3.5 million members, supported by an effective co-operatively owned central organization, the Credit Union Services Corporation (Australia) Limited or C.U.S.C.A.L. Among general co-operatives—taking the state of New

South Wales as an example—by far the largest number are recreation co-operatives, including gambling clubs, bowling clubs, returned servicemen's league clubs, ski lodges and so on. These co-operatives are not organized in strong central federations and their participation in the wider co-operative sector has been minimal. The largest market share is achieved by agricultural co-operatives, which have significant market shares in dairy products, rice, and cotton. Overall, national turnover of co-operatives is estimated at around AUS \$4.5 billion, of which New South Wales co-operatives account for about 80 percent. The list of the top one thousand Australian companies (by net revenue) includes fourteen co-operatives, seven incorporated under co-operative legislation and seven incorporated under companies legislation. All but one are agricultural co-operatives; most are in the dairy industry.

### *Weakness of National Institutions*

While the credit-union movement in Australia has successful second-tier representative and service structures, general co-operatives mostly do not. This difference helps explain why credit unions have held their own, while other kinds of co-operatives have declined in relative terms. The most recent attempt to form a lasting national representative body, the Australian Association of Co-operatives (A.A.C.), collapsed in 1992. The A.A.C. had attempted not only to perform representative functions, but also to deliver commercial services (such as banking and international trade) and to undertake co-operative development through a dedicated development unit. The failure occurred for economic reasons resulting from the central banking function; the sector's analysis was the A.A.C.'s mistake lay in excessive concentration on commercial and international activities. The successor organization, the Co-operative Council of Australia or C.C.A., has minimal funding and staff; in effect the focus has shifted to state co-operative federations. The result has been a lack of national focus for the movement and a lack of good political connections and communications.

### *National policy Environment*

At the national level, policy since the 1980s has been driven by values of individualism and by policies of tariff reduction, deregulation, privatization, downsizing and so on. Indeed, it has been observed that Australia, more than most other comparable countries, has been under the sway of the 1980s economic revolution. The results have been a trend to disregard co-operative structures and to distinguish less and less between different types of organizations and the values that they represent, and a corresponding reluctance to develop specific policy directed at co-operatives. National-level policy has become neutral or (perhaps unintentionally) hostile, with the withdrawal of earlier preferential treatment contributing to the collapse or conversion of mutuals and co-operatives.

Supportive policies have been enacted towards co-operatives when some of the governments recognized them as development tools. However, in some cases this support went too far, leading to direct government involvement in co-operative capital and management, and to questionable successes. Indeed, inappropriate interventions may have helped discredit co-operative-type organizations.

### *Role of Commonwealth Government*

Unlike Canada and the U.S.A.—also examples of federated governmental systems—the Commonwealth Government of Australia has no separate administrative or ministerial responsibility for co-operatives. There are no Commonwealth Government public servants with any full-time responsibility for co-operatives. The lack of a co-operatives unit or responsibility within the Commonwealth Government administration has meant that there is no co-ordinated and unified view offered on how recent policy changes may affect co-operatives. Given this lack of strategic policy advice, it is not unexpected that co-ops were neither taken account of nor included within broader national economic and social goals.

The Commonwealth Government department which has had the most direct and long-term relationship with the general co-operative sector has

been Primary Industries. This department, now known as Agriculture, Forestry and Fishery Australia (A.F.F.A.), has over the last twelve years provided financial support to a number of projects which had a co-operative component. These included funding for a co-operative studies centre, studies on co-operatives in the dairy industry, financial assistance for co-operative training and educational programmes, funding for feasibility studies and business plans, and promotion of farm forestry co-operatives. In general, however, the co-operative focus was low-key and secondary to industrial strategies.

### *Role of State and Territorial Governments*

Regulatory responsibility for co-operatives rests with the state and territories, who as a result all have at least one part-time official responsible for co-operatives, typically within a department concerned with fair trading, consumer protection, or competition. The state of New South Wales has by far the largest number of officials (33) involved with co-operatives.

Generally New South Wales has been the most active in promoting co-operative development, beginning with the N.S.W. Co-operation Act of 1923, which led to the creation of a small group of officials supportive of co-operatives. Growing numbers and influence of co-operatives led to the establishment in 1949 of a separate ministerial portfolio for co-operatives, which remained in existence until 1988. The ministry was succeeded by a co-operative development unit in 1988–96, subsequently replaced by a “whole of government” approach to co-operative development.

### *Different Modes of Intervention*

**Legislation.** Unlike other federal systems such as those of the U.S.A. and Canada, the national government in Australia has no direct responsibility for general co-operative legislation; it does have such a responsibility for financial co-operatives. Federal legislation on taxation, compe-

tition, corporations, and other matters does affect co-operatives, however. As in other countries, co-operative surpluses received special tax treatment, which will however likely cease in the not-too-distant future.

State and territorial governments have all enacted co-operatives legislation. The New South Wales act, most recently extensively revised in 1992, illustrates a trend towards greater commercial freedom for co-operatives (while still entrenching international co-operative principles), greater accountability for directors, increased disclosure and reporting requirements, an expanded range of capitalization options (such as Co-operative Capital Units, an external equity/debt instrument), and the retention of a Co-operatives Council to advise the minister on co-operative development and policy. The development of “Core Consistent Provisions” for legislation is generally standardizing similar approaches by agreement among the states and territories.

**Co-operative–development initiatives: New South Wales.** A variety of programmes for co-operative development have been undertaken, particularly in New South Wales. While most of these were rather short-lived, they illustrate a variety of approaches and outcomes. Many of the initiatives resulted from two organizational innovations: the creation of a ministerial advisory council on co-operatives in 1986, and of a dedicated co-operative development unit within the responsible provincial department in 1988.

The ministerial council was created in 1986 to advise on options for co-operative development. It included working parties on legislation; research and statistics; education; economic interaction between co-operatives; internal financing; and marketing development. The council undertook a variety of studies and made recommendations on co-operative development. One of its most ambitious projects was the Co-operatives 2000 project of 1990–96, which among other matters initiated a series of Co-operative Key Issues conferences.

In 1987–88 the Department of Co-operative Societies was restructured to include the establishment of a Co-operative Development Branch. From 1988 to 1996, this branch pursued a variety of strategies for growth of the co-operative sector. Its activities included administration of a Co-operative Development Fund, which provided grants to pay for feasibility

studies; provision of a Co-operative Formation Service; policy and legislative development; publications; education; and provision of support to the Co-operatives Council and to co-operative networks. The period of existence of the Co-operative Development Branch was associated with growing rates of creation of new co-operatives, which appear to have declined again since the unit ceased operation. The most significant area of creation of new co-operatives was co-operative housing, which was also the only area in which a specialized, sector-specific second-tier co-operative federation existed. Substantial numbers of wholesale and retail co-operatives, childcare and elder care co-operatives, and food network co-operatives were also created.

A ministerial policy statement in 1996 outlined a new approach to develop co-operatives throughout the state, and to raise the profile of co-operatives, through restructuring of government agencies and through new strategies of development and promotion. Strategies under consideration included community-based utility co-operatives, an embryo-industries programme for worker co-operatives, encouragement of credit unions and building societies as a source of co-operative finance, co-operative options for employee buyouts, employee share-ownership schemes, and strategic producer-co-operative export networks. This was followed by a discussion of a “whole of government” approach to co-operatives, and some reorganizations whose results so far appear inconclusive. One reading may be that the government no longer wishes to be directly engaged in co-operative policy and co-operative development, but instead desires to “outsource” these functions to an external agency that could be a more effective advocate for co-operatives.

These events were followed by the creation in 1999 of the Australian Centre for Co-operative Research and Development (A.C.C.O.R.D.), sponsored by the University of Technology, Sydney, and Charles Sturt University, Bathurst, with funding from the New South Wales government.

**Co-operative–Development Initiatives: Commonwealth and other states.** In general, development in other states and by the national government has focused on the agricultural sector. In 1986, a working party of the Standing Committee on Agriculture made numerous recommendations

for the promotion of agricultural co-operatives, including the creation of an agricultural co-operative service, grants or loans to co-operatives, research, and education. Most recommendations were not implemented, and many were repeated in subsequent studies and discussions. Dairy co-operatives were the focus of several reports, studies, and meetings. From 1989–93 there was a Centre for Co-operative Studies in Agriculture at Griffiths University, established with AUS \$1 million in federal funding; its focus was primarily on the dairy industry.

Among other states, the Victoria government established a Ministerial Advisory Committee on Co-operatives in 1984, consisting of four ministers plus officials and co-operative representatives. This committee undertook publications, seminars, and research projects, and established a series of consultative Working Parties. These identified issues such as legislation, inadequate co-operative education and training, difficulties obtaining finance, uneven levels of development between sectors, and the fragmentation of the co-operative movement. The committee recommended that government play a role in supporting co-operatives, in particular by working with sectoral co-operative associations to develop services and to represent and promote their sectors' needs. This process contributed toward new co-operative legislation, and resulted in a Co-operative Development Unit similar to that in New South Wales. The unit was abolished in 1994, its functions absorbed into the Victoria Registry of Co-operatives which no longer plays a significant development role.

**Sector-State communications mechanisms.** Today only New South Wales has a formal consultative mechanism between co-operatives and government—the co-operatives council referred to previously. The council is established under the 1992 co-operatives legislation and is mandated to encourage the development and integration of the co-operative sector, and to advise and make recommendations to the minister about promoting co-operative principles, assisting in the formation of co-operatives, and about co-operative legislation and regulations. It consists of nine members appointed by the minister, including four from among nominations submitted by co-operatives.

Most communications between governments and co-operatives occur through more informal means, notably contacts between officials and fed-

eration representatives, and through public-policy conferences and consultations. Some individuals have crossed over between working in the co-operative sector and in government.

