

## A THEORETICAL ECONOMIC EXPLANATION OF THE FAILURE OF COOPERATIVES

By

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### Introduction

A typical assessment of our cooperative movement is as follows:

In the Philippines, as in practically all of Asia, cooperatives were organized mainly through government initiative and effort ... As a result, Philippine cooperatives in the past became failures like most of their counterparts in Asia. This proves one lesson on cooperation, viz., that cooperatives will succeed only if they are organized and actively supported by the members themselves. In other words, cooperatives will prosper as dynamic economic organizations only with the support and self-reliance of the members.<sup>1</sup>

This paper contends that continuing government support and/or other positive inducements are essential to the success of cooperatives; that the failure in the past can be partly attributed to the withdrawal of these inducements and/or support of the government; and that, more fundamentally, the cooperative philosophy of self-help alone cannot be relied upon for the survival or growth of the cooperative movement.

The paper is organized as follows: the causes of failure of cooperatives are discussed in section 2; the conflict between group and individual interest in the market place is taken up in section 3; section 4 looks at the stability of cooperative arrangements; the nature of public or collective goods is considered in section 5; the

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<sup>1</sup>Julio Macaranas, *Cooperative in the Philippine Setting* (Diliman, Q.C.: University of the Philippines Press, 1963), p. 29.

importance of non-collective goods is underscored in section 6 based on a discussion of the "By-Product" theory of groups; and finally, the implications for the Philippine Cooperative Movement is discussed in the concluding section.

### Causes of Failure of Cooperatives

The Philippine experience with cooperatives is replete with examples of failure. The very first experiment on rural financing through cooperatives (under Act 2508 or the Rural Credit Act of 1915) was a failure. Reaching a peak of 544 organized rural credit cooperatives in 1926, only 10% remained in 1935.<sup>2</sup> Marketing cooperatives (Act 3427 or the Cooperative Marketing Law of 1927) performed similarly. Thus by 1939, only 20% of a total of registered 164 societies were still active.<sup>3</sup> Post-war experiences on Republic Act 821, which established the Agricultural Credit and Cooperative Financing in 1952 to tender loans to members of farmers' cooperative marketing associations (FACOMAS), as well as Republic Act 2023 or the Non-Agricultural Cooperative Act of 1957 are also indicative of failure of cooperatives. This can be gleaned from the data shown in table 1.

Based on the data for the years 1967-1970 available at the Cooperative Administration Office, we find that only 36% to 45% of all types of registered cooperatives are operating and the bulk of this is accounted for by credit unions.

For more recent data, the Economic Development Foundation, Inc. reports a total of 726 agricultural and 5,568 non-agricultural cooperatives, of which only 45% and 54% respectively, were operating as of June 1972.<sup>4</sup>

Students of the Philippine cooperative movement attribute the

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<sup>2</sup>Lino D. Onagan, Jose Simangan, and Mateo Esguerra, *Cooperatives: Principles and Practices* (Quezon City: L.D. Onagan & Sons Publishers, 1973), p. 373.

<sup>3</sup>*Ibid*, p. 374.

<sup>4</sup>Economic Development Foundation, Inc. "An Introduction to Agricultural Cooperatives in the Philippines," *The EDF Economic Bulletin*, Vol. 1, No. 1 (July 1973), pp. 10-11.

TABLE I

## Registered and Operating Cooperatives by Type 1967-1970

	Credit Unions			Consumers			Industrial			Services & Others			T O T A L		
	Regis- tered	Oper- ating	%	Regis- tered	Oper- ating	%	Regis- tered	Oper- ating	%	Regis- tered	Oper- ating	%	Regis- tered	Oper- ating	%
1967	1,683	1,302	77	1,884	283	15	76	46	61	73	23	32	3,716	1,654	45
1968	1,931	1,192	62	1,916	213	11	79	24	30	81	15	19	4,007	1,444	36
1969	2,183	1,454	67	1,957	241	12	85	25	29	90	26	29	4,315	1,746	40
1970	2,434	1,690	69	2,046	328	16	87	27	31	98	23	23	4,673	2,086	45