### *Australia: Analysis and Conclusions*

Notwithstanding a number of innovative co-operative policy and programme initiatives over the last twenty years, and some corresponding growth in co-operative numbers, the sector remains largely on the periphery of government policy and programme delivery. It has been the state, not the sector, that has initiated and driven development, and it has generally done so according to other priorities. The effect has been that while Australian public policy has moved to embrace globalization, deregulation, privatization and more liberal market programmes, co-operatives have been undermined and overlooked. Support for co-operative development in government, where it has existed, has not so much been reflected in mainstream policies and programmes as in the interest and support of an individual minister. This consequential lack of legitimacy has resulted in co-operatives being invisible.

These developments were complicated by the federal nature of government in Australia, for while the national government has taken the lead in deregulation and privatization, the task of regulating and possibly promoting general co-operative activity has fallen to the state and territorial governments. These governments have tended to view their role principally in terms of corporate regulation, with only isolated experiments involving co-operative development policies and programmes. Neither level of government has therefore generally taken a positive role with respect to co-operative development.

Co-operatives moreover lack well-developed representative structures following the failure of their national association in the early 1990s. The movement itself has little capacity for widespread promotion and development, and has not succeeded in making government pay attention to its priorities.

A partial exception is provided by New South Wales, which operated an effective co-operative–development unit in the 1980s and 1990s which

appears to have had a measurable effect on the numbers and kinds of co-operatives created. Since the unit was disbanded, the state government has attempted to work with and reinforce the state co-operative federation. But even here, however, where the state has been acting in support of co-op development through committed individuals and the co-operative registry, the idea of “co-operation” has lacked the broader legitimacy necessary in government to create a long-term and supportive public policy environment. One view of such good intentions may be that in the end, this support has been counter-productive, limiting the capacity-building necessary to create a sustainable autonomous general co-operative sector. Given the weakness of the sector, in its “relationship” with government it has then not been able to resist the “negative” forces of public policy.

## Comparisons to Canada

Without systematically analysing co-operative–state relations in Canada—which was not part of the terms of reference for this report—a few selective remarks are in order.

First, there are some similarities among co-operatives in Canada, the U.S.A., and Australia. All three are industrialized market economies with loosely similar patterns of co-operative development. The largest sectors are financial co-operatives (by membership) and agricultural co-operatives (noteworthy in terms of volume and market share). These patterns reflect two predominant impulses for co-operation: the desire of communities, labour groups, ethnic groups, church and anti-poverty associations for community finance and community development (the origin of the credit-union movements);<sup>1</sup> and the desire of farmers for greater control of their markets and for greater returns through vertical integration. These impulses point to common development bottlenecks and market imbalances in industrialized economies. Despite the generally similar patterns, co-operatives are strongest in absolute terms in the U.S.A., and proportional to population in Canada. Australian nonfinancial (general) co-operatives are relatively less developed than in the other countries.

Second, there are similarities among the constitutional systems of government in the three countries. All three are federal states in which powers are divided between federal and state/provincial/territorial levels of government. In all three, primary legislative and regulatory responsibility for co-operatives is vested at the lower level. This appears to have had a noteworthy effect on state-co-operative relations. Because states, provinces, or territories have a responsibility to pass co-operative legislation, to develop and enforce regulations, to maintain registries, and so on, these more passive, administrative roles appear to shape their relationship with co-operatives. This is not to downplay the importance of legislation: in Garry Cronan's model, it is one of two significant dimensions of state policy toward co-operatives.<sup>2</sup> The other dimension, however, is pro-active support for co-operative development, and this has been little in evidence among state, provincial, or territorial governments in the three countries.

The best example of development support, sustained over a long period, is the Rural Business-Cooperative Services agency of the U.S.D.A. Under various names, the service has worked since 1926 to support co-operative development through a combination of research, education, publications, direct delivery of technical development services, and more recently indirect delivery through co-sponsored co-operative-development centres. The Australian example of the New South Wales Co-operative Development Unit illustrates that such services can also be sited at the state level; but this example was a short-lived one.

In terms of Canadian comparisons, Canada could be placed between the U.S.A. and Australia on a spectrum of federal support for co-operative development. The Canadian federal government does have a defined ministerial responsibility for co-operatives, and a dedicated support unit for this responsibility, the Co-operatives Secretariat. This unit is active in policy and legislative development and co-ordination and in liaison with co-operatives: this is entirely unlike the example of Australia, where no comparable unit exists in the federal government. Indeed, the secretariat's mandate in respect to overall federal government policy (going beyond any one department) is likely wider than that of any single unit in the U.S. government. On the other hand, in the dimension of active development support Canada much more closely resembles the Australian model. The

federal government is not a significant factor in co-operative–development services. Revealingly, the one exception in the last quarter-century in which the federal government did become involved in co-operative development in partnership with sector-based co-operative organizations—co-operative housing—is also the most significant growth area in the Canadian co-operative movement in recent history.

Given the weak federal role in co-operative development in Canada, a small number of provinces—two come to mind—have conducted effective co-operative development at the provincial level. The two examples are Saskatchewan, especially from the late 1940s to the early 1980s; and Québec since the 1970s. In both cases, it is significant that a pro-active, development-oriented approach to co-ops was rooted in the respective political cultures and party-political structures. Political processes articulated a provincial vision of development deficiencies and strategies to overcome them; and co-operatives were embraced as part of these strategies.

Saskatchewan’s experience offers an interesting comparison to New South Wales in Australia, in that both are (and understood themselves to be) centres of co-operative development, and both expressed this understanding through the creation of separate ministries for co-operatives. New South Wales’s experience is analysed by Cronan and Wickremaratchi in “A Study of Co-operative Development and Government-Sector Relations in Australia,” Part Four of this report, while Saskatchewan’s is documented in the Appendix to the present document (Part One), “State-Co-operative Relations in Saskatchewan” (below).

Analysis of the Saskatchewan experience confirms that policy towards co-operatives is influenced by basic political goals. Governments have rarely, perhaps never, promoted co-operatives as an end in themselves, but rather as a means to some larger end such as agricultural or rural development, or inner-city neighborhood development. In fact, even in Saskatchewan’s case, promotion of co-operatives was more restricted than commonly thought. Development was reasonably successful when there was a separate department, then a separate branch within a department, with staff dedicated to developing co-operatives. These staff were involved in promoting and launching new kinds of co-operatives, with some measurable and noteworthy effects; the greatest benefit was probably to small,

new, and alternative kinds of co-operatives, since the established ones were strong enough, by and large, to take care of themselves. The effectiveness in co-operative development, and the resources dedicated to it, appeared to decline over time. More recently, the co-operatives unit has been abolished, and its functions diffused through the economic (now Economic and Co-operative Development) department. The effectiveness of this new approach is unproven: the comparisons with the U.S.A. and Australia seem to suggest that significant development occurs only when there is a unit dedicated to making it happen.

The evolution of co-operative–government relations in Saskatchewan suggests that no administrative configuration is perfect. In particular, one problem that was never satisfactorily resolved was the problem of interdepartmental co-ordination around co-operative issues.

Outside of Saskatchewan and Québec, co-operatives in Canada have enjoyed little governmental support, especially in the dimension of active development services. The result appears to be co-operative movements increasingly polarized between quite large organizations that do fine with their own resources, and interact with government only periodically over legislative and trade issues; and fragmented, mostly rather small co-operatives that lack both effective central organizations of their own and appropriate support or recognition from government. A certain lack of dynamism in the Canadian co-operative movement might be inferred from the failure in Canada to emulate new co-operative models such as New Generation Co-operatives or community-development credit unions—models that emerged in the U.S.A. as community-driven initiatives within a supportive framework of governmental policies.

It is clear that successful co-operatives must be community-driven rather than government-driven. But within that understanding, government facilitation of co-operative development can raise or lower the threshold at which community initiative translates into successful co-operative development. Appropriate government facilitation can increase or decrease the rate of formation of new co-operatives and new kinds of co-operatives, positively or negatively affecting the dynamism of the co-operative movement and the self-reliance and development level of communities.

## Concluding Observations: What Works and What Doesn't?

It is apparent from a multi-country comparison that state policy does profoundly affect co-operative development. It is unlikely that citizens in Australia are generally less needy or less desiring of co-operative action than those in North America; yet the fact that they have a less-well-developed co-operative movement, in the nonfinancial sector, is an expression of a complex of causes that include unresponsive or hostile state policies at the federal level. Need does not translate simply or directly into co-operative development. Needs and interests of citizens, facilitated in appropriate ways by external agencies including governments, do drive co-operative economic and social development.

Both federal and state, provincial, or territorial policy can affect co-operatives positively or negatively. If co-op development is to occur, it is important that policy at the federal level be at least generally supportive.

It is critical, as many analysts and co-operative leaders have emphasized, that government policy be supportive but not controlling. Excessive government interference in the decision-making and autonomy of co-operatives has contributed to many co-operative failures, and in wide parts of the world has discredited co-operative models. Government policy must acknowledge that the community-driven autonomy of co-operatives is the key to their success and the source of their contribution to the public good. While this must be clearly understood, the argument against excessive government interference should not be construed as an argument in favour of government inaction. There are many positive, supportive, and facilitative roles that governments can play in order to make sure that co-operative development—and through it, social and economic development—occurs.

It appears that development occurs best when there is a dedicated unit of government whose job is to make development happen—to facilitate and deliver co-operative–development services. The Rural Business-Cooperative Services (R.B.S.) agency of the U.S.D.A., the New South Wales Co-operative Development Unit in the 1980s–90s, the Saskatchewan Department of Co-operation and Co-operative Development in the 1940s–80s, and the co-operative housing programme of the government of Canada from the 1970s–1990s all illustrate this pattern. Many co-operatives will certainly be created without particular government help, but state support for development appears to make an impact on how *widespread*, how *integrated*, and how *innovative* this development will be. The creation of New Generation Co-operatives in the American Mid-West and North-West in the last twenty years illustrates how federal and state policies can help innovation to occur and spread.

It may be that co-operative development can occur when responsibility for it is diffused in a larger department or throughout government as a whole, but the case studies offer no evidence for such an approach having had practical results to date.

The case studies suggest that most states, provinces, or territories have stuck closely to a regulatory view of co-operative development. Their role in maintaining and improving co-operative legislation is important; but most have not taken a pro-active developmental role. It is this role in active support for co-operative–development services, as opposed to the legislative/regulatory role, that has been generally lacking in most of Canada. Such a role is associated with a social-economic development vision that may generally be easier to articulate at the federal level. The U.S.D.A.’s view of American agriculture, and the Australian Commonwealth Government’s view of deregulation and privatization, are examples of national-level visions respectively supportive of and hostile to co-operative development. A logical conclusion is, since co-operative development would benefit and strengthen Canadian economic and social development, that a co-operative–development strategy and capacity ought to be created at the federal level.

This is not to suggest that the federal government play a role in co-operative development at the expense of provinces. The examples of New

South Wales, Saskatchewan, and Québec all illustrate that provinces or states can conceive effective co-operative–development programmes when the provincial or state vision supports this. Co-operative development should be viewed not as an exclusive mandate, but as a wide field in which there is need for many roles and services. The example of how R.B.S. works in the United States suggests that the federal level is well-situated to provide certain kinds of supportive research, publications, education, financial assistance, and direct provision of some services, as well as indirect provision of services through partnerships and co-sponsorships. The Co-operative Development Centres created regionally in the 1990s throughout the U.S.A. provide an interesting example of federal/regional and state/non-profit or state/co-operative partnerships. The federal role can be flexible and regionally differentiated, with the effect of supporting and reinforcing any provincial-level (or local) initiatives. An orientation toward *providing service*, showing leadership, and working in partnerships is the key.

Where dedicated development units are created, this should not be at the expense of policy, legislative, and co-ordination work within the wider government (federal or provincial). The case studies suggest that raising the profile of co-operatives throughout all departments (of all governments) is a general problem and issue. In other words, having a unit dedicated to co-operative development must not mean having co-operatives administratively isolated within the organization of government. It is important that there be some sort of interdepartmental network, committee, or other institutional co-ordination and discussion mechanism, certainly at the level of officials and perhaps also at the political level. There is, as yet, no perfect solution to this problem.

An additional observation from the case studies is that there is a correlation between effective development programmes and strong co-operative federations and representative bodies. In the words of Cronan and Wick-remarachchi, the relationship between governments and co-operative federations, in respect to co-operative development, is “symbiotic,”<sup>3</sup> and both parties need to recognize this and draw the appropriate conclusions.

Governments should recognize that the creation, development, and strengthening of co-operative federations and centrals is an essential aspect of co-operative development. Development of co-operatives should be un-

derstood by governments as a process that occurs working with and through co-operative federations and central organizations—including helping to create these where they do not yet exist. This is part not only of respecting co-operative autonomy, but also ensuring ongoing mutual support and sustainability among co-operatives.

Co-operatives should recognize that their federations need to fulfill a critical policy role. Strong co-operative federations help secure recognition and legitimacy for co-operatives. All co-operatives need to support and work with their central and apex organizations. In particular, representative co-operative bodies have to work to connect co-operatives to, and thereby assure a place for co-operatives in, the social and economic development visions of governments and politicians. This is, in the long term, a far more important task than the narrower goal of representing the immediate material interests of existing co-operative organizations. As the Australian example shows, where the central state pursues an economic vision that does not take account of co-operatives, many of their interests will eventually be harmed. In the United States, by contrast, effective lobbying and public-policy work has maintained the mutual connection between rural co-operatives and Washington.

Both sides need to think carefully about the mechanisms by which they wish to communicate with each other and develop partnerships. While direct, ongoing contacts between co-operative federations and government officials or politicians are the basic format for communication in all three of the countries considered here, there are some supplementary mechanisms to consider. The ministerial advisory council on co-operatives entrenched in the New South Wales co-operative legislation of 1992, or the more short-lived Victoria Ministerial Advisory Committee on Co-operation (which included ministers as well as government officials and co-operative leaders), are options to be evaluated for both provincial and federal levels of government. It was the New South Wales council that formulated some of that state's most important co-operative-development initiatives in the 1980s and 1990s.

Cronan and Wickremarachi raise an interesting question about whether the focus of a development unit should be on co-operatives specifically, or on a wider development concept such as social economy that

includes but is not limited to co-operatives.<sup>4</sup> The ideas they raise would represent interesting departures for co-operative development in the English-speaking world. An attraction of focusing on the social economy (or related concepts such as social capital or social cohesion) is that such a strategy situates co-operative development within a broader policy field, so that the focus is not on co-operatives as an organizational form but rather on co-operatives as part of the means to achieve a vision of social and economic development. Experience appears to show that governments support co-operatives not in and for themselves, but rather as means to fulfill wider public-policy objectives (which have included, for example, rural or agricultural development). The concept of the social economy might help capture some wider public objectives.

*In summary:* What works in co-op development, and what does not?

What *does not* produce results in co-operative development, generally, is a hostile *or* neutral *or* excessively controlling public-policy environment. Leaving communities to their own devices, or intervening excessively in their plans and projects, both contribute to fragmentation and lack of legitimacy for co-operative movements and organizations; and thereby to a lower level of social and economic development within communities. There is a median position in which governments can play a supporting but not controlling role—and this should be the central objective of co-operative–development strategy.

One thing that *does* appear to work in co-operative development is having a dedicated unit of government whose job is to facilitate, support, and deliver development services. Research, publications, education, financial assistance, direct service delivery, and indirect service delivery through partner organizations form a mutually supportive package of roles. There is room for federal leadership and support in these functions, for a country-wide vision, without excluding the possibility of provincial, state, or territorial roles and initiatives. Within Canada, the development-services area is very thinly covered compared to the state's more passive roles in legislation and regulation.

Effective communication between co-operatives and government is also an integral component of successful co-operative development. Development work is particularly effective when assistance simultaneously

reinforces and involves sectoral co-operative organizations and co-operative federations. In addition to contacts between representative co-operative bodies and governments at the levels of officials or of politicians, more formal models of advisory councils also exist and should be considered.

Governments need to be clear that they are not supporting co-operatives as an organizational form, as institutions in and for themselves, or as a set of “interests,” but rather as part of a wider vision that may include social, regional, or rural development, social capital or cohesion, or the social economy. Development policy works best when it is focused on the societal result, not the discrete institutional forms and technical mechanisms.

Despite these patterns and observations, it is clear that there is no one structural “solution” for the co-operative–development “problem.” Rather, there are a set of needs and opportunities, a set of actors and agents (co-operatives, governments of different levels, and other interested organizations), and a need for dynamic processes and flexible strategies that bring them together to find approaches suitable to the circumstances of each country, region, province, and locality. This should come as no surprise, for by now everyone surely realizes that the age of blueprint or cookie-cutter approaches to development has passed, to be replaced by an era of strategies, alliances, networks, and management of partnerships. What has not changed is that the state, in its various forms and levels, remains a critical institution within society, with a capacity to provide leadership in relation to social and economic development if it chooses to do so.

## Appendix: State–Co-operative Relations in Saskatchewan

Saskatchewan provides an illustrative example of changing structures and ongoing issues in state–co-operative relations. Relations between the government and the co-operative movement in Saskatchewan have always been significant because the province has, proportionate to its population and economy, an exceptionally large co-op sector. The co-operative portfolio in government has had a variety of homes reflecting changing political approaches and priorities, but underlying all the different structures is the question of how best to place what is effectively an interdepartmental policy area within a strongly departmentalized civil service.

**Introduction.** The best-developed co-operatives in the province are in agricultural marketing and processing (led by Saskatchewan Wheat Pool), in rural and urban retailing and farm supply (the Co-operative Retailing System, headquartered at Federated Co-operatives Limited in Saskatoon), and in community banking (credit unions and Credit Union Central of Saskatchewan as well as associated financial enterprises). In total, the province of one million people has many more than one million co-operative memberships. Allowing for multiple memberships in different co-operatives, probably over two-thirds of all households in the province have a membership in at least one co-operative.

Corresponding to the importance of co-operatives in the provincial economy, co-operatives have generally had a significant place in government policy, but the scope of government activity and the placement of responsibility for co-operatives has changed greatly over the years. This makes Saskatchewan something of a laboratory for models of co-operative–government relations.

In general, one can characterize three different stages or structures of government–co-operative relations in Saskatchewan.

**1. 1913–1944.** In the early years of the province, and especially during the critical developmental years of the 1920s–1930s, a small group of government officials in the Co-operation and Markets Branch of the provincial Department of Agriculture played a critical role in stimulating and guiding the development of co-operatives in Saskatchewan.

Government officials did not initiate the co-operative movement among the province’s farmers. In fact, the early governments responded to political organizing and radicalism among farmers by attempting to channel development into what were considered safe and reliable forms. Thus pressure by farmers for large-scale marketing organizations and for government-owned elevators was deflected into the creation of a co-operative elevator company in 1911. The province’s first co-operative legislation, in 1913, was also a response to the early agrarian movement and answered farmers’ demands by allowing small-scale, local agricultural co-operatives.

The Liberal governments of the province’s founding era cultivated the support of the farm movement and recognized agriculture as a driving force in their programme of provincial development and modernization. Several prominent co-operative leaders of the day became agriculture ministers (and in one case a premier) in the Liberal governments of the ’teens and early twenties.