Source of Basic Data: Annual Reports of Cooperative Administration Office

failure of cooperatives to a number of different causes. Onagan *et al*<sup>5</sup> enumerate a total of fourteen factors, namely:

1. Incompetent management;
2. Lack of proper understanding of the principles, practices, true aims, and purposes of cooperative associations;
3. Improper use of credit by the borrowers who, instead of using the money borrowed for production, spend it for fiestas or luxuries;
4. Defective securities;
5. Political interference particularly in the collection of overdue accounts;
6. Lack of compensation for officers;
7. Inadequate supervision;
8. Lack of adequate character and moral responsibility in handling the other fellow's money;
9. Lack of adequate safeguards against unscrupulous officers who take advantage of their position to grant loans to themselves and their "compadres" which later proves very disastrous to the system;
10. The dominance of the individualistic attitude instead of the spirit of cooperation among the people;
11. Inability of cooperatives to secure adequate capital;
12. Their dependence on alien suppliers and distributors;
13. Ineffectiveness of the government agency or agencies entrusted with the development and promotion of cooperative organizations; and
14. Inadequate marketing facilities

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<sup>5</sup>Onagan *et al.*, *op. cit.*, pp. 374-75.

The EDF study<sup>6</sup> cites the following major causes:

1. Absence of substantial loyal membership support;
2. Lack of economic justification;
3. Capital inadequacy;
4. Poor management;
5. Insufficient volume;
6. Political interference; and
7. Competition and opposition of established business and vested interests.

Many other studies on cooperatives touching on the causes of cooperative failure mention factors already included in the above lists.<sup>7</sup>

One question may be worth asking at this point, namely, why is it that cooperatives are easy to establish and yet so hard to sustain?

Analyzing the Philippine experience from a historical point of view shows that many of the cooperatives were established due to the existence of government incentives. Thus, the FACOMAS were organized to enable the members to obtain liberal credit. The government also considered the establishment of FACOMAS as an economic weapon for countering the Huk movement, hence a redirection of the goal of the government led to the inactivity of many FACOMAS. The same is true with the consumers' cooperatives established right after liberation when relief goods were distributed by the government. As was expected, these cooperatives closed down the moment the relief goods were exhausted.

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<sup>6</sup> EDF, *op. cit.*, pp. 15-23.

<sup>7</sup> Cf. Cooperatives Administration Office, *Handbook on Non-Agricultural Cooperatives* (Manila: Central Cooperative Educational Board, 1967), p. 3; "The Cooperative Movement in RP," *Weekly Nation* (Supplement of the Agricultural Cooperative League of the Philippines), August 19, 1971; Teodoro Araneta, *Cooperatives: A Strategy for Development* (Quezon City: Filipino Publishing Co., Inc., 1973), pp. 61-62; and Macaranas, *op. cit.*, pp. 30-31.

In the United States, the Farm Bureau, the largest of the farm organizations, was created by the government. It became the means whereby farmers could avail themselves of information on improved methods of animal husbandry. The membership of the movement increased with the expenditure of government funds for extension work. But then membership decreased substantially when the government subsidy to the Farm Bureau was curtailed. The subsequent growth of the movement can be traced to the substitution of other types of inducements for maintained membership (e.g., insurance).<sup>8</sup>

It would appear, therefore, that if some positive inducement (e.g., government support) is a basis for the establishment of a cooperative, then the sustained provision of the positive inducement is needed for its continued operation. But then this conclusion would go against the cooperative philosophy of cooperation based on self-help and self-reliance.<sup>9</sup> This philosophy underscores the importance of individual initiative and responsibility in the attainment of a common goal. Thus the existence of a common need or objective, which if attained improves the lot of every member of the group, is considered the reason why individuals associate together and act mutually out of rational and self-interested behavior. In the context of cooperatives, the expectation of loyal membership support is based on this assumption -- that individual self-interest is served when the group's interest is served.

The view that groups of individuals with common interest will act out of self-interest to serve their group goal is widely accepted by social theorists as a theory of group behavior. It is an assumption implicit in most of the literature on organizations. The theory asserts that groups are ubiquitous and that cooperation is universal because man is gregarious and has the propensity to form and join groups. The ubiquity of groups is traced to man's instinct to survive and his ability to adapt to the evolution of societies.

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<sup>8</sup> Mancur Olson, Jr. *The Logic of Collective Action*. (New York: Schocken Books, 1968), pp. 149-59.

<sup>9</sup> This assumes that the cooperatives referred to are the Rochdale type, i.e., open, voluntary and democratic organizations which only allow limited interest on capital and which distributes surplus from operations based on the extent of contribution or patronage. This type of societies started from an association of textile weavers in Rochdale, England called the Society of Equitable Pioneers which began in 1840. Cf. Onagan *et al.*, *op. cit.*, pp. 61-75.

The main criticism that has been labelled on this traditional theory of groups is that it fails to distinguish small groups from large associations, i.e., informal groups and formal organizations. Prof. Olson, who is one of the proponents of a contrary theory, contends that unless one is dealing with small groups, "*rational, self-interested individuals will not act to achieve their common or group interests.*"<sup>10</sup> In other words, individuals in a large group would not act to achieve a common objective, even if all the members of the group were to gain if they achieve their group objective. Pursuit of group interests is inconsistent with the assumption that individuals in the group will rationally further their individual interests.

The next section is an elaboration of the conflict between individual and group interests in the setting up of economic organizations.

### The Conflict Between Individual and Group Interests

Economic theory is based on the assumption of rational self-interested behavior. Let us elaborate on this behavioral assumption since it will play a crucial role in our discussion of the conflict between individual and group interests.

Adam Smith, whose intellectual legacy, *The Wealth of Nations*, is the world's first complete and coherent theory of economic behavior, viewed self-interest as the great motivator of economic activity. Self-interest expresses itself as the drive of numerous individuals for personal profit. This is a powerful drive which makes man produce the goods that society needs.<sup>11</sup> Smith argues that under the condition of free and unfettered competition, the action of each individual participant results in the unintentional promotion of the common good as if guided by an "invisible hand". This is the basis for the belief that a self-regulating market, free from the interference of the government, will bring about the optimum use of

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<sup>10</sup> *Ibid.* p. 2.

<sup>11</sup> The profit motive is really a powerful human drive that somehow finds release even in economies which have rejected the capitalistic system. For instance, the July 14, 1975 issue of *Time* (p. 53) states that in the Soviet Union, collective farmers are permitted to cultivate small private plots in their spare time and to sell the produce of their efforts for their own profits. These plots account for a mere 4% of the land under cultivation, yet they produce a fourth of the value of the country's food production.

resources in the production of the maximum quantity of goods and, therefore, yield maximum welfare and wealth for the nation.

It should be noted that under capitalism which is based on the British *laissez faire* tradition, group interest is only of residual importance. English economists unlike the continental economists<sup>12</sup> generally did not concern themselves with the proper role of the state. Thus, the nature of collective decision-making and the relationship between group and individual interests are still in the forefront of theoretical developments in economics.

Let us now turn to the conflict between individual and group interests by drawing an analogy between the behavior of an individual in large organizations and that of a firm in a competitive market.<sup>13</sup>

Firms in a competitive industry have a number of common interests, one of them being the attainment of a higher price for the industry's product. A single firm, however, cannot enjoy a higher price alone since it is a price taker. It can sell as much as it wants until the incremental cost of production is equal to the prevailing price. Here we have on hand a case of the common interest dictating a higher price, yet with each firm having an interest in selling a larger quantity, which is at odds with the interest of the other firms. The paradox arises whereby profit maximizing firms act contrary to group interest as profit for the industry as a whole will be less than what it might have been otherwise.

Supposing we have a momentary disequilibrium condition in a competitive industry where all the firms face a price which exceeds marginal costs. Let us trace the short-run adjustment to be made by the existing firms (entry of new firms is not possible in the short-run) assuming that the industry is operating in the inelastic portion of its demand curve.

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<sup>12</sup> Karl Marx tried to develop an economic theory of the state based on social classes which he postulated are composed of selfish and rational individuals. Obviously, he did not see that the inconsistency involved for class action will not occur if the individuals making up a class act rationally. The idea is that an individual will get the benefits of class action whether he participates or not. Cf. Olson, *op. cit.*, pp. 103-106.