The political support of governments for at least certain kinds of co-operatives created a framework within which key civil servants assumed important roles with respect to the developing co-operative movement. Through the 1920s W.W. Waldron, then from the 1930s to the 1960s B.N. Arnason, met frequently with co-operative leaders, corresponded extensively with them, attended meetings, and made speeches and presentations. Through their influence they promoted what was then understood as sound “Rochdale” co-operative business practice, based on localism, education, and farmer participation; and they assisted with the introduction of new co-operative models. While the powerful wheat-pooling movement of the 1920s was driven by agrarian organizations and politicians with little involvement by government officials, other kinds of co-operatives benefited from the time and attention of civil servants. Officials encouraged retail

co-operatives, and particularly the formation of federations, the establishment of educational programmes, and the creation of central wholesales. Perhaps the most important innovation they helped introduce was credit unions, which were permitted by new legislation in 1937 modeled on the earlier Nova Scotia credit-union act.

On the whole, the placement of responsibility for co-operatives within a branch of the Department of Agriculture appeared successful under the circumstances of the era. Agriculture had a high priority in the province's policy, and co-operatives enjoyed a prominent place within agricultural policy. Nonagricultural co-operatives were few, so it was relatively unproblematic for the agriculture department to bear responsibility for co-ops.

In retrospect, there appear to be three main reasons why the pre-1944 model changed. First was that the co-operative movement was growing beyond the boundaries of a single department's policy interests. The emergence of urban retail co-operatives and credit unions in the late 1930s and in the 1940s carried co-operation in nonagricultural activities; and the expanding co-operative movement of the day had great hopes to apply co-operative models in many different social settings. This relates to the second reason: a growing co-operative movement demanded greater attention from government and more resources than a single branch could provide. Finally, the election of a Co-operative Commonwealth Federation (C.C.F.) government in 1944 created new political circumstances in which the provincial government wished to be seen as a leader in the promotion of alternative economic models.

**2. 1944–1982.** The C.C.F. government brought new symbolic and rhetorical prominence to co-operatives. Although a number of senior co-operative leaders were suspicious of the C.C.F. and disliked its claim to the word “co-operative,” the local activists of the co-operative movement and of the new political party overlapped to a significant degree.<sup>5</sup> Co-operatives were recognized by the new government alongside public ownership as an important tool for the economic recovery and modernization of the province. In recognition of this status and of the C.C.F.'s sense of attachment to co-operative values, a separate Ministry of Co-operation and Co-operative Development was created in 1944.

In retrospect it is striking how little the established co-operatives and

the C.C.F. government had to do with one another. While there were numerous ideological and personal connections, there were few joint initiatives, partnerships, or government programmes or initiatives to assist established co-operatives. In some respects the apparently close alliance between the co-operative movement and the C.C.F. was an illusion. While the followers of the two movements shared overlapping reformist visions, there were few close connections between government programmes and co-operative organizations.

The most important role of the independent co-operative ministry was in promoting the development of new kinds of co-operatives. These developed mostly within areas of priority for the new government such as rural and northern development. Co-operative farms were created in the early postwar period; agricultural machinery co-operatives from the 1950s on; northern fishing co-operatives and co-operative stores in the 1950s–60s (some of the first co-operatives with significant roles in Aboriginal communities), and childcare and recreation co-operatives in the 1960s–70s. It is unlikely that many of these would have been created without government intervention as organized by the department. The co-operative farms, for example, required complicated negotiation of provincial and federal programmes for demobilization of soldiers; the northern Aboriginal co-operatives were created through the spinning off of what had initially been created as government marketing agencies; the childcare co-operatives would have been scarcely conceivable without a comprehensive government policy favouring parent-sponsored preschools and daycare centres. In other words, co-operative development occurred mostly within policy areas that had some wider importance to the governments of the era.

By contrast, co-operative development failed to occur where it conflicted with broader policy goals. One of the most promising forms of co-operative developed in this period was the consumer-sponsored health-services co-operative (community clinic). However, the controversy associated with the emergence of these co-operatives in the doctors' strike of 1962 led the C.C.F. and all subsequent governments to distance itself from them. As a result, a promising model within an area of public responsibility was not actively promoted. This reinforces the conclusion that, even though the C.C.F. governments were philosophically favourable to co-oper-

ation, co-operatives were not effectively promoted for their own sake, but only where they were supportive of wider policy aims.

The role of the department in promoting co-operative development and new co-operatives was also reflected in the progressive co-operative legislation developed during this period. While large established co-operatives like the Wheat Pool or credit unions had their own legislation, and while the consumer co-operatives were well-served by legislation as it stood, the co-operatives act was modernized in ways that accommodated the needs of a wide variety of forms of co-operatives. Worker co-operatives, for example, though exceedingly rare in Saskatchewan, were provided with useful provisions and options in the provincial co-operatives act. This probably reflected the accommodating and forward-looking attitude of the department's staff as much as it did any particular lobbying by the co-operative sector.

Any organizational model has both advantages and disadvantages. The advantages of vesting responsibility for co-operatives within a separate department were clearest in the development work carried out by departmental staff within selected fields, in the progressive legislation, and in the general rhetorical prominence given to co-operatives. The disadvantages are less clear because they were not the subject of complaints at the time, but in retrospect—and reading between the lines—there are indications that support for the departmental model was lukewarm among the co-operatives themselves. The department remained small and marginal in the machinery of government; as time went on, it appeared ever more marginal. Large co-operatives developed a sense that it was not an effective conduit for representations of their interests.<sup>6</sup> Even activity in promotion of new co-operatives seemed less effective by the 1970s. Having a separate department possibly failed to ensure that co-operative models and issues were taken sufficiently into account in other parts of government. As it turned out, a change in governing parties in the 1980s brought the issue out into the open.

**3. 1982–1999.** The election of a Progressive Conservative government in 1982 heralded considerable change in the structure of state–co-operative relations. Effectively the 1980s began an era of experimentation that has not yet ended.

As co-operatives were perceived by many to be close to the C.C.F./N.D.P., the new government was expected to be suspicious of them. However, the separate Department of Co-operation and Co-operative Development continued in existence until 1987, when it was finally eliminated. Responsibilities of the department were divided between the Department of Justice (legislation and regulation) and a Co-operatives Branch within the Department of Economic Development and Trade (co-operative–development programmes and co-operative–sector liaison).

Responsibility for co-ops was thus downgraded in the 1980s from the departmental level back to the branch level, now in the economic-development department rather than the agriculture department. Co-operatives protested this decision, but not as much as one might have expected. A decreased prominence for co-operatives and co-operative–development programming was accepted with some resignation. By 1991–92, the branch had five staff positions; seven Co-operative Business Consultants were also located in the Business Resource Centres of the Small Business Division of the department.

During this period, key policies were negotiated directly between the government and individual, large co-operatives. By far the most significant of these was the provincial funding for the heavy-oil upgrader attached to Federated Co-operatives Limited’s oil refinery in Regina. This government-sponsored “mega-project,” known officially as the NewGrade Upgrader but colloquially as the Co-op Upgrader, was one of the larger economic development initiatives of the 1980s.

Development of new co-operatives also continued, with many new community-development and farmers’-market co-operatives tied to the rural-development initiatives of the 1980s, with continued spread of machinery and other co-operatives, and with a small attempt to promote worker (employment) co-operatives. In fact, new records for the number of co-operatives incorporated annually in Saskatchewan were set in the early 1990s. Despite the numerical success there were concerns that many of the new co-operatives were “programme-driven” and were not being organized into federations or supported by adequate education and co-operative–specific training, leading to doubts about whether they were “real” co-operatives.<sup>7</sup>

The election of an N.D.P. government in 1991 was followed by a partial re-emphasis of co-operatives within the structure of government. Following consultations with the co-operative sector in 1991, the 1992–93 budget upgraded the former co-operatives branch to a Co-operatives Directorate within the Department of Economic Development. An Assistant Deputy Minister for Co-operatives was created, who also assumed responsibility for community-economic-development programmes. While the prominence of co-operatives was thereby increased within the department, the staff resources dedicated to the area were largely unchanged.<sup>8</sup>

The Co-operatives Directorate turned out to be a transitional phase. Two subsequent changes led to the department as a whole absorbing the directorate's functions. First, the prominence of the co-operative policy area increased when the name of the department was changed in 1997 to the Department of Economic and Co-operative Development. Then in 1998 the directorate was dissolved and responsibility for co-operatives was diffused throughout the whole department. The position of Assistant Deputy Minister for Co-operatives was eliminated. Other former staff of the directorate were assigned to other units. Several staff positions remain that are understood to be concerned with co-operatives, but these are not brought together in a common unit.

The new structure, a generalized departmental responsibility for co-operatives within the economic-development department, is too new to be assessed at this time. A possible strength of the model may be that co-operatives will achieve their desire to have a strong advocate within government, a department rather than a branch or directorate, and an influential department rather than a marginal one. A possible drawback may lie in the lack of any apparent mechanism for preparing officials of the department to assume their new, broader responsibilities. In particular, the lack of any personnel dedicated to co-operative policy may mean that the responsibility for co-operatives is simply lost within the broader department. Whatever the case, the 1998 changes represent a new and experimental departure.

This evolution within the economic department in the 1990s was paralleled by some significant co-operative–development initiatives within other departments. The social-services department undertook inner-city

community development projects associated with a variety of new community-development, worker, and housing co-operatives. Beginning in 1997 the municipal affairs ministry received the devolved responsibility for federally initiated co-operative housing projects. The agriculture department took the lead in 1998–99 in developing legislation for “new generation co-operatives” (a specific form of value-added co-operative for agricultural producers). In each case, a broader policy responsibility led the departments concerned to deal with co-operative models and opportunities. In light of these developments, it would be fair to say that provincial policy toward co-operatives in 1999 is more diffused among different departments than it has been at any time since 1913.