<sup>13</sup> The following discussion is based mainly on Olson's presentation. *Ibid.*, p. 9.



As price takers, firms in the industry will adjust output to where price equals marginal costs and achieve maximum profit. In Figure 1, we start at the disequilibrium situation with price at  $P_0$  and industry output at  $Q_0$ . Since the price exceeds the marginal cost of producing the optimum output  $q^*$ , each firm is earning a large profit (the difference between price and average cost). Self-interest dictates that it expands output to  $q_0$  to attempt to earn more profits. But as industry output expands, price falls and the total revenue of the industry declines since demand is inelastic. Hence, the net result of all the output adjustments undertaken by the firms to correct the disequilibrium in the industry (where demand equals supply at price  $P^*$  and output  $Q^*$ ) is that each firm ends up with no profit at all (price equals average costs)! Not to have expanded output in this case would have been more costly. Since each firm, by definition, is so small that it can ignore the effect of its output on price, it is not rational to restrict output alone in an attempt to forestall a fall in price. It will get only a small part of the benefit of the price effect, with all other firms sharing in the benefits. This illustrates the fact that a profit maximizing firm in a perfectly competitive market can act contrary to their interest as a group.

Next, let us take up the case of the planting decision of farmers postulating that agriculture at the farm level is a competitive industry. Why is it that a farmer always wishes that his be a bumper crop and prays that his farm be spared from damage?

The answer simply is that if his prayer is heard, then he can sell a larger output at a higher price and, therefore, earn a higher income. As it turns out, the misfortune of others redounds to his benefit. Here, self-interest is again in conflict with group interest because if everybody were to harvest a bumper crop, the price of the product will go down. Since most agricultural goods have an inelastic demand, the lower price will result in a lower total revenue for the industry. To put it differently, a farmer will always attempt to expand output during planting time knowing full well that if he were right about his output expectation (as would the rest of the farming community), the result would be something contrary to the common interest (low farm prices). This shows that a farmer cannot afford but be an optimist acting as an individual. Yet, as the experience in the United States shows, these same farmers will vote for government action to force them to reduce output (acreage restriction is the mechanism usually resorted to by the government for this purpose).

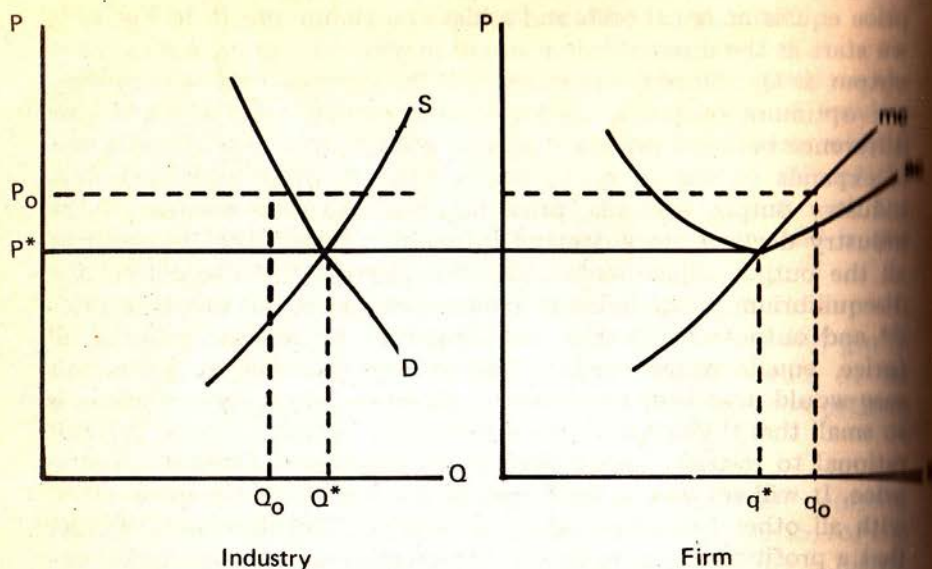


Fig. 1: Price and Output Adjustments in a Competitive Industry

Finally, let us consider another case where the group interest of firms in a competitive industry is the expansion of industry demand through advertising. It is to the group's interest to advertise and increase the demand (shift the demand curve upwards) for the industry's product. Yet it is not to an individual firm's interest to do so. It is not rational for a firm to bear all the costs of advertising when it knows that the benefits of this act will accrue to all the members of the industry. On the other hand, if it happens that advertising is undertaken through the cooperation of some members, why then should one voluntarily support this move when he can derive the benefits without having to share in the costs anyway? Here, we have another illustration of a rational self-interested firm acting in conflict with the group's interest. One nagging question though, is: How did cooperation come about in the first place? We will discuss the question in the next section in terms of the stability of cooperative relationship in the market place. But for the meantime, let us look at some of the applications of this behavior to large organizations.

Behavior in large voluntary associations is similar to that of a competitive market. Take the case of payment of dues. The loss of

one dues payer does not noticeably increase the burden of all other dues payer in a big organization just like the effect of increased output of a firm on other firms in a competitive industry. Thus, a person belonging to a large voluntary organization would not believe that if he were to neglect his obligations, this would bring about the disintegration of the group.

For example, labor unions draw its strength from strong membership support. Yet the poor attendance record in union activities, which is thoroughly documented, shows an apparent lack of interest.<sup>14</sup> But actually this is explained by the fact that there is no economic incentive to attend. A member can derive benefits from union activities whether or not he attends meetings.

Another example is taxation. Why are voters willing to vote for higher taxes to finance new services of the government, yet strive to contribute as little as possible? Here again, there is no incentive offered which encourages one to contribute one's full share, since the benefits can be derived whether one's contribution is large or small.

To sum up, although all the members of a group have a common interest in obtaining a collective benefit, they have no common interest in paying the cost of its provision. Each member, individually, takes the posture of letting others pay for the benefits reaped. We will elaborate on the nature of collective goods later on.

### **The Stability of Cooperative Arrangements in the Market Place**

The incentive to cooperate in the market place is always present. We see this in terms of the profits that may be derived by firms that merge or form a cartel. Consider Figure 2 depicting the equilibrium situation of a competitive industry with  $n$  firms.

Given the industry demand ( $D$ ) and supply ( $S$ ), equilibrium is attained with price ( $P^*$ ) and output ( $OQ^*$ ). A representative firm produces output  $oq$  where marginal cost ( $mc$ ) equals price and does not earn any profits. Under this circumstance, industry output  $OQ^*$  is  $n$  times  $oq^*$ . Now, suppose a cartel is formed with each firm assigned a quota of  $1/n$  of total output. Each firm is faced with a downward sloping demand  $d$  (which is  $1/n$  of  $D$ ) with marginal

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<sup>14</sup> *Ibid.*, pp. 85-86.

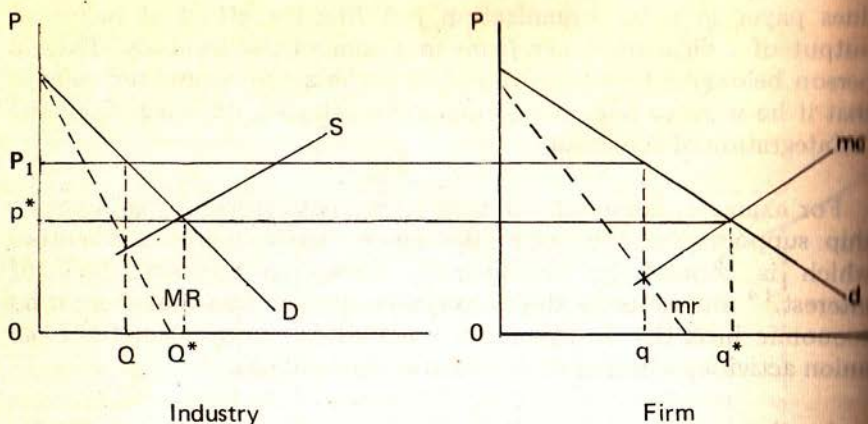


Fig. 2: Cartel or Merger for Monopoly

revenue (mr). Profits are maximized at  $P_1$  at output  $oq$  (less than  $oq^*$ ).