**Analysis of the Saskatchewan Experience.** Policy towards co-operatives, or any other broad subject of social-economic significance, is influenced by basic political goals and interests. In the case of co-operatives in Saskatchewan, there have been differences in style of relationship with the sector between governments of the left and of the right, but it has arguably never been a basic political goal of any government to promote co-operatives simply for the sake of promoting co-operatives. While some officials in the longstanding department of co-operative development and its successor agencies undoubtedly operated from such a general, pro-co-op framework, government policy as a whole firmly supported co-operatives only when there was a larger, practical goal in sight. Co-operatives were supported as a means to an end, not as an end in themselves. Governments were interested in agricultural development, in rural development, in dealing with declining communities or remote northern ones, and these broad policy objectives were what sustained initiatives and relationships around particular kinds of co-operatives. Similarly they were not interested, after 1962, in challenging the province’s powerful medical establishment, and so never effectively promoted community clinics.

It was sometimes said, throughout these changes, that what co-operatives lacked was a strong minister to champion them. This was one of the points that sector representatives made during the 1991 consultations: that they didn’t much care where responsibility for co-operatives was placed, as long as the minister was influential within cabinet. This is a debatable point. There is a trade-off involved in being attached to a minister who

may be perceived as “strong” but who may have many other compelling responsibilities. The history of the placement of the co-operatives portfolio within the civil service suggests that a more fundamental issue is whether the broad responsibility for co-operatives can effectively be integrated into the work of several different departments.

One thing that co-operative policy in Saskatchewan generally lacked throughout the entire period was an effective interdepartmental network. At first, being located in the agriculture department was adequate. As the province’s economy and society became more modern, more segmented, more diverse, co-operatives became important in many settings besides the original rural-agricultural milieu that the department of agriculture had handled. As it turned out, neither a separate department nor a directorate in an economic department proved by itself to be an effective way of dealing with the essentially interdepartmental bundle of questions that constitutes co-operative policy. Interdepartmental committees were created but played a negligible role in cross-departmental policy-making. (This problem was not unique to co-operatives, but also reflected a general difficulty of government in dealing with issues that crossed administrative and programme boundaries.) Perhaps the departmental/interdepartmental problem can never be perfectly resolved, and any configuration can be made to work if some other ingredient is right. In all likelihood, that ingredient has something to do with strategic directions around key policy goals.

It is revealing that, where there was a larger purpose in view (as in the case of the inner-city community-development co-operatives assisted by the Department of Social Services), that government departments were able to act effectively to develop co-operatives. This suggests that the key task is not only to create a concentration of expertise and knowledge around co-operatives, located arbitrarily somewhere in government, but rather to create more than one such centre, and to link them effectively into strategic policy-making in all relevant departments. This implies strong interdepartmental networks involving key civil servants involved in policy development, who can include co-operatives in their departments’ priorities where they fit broad public objectives. Despite its large co-operative sector, and its generally supportive policies, the Saskatchewan government did not resolve this key problem in the period 1913–1998.

## Notes

1. The credit-union movements in all three countries (at least, in the two countries plus the English-speaking parts of Canada) loosely follow what might be conceptualized as the “American” model, that is, originally, small credit unions based on a “common bond” of membership, and offering financial services to the less-well-off. The common bond was often determined by workplace or profession, but could also be ethnicity, religion, or locality. This model differs from European people’s banks, which generally were larger, geographically rather than socially or culturally defined, and focused on middle-class and business lending. The growth in size of credit unions, and the shift toward a geographic common bond, reduces the differences between the models.
2. Garry Cronan, 1995 Key Issues Conference Papers (as cited by Garry Cronan and Jayo Wickremaratchi, “A Study of Co-operative Development and Government-Sector Relations in Australia,” *Co-operative Development and the State: Case Studies and Analysis*, Part Four, November 1999, p. 101).
3. Cronan and Wickremaratchi, “A Study of Co-operative Development,” p. 193.
4. Cronan and Wickremaratchi, “A Study of Co-operative Development,” pp. 195ff.
5. As demonstrated by S.M. Lipset, *Agrarian Socialism: The Cooperative Commonwealth Federation in Saskatchewan. A Study in Political Sociology*, rev. ed. (Berkeley: University of California Press, 1971). Lipset shows that 74% of C.C.F. rural delegates held posts in co-operatives (p. 222) and that 69% of rural delegates at two 1946 co-operative conferences held posts in the C.C.F. (p. 225).
6. As indicated, there were few direct criticisms of the department at the time. However, later (in the 1990s) when co-op leaders were consulted about what structure ought to be created for co-operatives within government, a common view was that the placement did not much matter, as long as the unit concerned was attached to a strong minister. One can read this as an implied criticism of the pre-1991 state of affairs for attaching co-operative responsibilities to “weak” units. (See below.)
7. See Co-operative Enterprise Development Project Team, *Co-operative Enterprise Development in Canada: An Action Plan* (September 1993), p. 15.
8. See Co-operatives Directorate, *Building Effective Partnerships: The Co-operative Sector and Government in Saskatchewan* (October 1993).

## PART TWO

# Issues in Co-operative Development and Co-operative-State Relations

The purpose of this paper is to frame definitions, concepts, and approaches that will be useful in developing overviews and analyses of how co-operative development is managed in the context of government-sector relations in various countries.

There are three interrelated sets of issues to be addressed:

- the theory and nature of co-operatives
- co-operative development
- forms of state–co-operative interaction

## Co-operatives

**Definition.** A co-operative is an autonomous association of people who own and control an enterprise democratically for their own use. This definition distinguishes co-operatives from other common institutions:

- business corporations do not typically practice internal democracy (one member, one vote)
- most private businesses are not owned by the people who use them

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- charitable organizations and “non-owned” entities such as hospitals or universities are not controlled by the people who use them
- nongovernmental organizations (N.G.O.s) do not typically operate an enterprise and may not be controlled by their clients
- state agencies are not autonomous and are not directly controlled by those they serve

However, it is important to note that a business corporation, a private partnership, or an N.G.O. *can* be a co-operative *if* it adopts the basic co-operative reflexivity, namely that the users are the owners and control the organization democratically. Similarly, a charity or certain kinds of parastatal organizations *can* adopt co-operative-like features and may come closely to resemble co-operatives. There are no sharp boundaries to be drawn among these forms of ownership and control. A co-operative is a concept, not a single precise organizational form.

**Association-enterprise duality.** The key to co-operatives is not any particular form of incorporation, but rather the existence of the identity between an association of people on one hand, and an enterprise on the other that they operate for their own use.

This dualistic nature of co-operatives needs to be taken into account in models of co-operative development. For example, some policies may affect the associative dimension of co-operatives, some the enterprise aspect; some may have impacts on both. The relationship between the two “halves” of the co-operative whole needs to be kept in mind whenever the co-operative deals with outside institutions.

**Purposes of co-operatives.** This basic co-operative concept is highly flexible and can be applied to virtually any line of business. In most parts of the world, common types of co-operatives include savings-and-loan co-operatives (credit unions, *caisses populaires*, people’s banks, etc.), agricultural supply-and-marketing co-operatives, consumer co-operatives, and housing co-operatives. Worker co-operatives are a unique form in that the “users” who control the organization are its employees. There are of course an indefinite number of other possible applications of the basic co-operative idea, and these cannot be neatly summarized or categorized.

**Co-operatives, Market Problems, and Values.** An essential point is that co-operatives are created by members as tools to accomplish social and economic objectives. Where members freely choose to form a co-operative, they do so because something about the structure of a co-operative promises greater likelihood of success than any other form available to them. Usually, this is because a co-operative combines a *market rationality* of efficiency, service, and income generation with a *values rationality* of achieving social-cultural objectives important to the members.

For example, many rural co-operatives seek to be successful businesses (market) while also reinforcing, preserving, and sustaining small-town local economies and culture (values). If the members sought only a successful business, they would likely look to a private operator (perhaps in another town); if they sought only to improve their community, they might found a cultural or advocacy organization. People form co-operatives when they want to do both. More specifically, they look to co-operative solutions when they perceive that there are economic problems underlying their social-cultural concerns.

This is part of the idea behind co-operators' famous saying that "co-operatives arise from need": the first inkling of a co-operative comes when potential members identify an economic trend or circumstance that is to them a cause for concern. People who are happy with what the market has done do not form co-operatives.

## Co-operative Development

Co-operative "development" includes the creation or development of new co-operatives, the strengthening or growth of existing co-operatives, as well as the strengthening and development of communities based on co-operative principles. The concept is applicable to all types and sectors of co-operatives.

**An open-ended process.** Co-operative development is fundamentally open-ended because it depends on the members' perceptions of their needs and of what is possible. Even where needs and possibilities are relatively

constant, members' perceptions may change rapidly during the course of co-operative development, especially in new organizations.

It is important to stress that members are usually concerned with solving a problem, and do not necessarily begin with a conception of a co-operative as a solution.

Indeed, forming a co-operative may be a last resort when all else fails. Some of Canada's most important co-operatives were formed by members who tried everything else first. A model that I use to good effect with co-operative audiences is this: if you have a problem, (1) ignore it and work harder. If that fails, (2) demand that the government fix it. If all else fails, (3) co-operate. In this sense, co-operatives are a *residual* solution in our society, which people arrive at by a kind of trial and error. It is rare—especially for people forming new co-operatives—that members are ideologically driven idealists, and it is a mistake to treat them as if they are.

**Importance of education.** The reason education has always been stressed as a co-operative principle is that all co-operatives, by definition, require members to learn new roles. Consumers who want to form a co-operative store must learn to think like retailers; farmers who form a marketing co-operative have to become merchants; tenants in a housing co-op become landlords; workers in a worker co-operative become managers. What makes these transitions manageable is that a co-operative—unlike a collective—still stresses specialized roles and some division of labour. Only the CEO needs actually to be a full-time, peak manager; only those members who are elected to the board of directors need a fairly sophisticated knowledge of the business and its management; other members require only that degree of knowledge necessary to vote in general meetings on long-term questions, to stand for election and so on.