A merger yields an equivalent solution.<sup>15</sup> The industry becomes a single firm and we have to draw in the MR curve as well as treat supply (S) as the marginal cost of the combined firms. The monopoly price and output are  $P_1$  and  $OQ$ , respectively, and monopoly profits are earned.

The foregoing explanation shows that firms in an industry can earn additional profits by getting together and restricting output. But while this possibility exists, a number of problems may prevent a group from reaching an agreement or, if one is in effect, jeopardize the stability of such an agreement. Stigler mentions four problems:<sup>16</sup>

- The Recalcitrant Firm
- Different Costs
- Investment Rivalry
- The Interloper

<sup>15</sup>The merger solution will differ from the cartel solution if there is diseconomies of scale in the merged operation. George Stigler, *The Theory of Price*, 3rd ed. (New York: MacMillan Co., 1967), p. 232.

<sup>16</sup>*Ibid.*, pp. 233-236.

The recalcitrant firm, also referred to as the free rider or the chiseler, is the non-joiner to the cartel arrangement. Thus, it can sell any quantity at the ruling price since it is not bound to a quota. This means it can earn more than the members of the cartel. Putting it differently, there is a built-in incentive for a firm not to join the cartel, or to show compliance to the cartel agreement outwardly while readily violating its quota restriction provision.

If firms have different costs, then assignment of equal quotas or quotas based in capacity will fail to yield the cartel maximum profits unless the less efficient firms are allowed to sell their quota to the more efficient firms. On the other hand, the allocation of total output based on marginal costs may not be feasible since accurate costs figures are not available, and besides, there will be an incentive to distort costs to gain a larger quota.

Investment rivalry is another problem of the cartel because each firm will readily realize that its revenue is proportional to the quota. Thus, it will attempt to expand capacity to justify an increase in quota.

The entry of new firms jeopardizes the stability of cartel arrangements. Like the recalcitrant firm, a new entrant will not want to join the cartel unless it is given favorable terms (its bargaining power is high). In the long run therefore, the market share of the cartelized firms will decline and/or the agreement will deteriorate. In any case it will bring about the dissolution of the cartel.

It would appear that due to the costs involved in organizing a cartel, the larger the group, the less likely that the cartel will be formed. In other words, the costs of negotiating n-person agreements increase with the number of persons while the benefits to each person become less. Similarly, costs of policing an agreement will tend to increase with the size of the group in the cartel. Cartel arrangement is more operational in small groups where face-to-face interaction is feasible and social sanctions are more effective in bringing about compliance with rules. Historically, cartels composed of large groups have been formed either by the government directly or through assistance extended by the government. Moreover, they have survived through time primarily because of government restriction on the entry of new firms.

## The Nature of Collective or Public Goods

Basic government services are provided by the State for the general welfare. These services, which are available for the common benefits, are called collective or public goods.

Public goods have peculiar characteristics which distinguish them from private goods. One is the *infeasibility of exclusion* in which the benefits derived from public goods are available to different people simultaneously. In the case of private goods, one can exclude others from the enjoyment of their benefits. Another characteristic is *indivisibility* where in the same quantity of the public good is equally available to different consumers. In contrast, the quantity of private goods consumed could vary among different individuals.

Still another characteristic of a public good is its *jointness in supply* in consumption. This arises only because of its non-exclusiveness and indivisibility. Thus, a unit produced or supplied is simultaneously available in the same quantity for the consumption of all members in the group. To put it differently, the consumption of a unit by one person does not reduce or remove the possibility of its consumption by another. The differences between public and private on this characteristic is best illustrated in terms of the role of entry. In private goods, one wants to preclude entry to minimize sharing the benefits with others. This is because the goods are fixed in supply. In public goods, entry is desired so that more will receive the benefits and share in the costs. Since the collective good is not fixed in supply in consumption, the larger the group the better.<sup>17</sup>

We note that due to the above features of public goods, the State can only provide its services not through voluntary contribution but through taxation. Some of the classic illustrations of public goods are national defense, lighthouse, police, and fire protection.

It should be recognized also that it is not necessary that a public good that is of interest to one group in society be of interest to the society as a whole, i.e., the common interest of the producers is high farm prices but the common interest of consumers is low product prices. The very fact that a good is common to a group means that no one in the group is excluded from the benefits brought about by its achievement. Hence, the publicness or collectiveness of a good

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<sup>17</sup> Olson, *op. cit.*, p. 37.

has to be defined with respect to a specific group. Viewed this way, we have to accept that a public or collective good has been provided for a group when the common goal has been achieved. It follows from this also that the fundamental function of an organization, is the provision of collective goods.<sup>18</sup>

But then, by focusing the collectiveness of goods away from purely governmental activities, a new problem comes to light. Whereas the State can resort to compulsion in the provision of goods, large voluntary organizations will either have to rely on the assistance of the government or on special incentives, other than the collective good itself, in order for potential members to join or for existing members to remain active. Recall that our discussion on the conflict of individual and group interests brought out the fact that the provision of collective goods is not per se sufficient in ensuring that an agreement will be reached and a group organized. The common characteristics of large economic groups is that they are organized for some other purpose. This leads us to consider the "By-Product" theory of groups.

### The "By-Product" Theory of Groups

The discussion in the previous section can be stated compactly as follows:

If the members of a large group rationally seek to maximize their personal welfare, they will not act to advance their common or group objectives unless there is coercion to force them to do so, or unless some separate incentive, distinct from the achievement of the common or group interest, is offered to the members of the group individually on the condition that they help bear the costs or burdens involved in the achievement of the group objectives. Nor will such large groups form organizations to further their common goals in the absence of the coercion or the separate incentives just mentioned. These points hold true even when there is unanimous agreement in a group about the common good and the method of achieving it.<sup>19</sup>

Thus, large organizations will have the tendency to fail or not to be

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<sup>18</sup> *Ibid.*, p. 15.

<sup>19</sup> *Ibid.*, p. 2.

formed unless it can make a joint offering or "tied sale" of a collective and non-collective good. In this sense, therefore, the group's capability in pursuing a lobby for instance, becomes merely a by-product of whatever function the organization performs, in addition to lobbying for a collective good that enables it to have strong membership support.

Let us illustrate this concept in terms of the development of the "Kirkpatrick" type of farm cooperatives. Recall that in section 2 we noted that the farm bureau movement in the United States was established with government assistance and that they grew and declined with the volume of farm extension expenditures of the government. But when the membership in the farm bureaus was on the wane, the membership of the Illinois Farm Bureau was on the rise. This has been attributed to an organizational innovation known as the Kirkpatrick type of cooperative.

Designed by Donald Kirkpatrick, the general counsel for the Illinois Agricultural Association (IAA), the Kirkpatrick type of cooperative is drastically different from the traditional "Rockdale" type of cooperative. Its basic distinguishing feature is that all the business aspects of the operations are controlled by a legally separate organization whose main interest is the political or lobbying objective. Thus all the voting stocks in the cooperative marketing, supply and insurance companies associated with the Illinois Farm Bureau are owned by the IAA.<sup>21</sup> Here we see the case of the business part of the system being a "by-product" of the political part of the system.

The other feature of the Kirkpatrick type of cooperative is the manner in which non-collective benefits of the set-up is "tied-in" to the collective good. Thus a non-IAA member cannot insure himself with the mutual casualty insurance companies of the Farm Bureau. A non-member is allowed to do business with the marketing and farm-supply cooperatives but he is not entitled to any patronage dividend.<sup>22</sup>

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<sup>20</sup> *Ibid.*, p. 132.

<sup>21</sup> *Ibid.*, pp. 153-54.

<sup>22</sup> *Ibid.*, pp. 154-55.



Under this particular scheme it becomes understandable that the growth in membership should follow the expansion of the business organization of the system. This is the story of the American Farm Federation.<sup>2 3</sup>

To recapitulate, in the case of the farm cooperatives in the United States we find the application of the need to offer special incentives, first by the government (membership in the farm bureau or else no technical assistance), and later by the legal arrangements on the enjoyment of the non-collective benefits.