So the corollary of the general importance of co-operative education is that members, directors, managers, and employees all need education *appropriate to their respective roles*.

Also, the *general public* needs to be sufficiently well-informed about co-operatives that citizens are aware of co-operatives as an option, and able to take on the role of members or founders of a co-operative when they feel this is appropriate.

**Building social capital.** Education is not only critical to co-operative development, from one point of view it is the main point of co-operative development. Education, training, and development of human resources give people the ability to solve their own problems. Often, the experiences they gain in one organization (like a co-operative) are transferable and useful in another (like an N.G.O. or a town council). Relationships of trust that are built up among people through one organization, enable those same people to work together more easily and more automatically on other common problems and concerns. For these reasons, the development of co-operatives means community development or the development of “social capital” within communities, and contributes to greater social cohesion at the community level. This insight is a key reason why governments in certain times and places have chosen to play a supportive role in co-operative development.

**Networks and diffusion of innovation.** Co-operatives are a social innovation developed in early nineteenth-century Britain, which subsequently diffused throughout developed and developing societies along with the spread of European economic ideas. There are two important issues here.

First, as a social innovation, co-operatives spread through *networks*. People usually have to hear about them in order to know that they are possible. Moreover, people need to know that co-operatives are legitimate: they have to have some reason to take them seriously, and to know that they work. Mechanisms of education, communication, and legitimation are all important. This is why, in various times and places, the Catholic clergy, or agricultural officials and extension agents, have played critical roles in spreading co-operative ideas.

**Role of external agents.** While co-operatives stress that they are autonomous and “grassroots” organizations, large co-operative movements rarely spring up without some kind of intervention from outside the circle of the founding members. “External agents” serve a triple function: they convey information and key concepts; they legitimize an idea as worthy of consideration; and they act as a kind of neutral party who can facilitate a discussion without being involved in local rivalries or factions.

While in historical cases such external agents were often priests or ex-

tension workers, today's secularized and professionalized society means that such agents may more often be academically trained public and organizational officials, as well as academics. It can also be that individual people who have become leaders in one co-operative may act as the agent who helps another co-operative develop. The source and role of such external agents depends on the cultural context, and is a key factor in co-operative development.

**Life cycles of co-operatives.** Particularly when co-operatives are first founded, the "association" aspect dominates. People typically have to come together first and form a cohesive group, before they can conceive and launch an enterprise. As co-operatives succeed and mature over long periods of time, the associative element may become less vibrant, and the enterprise aspect may become dominant. Such processes have implications for which kinds of state interventions or relations may be appropriate for co-operatives in different stages of evolution. Different kinds of external agents, different kinds of education, and different kinds of partnerships with the state and other organizations may come into play at different points in the co-operative life cycle.

**Co-operative systems and vertical integration.** A striking character of some co-operative systems is their tendency to band together in federations and to form powerful central organizations. Typically the function of these central organizations is to achieve vertical integration. For example, retail co-operatives jointly form wholesale co-operatives, co-operative banks form co-operative central banks, local milk co-operatives form central processing and manufacturing co-operatives, and so on.

In other types of co-operatives (child care, housing, health) the central organization has less of an economic function and more of a representative, educational, and advocacy function.

Still other types of co-operatives form no central organizations at all, and exist only as isolated co-operatives or in affiliation with other movements that are not specifically co-operative in nature.

In terms of co-operative development, the evolution of federations and of central enterprises is a key concern. Once a co-operative system has developed its own central institutions, it typically handles much of its own

development from that point onward. The development of federations and centrals, and different policies toward federated and isolated co-operatives, are relevant considerations for co-operative development policy.

Given the protean and indefinite scope of the co-operative idea, it may be reasonable to concentrate attention and resources on those sectors that have the potential of creating and sustaining their own central organizations.

**Co-operatives and co-operative development.** Each co-operative is developed not primarily out of idealistic fervour, but instead as a solution to its own members' problems. If this is so, why should one co-operative help with another's development? It is critical to pose this question, much as we ask (below) why the state may become concerned with co-operative development. Why should other co-operatives?

There are two general answers. First, co-operatives of similar or of complementary types work together for mutual success. This is the easiest and most obvious case, and the one reflected in the development of economic centrals. Co-operatives of similar types co-operate economically for the same reason that consumers, farmers, borrowers, tenants, and so on form the primary co-operatives in the first place.

Second, co-operatives—to varying degrees, it must be stressed!—recognize common interests as a broad movement whose purpose is to present social-economic alternatives. In such a movement, each co-operative helps spread the ideas of the movement as a whole, helps make the public and the society aware of and sensitive to co-operatives. In a loose, attenuated way, each co-operative's success helps and legitimates the other's. Therefore, in a loose and attenuated way, co-operatives also work together to promote co-operative development.

Sometimes, in very specific ways, co-operatives work together to promote the development of new co-operatives. These specific examples merit special consideration and analysis.

## State Interaction with Co-operatives

Many of the above comments on co-operative development already hint at possible roles of state agencies in furthering or frustrating co-operative development. The purpose of this section is to sketch a framework for examining such roles.

Governments may play roles through policy, legislation, programmes, incentives, and/or partnerships with co-operatives. Each of these modes needs to be considered. Formal mechanisms for communication between governments and co-operative organizations are important; so, too, are government programmes designed to aid co-operative development, of government-sector partnership arrangements that support such development.

**General Policy.** Much as many modern states are influenced by the original nineteenth-century liberal economic models that proceed from the assumption of state nonintervention, many states also seem, at various times and in certain phases, to have moved to more explicit support for co-operatives. Under what circumstances does the state perceive co-operatives as solutions to problems?

In general, it is likely that states value co-operative development when (like co-operative members) they perceive economic trends as having undesirable social-cultural consequences localized in particular places or communities. This may be conceptualized as a problem of “backwardness” or regional or sectoral underdevelopment; or as a matter of social-cultural decay, poverty, crime, and so on. In either case, the question is one of modernization and adaptation for a particular region or group. An hypothesis would be that governments become more receptive to co-operative development to the extent that either (1) they share the goal of developing social (human) capital among the affected group, in order to strengthen

cultures, regions, or communities; or (2) they see co-operatives as a way to manage a specific adaptation-related economic challenge, in order to modernize and strengthen the economy. In either case, one can further assume that governments act only when they conceive the well-being of the group concerned as not being in contradiction to the general interests of the public. Naturally, (3) the strength and capability of co-operatives and their supporters in wielding influence on different parts of the state is also a factor.

Ann Hoyt of University of Wisconsin-Madison<sup>1</sup> has suggested that policies of governments toward co-operatives can be analysed in terms of a spectrum ranging from “destructive” to “controlling”:

1. **Destructive policies** toward co-operatives have been carried out where régimes have attempted to restrict, suppress, or outlaw them. In general, such policies are associated with vicious, dictatorial régimes that have, for some reason usually connected to domestic political dynamics, identified co-operatives as enemies. Examples include Fascist Italy, the military dictatorship in Chile in the 1970s–80s, or Indonesia before the mid-1960s.
2. **Neutral policies** have been characteristic of many industrialized countries and involve—by intention or through ignorance—avoidance of both punitive and preferential treatment of co-operatives. “In effect,” says Hoyt, “cooperative businesses operate in the same climate as all other businesses.” This neutral-but-permissive attitude on the part of the state allowed early popular movements to create co-operatives in Britain, France, Sweden and other countries based on strong traditions of autonomy, self-help, and voluntarism.
3. **Supportive policies** have been enacted towards co-operatives where governments have recognized them as tools by which citizens can improve their condition. Hoyt describes supportive policies as involving removal of “artificial barriers to cooperative operations,” passage of special legislation to make it easier to organize them, provision of education, research, and technical assistance. In this model, governments *encourage* co-operatives

while leaving responsibility with the members for *initiating, developing, and operating* them. “Although the government may provide services and incentives, which make the cooperative a attractive form by which to conduct business, the government is not actively involved in the day-to-day affairs of the cooperative...” Examples given by Hoyt include western European countries in the twentieth century, or Egypt since 1980.

4. **Participating policies** lead to direct government involvement in organizing co-operatives and in supplying them with capital and management. This situation is common in developing countries and has led to many recognized examples of excessive state control and failure of authentic co-operative action. Often, such policies resulted from trying to force a ready-made co-operative model, appropriate to modern industrialized societies, onto nonindustrialized societies where the fit was poor.
5. **Controlling policies** exist where governments take direct, continuous control of co-operatives as tools to implement state policies. Typically the régime controls management and policy of the co-operatives and appoints or controls the board of directors. Government policy interests dictate operational matters such as production, pricing, and marketing.

The purpose of Hoyt’s classification is to suggest that there is a spectrum, and also that government policies within a single jurisdiction move around on this spectrum within or even between categories. Applying her model, we could say that “classic” co-operative movements (Britain, France, Germany) emerged initially under “neutral” régimes, but it is noteworthy that, as these co-operative movements expanded, state policies were shifting more and more to “supportive” ones, particularly in terms of legislation.

**The International Labour Organization** (I.L.O.) has developed a statement concerning public policy in relation to co-operatives.<sup>2</sup> The I.L.O. begins by stressing that co-operatives are outgrowths of the freedom and self-development of citizens, and should therefore be treated with respect by governments:

Thus, cooperatives, as an extension of individual will, should be supported, but should not expect to enjoy any over-privileged position. The state and its agencies should deal with cooperatives in the same way they deal with all individual citizens and the organisations they may jointly establish. In other words, cooperatives should expect treatment equal to that afforded to other forms of enterprise, with minimal intervention in their affairs by national and local governments or agencies.

Within this context, the I.L.O. statement goes on to suggest that because “the state can...be expected to take certain actions in the common interests of its citizens,” it may—without interfering in their internal affairs—choose “to encourage the development of cooperatives as institutions capable of bringing benefits to the general public as well as to their members”:

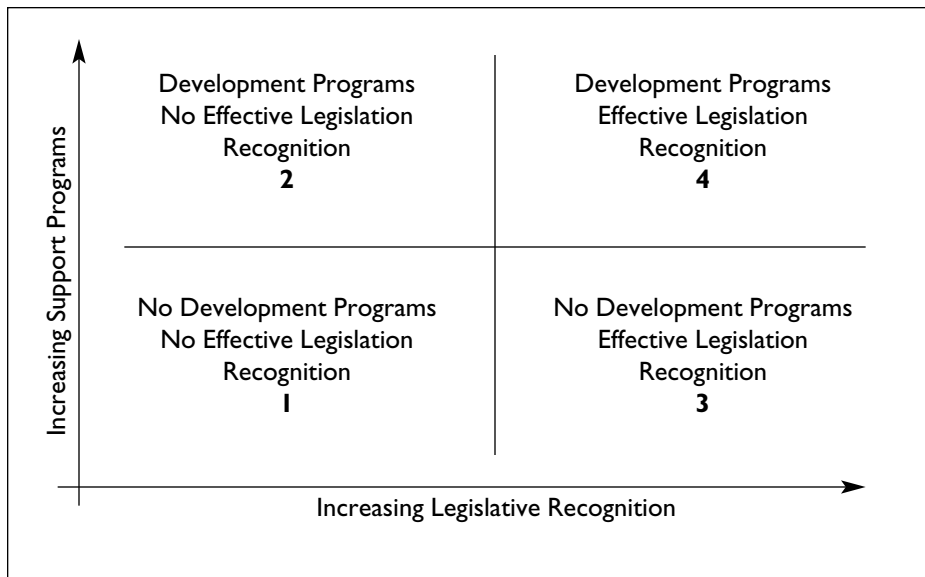
Typically, cooperatives have been regarded as organisations that can, by correcting imbalances in the marketplace, combat the income and wealth differentials that create the conditions for poverty. Cooperatives are also perceived as organisations that foster self-help, and thus their development is often regarded as a means of problem-solving that is an alternative to state intervention.

In the international context, co-operatives have been favoured because they improve national economies; assist primary producers (especially in agriculture), particularly to market exports; reduce unemployment by creating locally-based jobs; reduce dependency on the state; and provide services to rural areas that investor-oriented firms are less interested in serving, among other reasons.

Finally, the I.L.O. document outlines that a “positive framework” for co-operatives can be created by governments through legislation, competition policy, taxation, state contracting, education and training, generally removing barriers or stimulating investment in co-operatives, and by ensuring that co-operatives are represented within the decision-making machinery of government. “One specific government ministry should have responsibility for ensuring that cooperatives are treated with equality

throughout the system,” says the I.L.O. statement. “There should also be responsibility for seeing that the special needs of cooperatives are taken into account by all departments of government.... There is a widespread need to co-ordinate the way different arms of government implement public policy towards cooperatives.”

Garry Cronan provides an analytical framework that highlights positive or negative state interventions in two dimensions: legislative recognition of co-operatives, and pro-active development programmes undertaken by the state. This produces the following simple matrix<sup>3</sup> of policy alternatives:



Cronan also reinforces the I.L.O.’s interpretation when he emphasizes that “the challenge is to develop a unified public policy view across all governments, which addresses the legislative and development issues.”<sup>4</sup>

To sum up, various analysts of co-operative–state relations have highlighted the importance of state policy for co-operative development. Whether the state adopts hostile, neutral, supportive, or controlling approaches makes a fundamental difference to the development of co-operatives. The experience of many countries in the world suggests that direct state in-

volvement within co-operatives is harmful and is to be avoided; excessive state intervention within co-operatives may indeed be as harmful as state hostility. While respecting the autonomy of co-operatives, however, the state may choose for public-policy reasons to support them in a variety of effective ways. This may be to address regional or social-sectoral development questions, to correct market imbalances, to generate locally based employment, to enhance self-help and reduce dependence on the state, or for a variety of other reasons. When states choose to provide a positive framework for co-operatives, they have a variety of tools at their disposal. One way of analysing these options is to think of legislative recognition (a relatively passive form of intervention, acknowledging and confirming the role of co-operatives) and pro-active government programmes for co-operative development as two dimensions of state policy.

**Sectoral differences.** A fair generalization would be that, in most countries, whatever the policy towards co-operatives was, the policy towards *agricultural* co-operatives was one notch more supportive or interventionist. In many countries, departments of agriculture have been strongly supportive of co-operatives because these were seen as mechanisms for the modernization and adaptation of the agricultural sector. Co-operatives promised economic development as well as the social development and preservation of a numerous, dispersed class of rural producers who were politically and culturally significant. This observation is also linked to the dynamics of farm politics since the late nineteenth century. Self-sufficiency in food and the social-economic health of rural areas and primary-production industries have been influential political goals in most countries. Co-operatives have often figured prominently in such policies.

It is not coincidental that, in North America and in many other parts of the world, agricultural co-operation is among the most highly developed sectors. In many cases, favourable state policies were framed at a very early stage in the development of these movements. In other words, it is not necessarily just that highly successful co-operatives demanded state attention; it may also be that state attention preceded and contributed to large-scale success of certain kinds of co-operatives. Policy support for agricultural co-operatives is also interesting because in many cases funding, incentives, and specific programmes for such co-operatives played a minimal

role compared to other forms of supportive policy. Often the key was that agricultural extension agents “talked up” the co-operative model among farmers, legitimizing the co-operative option, and contributing directly both to the associative element of new co-operatives (group formation) and to the enterprise element (rudimentary management and business training). One would now add that this was a “research” function: identifying, analysing, explaining, and applying new models or old ones in new settings. Legislation, research, and education may be the three most important tools with which governments in industrialized countries successfully promoted the expansion of agricultural co-operatives.

Initial common ground between state objectives and co-operative objectives sometimes grew, either slowly through evolution or suddenly through crisis decisions, into something more. Supportive policies have changed over into participatory ones. Examples would include the rice industry in Japan (where co-operatives are granted virtual monopoly powers by the state), the fishing industry in Scandinavian countries (co-operatives administer state-mandated fishing rights), or marketing boards in Canada (which are state entities created out of pre-existing, autonomous co-operatives). One could say that Canadian marketing boards are co-operatives transformed through government participation into forms that are no longer co-operatives.

Other examples of incorporation of co-operatives into sectoral policy thrusts of government include job-creation policies that include a strong focus on worker co-operatives (as in several European countries in the 1980s); inclusion of co-operative models in health delivery (Japan, Sweden, the U.S.A., certain provinces in Canada) or in delivery of social services (*économie sociale* in present-day France and Italy; childcare, home-care and other services in Canada). In such examples, the central, regional, or local state intervened to help ensure that co-ops were created and successful.

**Differences by level of government.** Like the co-operative movement, “the state” is not a fixed and monolithic entity. It has national and subnational levels of government, which have differing responsibilities and which may have differing policies. These need to be considered. Also, governments are divided into departments or units which may have differing responsibilities with respect to co-operatives.

In this context, it is important to consider both (1) which parts of the state are important to co-operative development, and in what ways, as well as (2) which parts of the state are receptive to co-operative development. It is entirely possible for different branches of the state to pursue quite different policies with respect to co-operatives: for example, the registrar of co-operatives whose concerns may be technical; the agency responsible for financial regulation, which may be concerned with assuring the market niche and stability of co-operative credit and banking institutions; and the agriculture ministry, which may be supportive of the role of co-operatives in production and marketing.

As mentioned above, there are a variety of tools available to governments where they choose to intervene with respect to co-operatives. These include legislation, programmes, incentives, and partnership arrangements. Each of these merits some further comment.

**Legislation.** Legislation is one of the almost universal means by which governments interact with co-operative movements. Nevertheless, not all governments (and not even all that are supportive of co-operatives) have seen it as necessary to introduce specific co-operative legislation. Denmark, though famous for co-operatives and for an organized approach to developing them, sees little need for specialized laws. Thus in Cronan's grid (above), Denmark might be interpreted as a state in the upper-left quadrant, with active development but little explicit legislative recognition of co-operatives. Such examples, though not typical, serve as a reminder that legislation is only one form of intervention, and not necessarily the most critical in all cases.

Legislation should be understood as the outcome of a process, in which both the state's interests and those of the co-operative movement are influential factors. It is critical to observe that law does not define what a co-operative is or can be; nor do co-operatives define the laws that govern them. Legislation is an arena in which the interests of the state and of organized or influential co-operatives are negotiated.

Legislation of some kind is helpful to most co-operatives because it enables them to constitute themselves officially as participants in the economy and in related, formal contractual and legal processes. Not all co-operatives (especially small ones) need to be incorporated or registered with

the state. Also, not all who do incorporate need specific co-operative legislation in order to obtain the degree of official recognition they require. What legislation they need depends on the regulatory environment, the alternatives available, and the nature of the co-operative.

The interests of co-operatives are, most fundamentally, to obtain recognition of their formal rights and powers as organizations; and second, to define the rights and obligations of their members. In the first category—formalization as organizations—belongs the ability of co-operatives to obtain legal personality: to register as corporate individuals who can conclude contracts, sue and be sued, and so on. The second category includes establishing the degree of personal liability of members for the affairs of their co-operative. From co-operatives' point of view, a chief value of legislation lies in removing uncertainties that might hinder members' participation. Incorporation and limitation of members' liability are important foundations for membership drives. In the past, it was in some cases important to protect the use of the word "co-operative" in official business names, so that prospective members would not be easily deceived by frauds. Also in the past, it was common to include in legislation normative lists of co-operative principles and practices that genuine co-operatives were to be constrained to follow. At the time, co-operatives regarded this as a measure to preserve their identity and to facilitate the spread of "real" co-operatives and the recruiting of new members.