An example of the other method -- coercion to force members of a large organization to further their common interest -- is the compulsory membership in the labor unions. The labor movement in the United States would not have been able to survive without the closed-shop policy being sanctioned by the government.

### Implications on the Philippine Cooperative Movement

There is an all out effort on the part of the government to strengthen the country's cooperative movement. Thus, Presidential Decree No. 6-A prescribes the study of cooperatives in all levels of the educational system. Presidential Decree No. 27 made membership in cooperative compulsory for the farmers who stand to benefit from the land reform program. There is also the establishment of the Bureau of Cooperatives Development of the Department of Local Government and Community Development (DLGCD) under the reorganization plan. Moreover, the Four-Year Development Plan of the National Economic and Development Authority (NEDA) incorporates the contribution of cooperatives in development. In addition, Presidential Decree No. 175 recognizes the role that the cooperative movement can play in the country's development through the *Kilusang Bayan* which is composed of the federations (*Katipunan*) of the *Samahang Nayon* or the farmer's cooperatives.

Let us take a brief look at the activities covered by the cooperative movement. Other than the production aspect inherent in the membership of farmers through the *Kilusang Bayan*, other activities have been initiated. In marketing, Area Marketing Cooperatives and the Greater Manila Consumer Cooperative were established. The Cooperative Marketing System of the Philippines signified the start of

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<sup>2 3</sup> *Ibid.*, pp. 156-57.

food processing activity of the movement. Financing activities were initiated also through the formation of Consumer Rural Banks. Finally, the Cooperative Insurance System of the Philippines was established to take care of the insurance protection needs of its members.<sup>24</sup>

To be able to carry out all these activities, three funds have been created by the *Samahang Nayon*: the General Fund, the Barrio Guarantee Fund and the Barrio Savings Fund. The General Fund is supported out of a membership fee of P5/month levied on the non-farmer member of the movement. This fund is set aside for operating expenses. The Barrio Guarantee Fund is used to pay for the life insurance premiums of the farmer member as well as to guarantee their land and loan repayments. It has been generated out of the farmer's contribution of one cavan per hectare per season. The Barrio Savings fund is drawn out of a five per cent automatic deduction on all production loans made by the members through the *Samahang Nayon* upon the release of the loan. It is earmarked for the investments of the *Samahang Nayon* in rural bank and marketing facilities. As of July 1975 the value of these funds have reached a total of P35 million.<sup>25</sup>

Relating these developments to our earlier discussion we find that:

1. Government sanctions exist not only in terms of the promulgation of compulsory membership but also in terms of outright support of the movement through the programs of the Bureau of Cooperatives Development.

2. There is a number of non-collective goods offered by the movement such as life insurance coverage and information received through radio time used for public service.

On the whole, therefore, the Philippine Cooperative Movement can be said to have adequate government support and other positive inducements to make it take off on a path of success. However, additional measures may have to be instituted to ensure their growth.

In the long run, we know that the government is not likely to

<sup>24</sup> "In the New Order: Kilusang Bayan Redistributes Wealth" *Bulletin Today*, Sunday, Sept. 21, 1975, p. 36.

<sup>25</sup> *Ibid.*

expand the extent of its sanctions so that the number and quantity of non-collective goods will have to increase to sustain the growth of the movement. Just like the managers of a well-diversified, growth-oriented firm, the managers of cooperatives will have to play a key role in sustaining the interests of the members to share in the costs of provision of the collective good through a diversification of the non-collective goods made available to members. Education is likely to be one of these goods; it is at the same time an effective way of bringing about acceptance of social values favoring the group over the individual.

Safeguards must also be instituted to limit the size of the individual cooperatives (*Samahang Nayon*) forming the federation (*Katipunan*) and even the size of the federations, through non-economic incentives such as prestige, respect, and friendship which are additional non-collective goods that result in group cohesion. Small groups rather than large groups will have better chances in having the collective good provided to members, not only because of these social sanctions -- status and acceptance -- but also because one of the members in the small group is more apt to find that his personal gain from the collective good exceeds the costs of providing it, such that he shoulders the entire costs. Small groups in a cooperative with a wide latitude of self-government under the umbrella of the *Kilusang Bayan* should enable the members to sustain their interest in the movement.

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