The interests of the state in providing for co-operative legislation have presumably been primarily to facilitate self-help by citizens and to minimize economic disruption and controversy. Minimizing economic disruption may mean two things. The first is that the state may wish to maintain an appearance of impartiality and of economic liberalism in all cases where it has no overriding reason to support co-operatives or to support their competitors. It will not wish to support one form of ownership over another, where this will occasion controversy. The second point about minimizing disruption is that the state will want to ensure that it is clear what constitutes an organization, who is responsible for it, and what its powers and rights may be. The state has an interest in avoiding ambiguities. It may pay careful attention to the question of who has ultimate authority in the co-operative (for example, between the board of directors and the

members' assembly). One can argue that the state also has an interest in ensuring that business organizations are well-founded, appropriately structured, and unlikely to fail in messy ways or for avoidable reasons. (This likely explains the careful regulation of banks, for example, where economic failures would affect critical savings of large numbers of citizens. Interestingly, financial institutions—including financial co-operatives—are among the types where official, legal recognition and regulation are most critical to success.)

In general, the interaction of the interests of organized co-operatives and of the state over the last half-century has tended towards looser and more permissive co-operative legislation. Co-operatives, as they have matured, have been less forceful in insisting on a normative or protective element in co-operative legislation, and have become more inclined to treat regulation of the co-operative identity as an internal question to be handled by each co-operative through its bylaws and democratic processes. This change in perspective likely reflect the increased strength and confidence of mature co-operative organizations. Governments, for their part, having observed the development of co-operatives, seem less concerned with questions of order, disruption, or controversy, perhaps due to decades of peaceful and orderly evolution. The interests of influential co-operatives and of the state have both inclined towards more permissive legislation that increasingly resembles laws for other forms of corporations.

One interesting question is whether there remains a desirable normative function to co-operative legislation that is still important for smaller and new co-operatives. The interests of such co-operatives are not necessarily articulated effectively in discussions around legislative reforms. Mature co-operatives may lean towards a model based on self-regulation; but does this apply to new co-operatives? If one assumes that early co-operatives accepted prescriptive laws because they desired legitimacy, authenticity, and clear standards, then the relevant question is whether, in each country and setting, new co-operatives receive these things today from the larger and better-established co-operative movements. If they do not, then their interest in a normative legal framework may be the same as that of co-operatives half a century or a century ago.

**Programmes.** Occasionally policies of support for co-operatives are in-

corporated into discrete programmes for co-operative development within specific policy areas. In formulating such programmes, states go beyond the relatively passive stance involved in developing co-operative legislation to assume a more pro-active role. Such programmatic initiatives have generally sought to replicate a standard and proven model of co-operative development, one developed and tested at the grassroots level. In effect, this is a kind of co-operative “technology transfer” in which approaches successfully used by one community (including perhaps a community in another country) can be adopted by others. Such popularization can be accomplished by tying the model in question to a particular package of tools including standard by-laws, expert resource groups, and possibly subsidies, financial incentives, or preferential treatment. Examples include Canada Mortgage and Housing Corporation’s co-operative housing programme in the 1970s–80s, or programmes in various provinces for development of childcare and preschool co-operatives. In some cases such programmes have produced large numbers of co-operatives concentrated in a single sector; in a few cases, these have gone on to create their own self-sustaining central institutions (co-operative housing). In other cases, there is suspicion that such “programme-driven” co-operatives have not been based on authentic member initiative and have failed to develop autonomy and vision; the result is incomplete self-help and ineffective or unsuccessful co-operatives. This is a reminder that programmes for co-operative development must seriously respect co-operative autonomy and member control.

**Incentives.** Governments may offer financial incentives for the creation of co-operatives generally, or may include incentives of various kinds within programmes for the development of specific kinds of co-operatives. Incentives may be by means of tax advantages, direct subsidies, low-interest capital, financial guarantees, or preferential-purchasing or -tendering policies.

Most co-operatives argue that they have not enjoyed general tax advantages, though this has at times been disputed by their competitors. Generally, co-operatives are subject to normal income taxes, business and property taxes, sales taxes, and so on. However, the treatment of surpluses in consumer and service co-operatives has long been an issue. Consumer co-operatives have historically maintained that such surpluses are not

“income” to the co-operative, but rather are “savings” earned on behalf of members: in the case of patronage allocations or refunds, this is then the members’ own money being returned to them. This is an example where co-operative movements and governments have disagreed over what tax treatment is “neutral” and what is “supportive”.

A specific issue concerns the incentives provided by the taxation system for co-operatives to behave in certain ways. For example—and this is partly because of the arguments over taxation just referred to—tax policy may in many cases provide co-operatives with an incentive to pay out surpluses rather than to retain them. Such a policy promotes membership expansion and loyalty by rewarding members; but also hinders reinvestment in and self-financing of the co-operative. The latter effect is a hindrance to the ongoing financial development of established co-operatives. The complexity of such questions is increased by the difficulty of comparing different régimes for taxation of co-operatives and of other forms of enterprise.

Clearer cases arise in the case of tax-sheltered development or venture-capital funds, which are a straightforward examples of state use of the taxation system to provide incentives to development. Such state subsidies to economic investment and innovation rarely benefit co-operatives.

Direct subsidies to co-operatives are rare in industrialized countries. This can be attributed to the lingering influence of liberal or neoliberal economic thinking, to political dynamics (direct subsidies provide obvious targets for critics), and to the fiscal conservatism that has dominated the public sector since the 1980s. Nevertheless, there are still some cases, for example where co-operatives (or members intending to form co-operatives) can obtain grants for start-up costs including initial preparations of business plans.

The most common form of financial incentive to co-operatives has probably been low-interest loans and financial guarantees, often by indirect means through co-operative or public central financial institutions that enjoy access to public capital or to government guarantees. Where such loans were made, it was often against the construction of facilities and infrastructure (grain elevators in Saskatchewan in the 1910s–20s, housing projects, processing plants).

There have also been important examples of preferential purchasing or quotas on tendering of services in public or government-regulated sectors. Well-known historical examples include worker co-operatives in public works in Italy or France beginning in the nineteenth century (often the preference policy was at the municipal level), or in forest management in contemporary Québec.

**Government-sector partnership arrangements.** In certain cases, governments and co-operatives have set up joint institutions of an economic or regulatory character (or both). Perhaps the most important examples of these are development agencies that operate with combined co-operative and government funding and control. Usually there is a differentiation of roles, for example in having the co-operatives fund and administer a framework organization which, however, receives and channels project-driven public funds. Within Canada, one would think of the provincial/regional Co-operative Development Centre in the Maritimes, or of the regional development co-operatives (CDRs, *coopératives de développement régional*) in Québec. Another example would be joint deposit-insurance schemes for credit and banking co-operatives; the Credit Union Deposit Guarantee Corporation in Saskatchewan is explicitly structured as an entity with both public and co-operative aspects.

**Formal communication mechanisms.** Since legislation and many other instruments of policy are negotiated to some degree between co-operatives and state agencies, the formal mechanisms for communication between the two parties are significant. Various governments have created different kinds of mechanisms ranging from a Department of Co-operation (Saskatchewan, 1940s–80s) to a specialized branch, unit, secretariat, or directorate. In different cases there have also been interdepartmental committees, consultative groups of co-operative representatives who have met with senior officials, or fixed traditions of meetings between senior officials and leaders of particular co-operatives or groups of co-operatives. In addition, informal communication may be at least as important as formal communication, but documenting the formal mechanisms is a first step to understanding co-operative–government relations.

## Conclusion

The purpose of these initial thoughts has been to sketch out some possibilities, concepts, and categories for investigating the relationship between the state and co-operatives in the context of co-operative development. Both the state on one hand, and co-operative systems or sectors on the other, are complex entities. Both include a diversity of agencies, structures, interests, values, and cultures, and accordingly a key question is which parts of a co-operative movement relate in which ways to which parts of the state. This paper has outlined a variety of aspects of co-operatives, and a variety of modes of state intervention, that can be identified and analysed in concrete cases.

The key question that arises is simply this: states are likely obligated in any case to respect the autonomy and distinctiveness of co-operatives; but beyond this, the public interest may suggest that the state should undertake more supportive and pro-active development initiatives where it is concerned with regional and social disparities, employment and marketing problems, market imbalances, and the need for self-help, self-reliance, and social cohesion—or any other social, economic, and cultural tasks with which co-operatives have been associated. States which choose to be supportive have a variety of tools at their disposal, ranging from legislative recognition to general incentives to targeted development programmes. What states choose to do within this field of possibilities is an expression of policy choices and of politics, of each country's dynamic mix of circumstances, priorities, and interests, and is not structurally predetermined by any "laws" of co-operation, government, or the relations between them.

## *Notes*

1. Ann Hoyt, "Cooperatives in Other Countries," in David W. Cobia (ed.), *Cooperatives in Agriculture* (Englewood Cliffs, N.J.: Prentice Hall, 1989), pp. 81–97.
2. I.L.O. Coopnet, "Requisites for Cooperative Success: Government Policy and Cooperatives" ("The Role of Government from Domination to Partnership"), <http://www.coopnetupdate.org/perspectives/persp02.shtml> as accessed 18 October 1999.
3. Garry Cronan, 1995 Key Issues Conference Papers (as cited by Garry Cronan and Jayo Wickremarachi, "A Study of Co-operative Development and Government-Sector Relations in Australia," *Co-operative Development and the State: Case Studies and Analysis*, Part Four, November 1999, p. 102).
4. Cronan and Wickremarachi, p. 101.