

New Bank for Coops

The final version of legislation creating a National Consumer Cooperative Bank is complete amid indications that it will receive substantial support in Congress. Representatives from farm states who are accustomed to dealing with coops, and labor unions which are anxious to bring down food costs, are behind the measure. The bill was drawn to avoid any real clash with the commercial banks. The legislation was written by the Cooperative League of the USA with help from Ralph Nader and Ed Jenke. Nader believes coops can play a fundamental part in building a consumer-based economy. Jenke is a former governor of the Farm Credit Administration.

Basically the consumer coop bank follows after the cooperative farm credit system, which now provides perhaps one-third of all farm credit in the nation. It works like this: The country is divided into 12 farm credit districts. At a given location within each district there is a Federal Land Bank, a Federal Intermediate Credit Bank, and a Bank for Cooperatives. The Federal Land Banks loan money for farm-related real estate and machinery purchases. The Intermediate Credit Banks loan funds to Production Credit Associations which in turn give money to farmers for a variety of purposes, usually related to production, i.e., seed, fertilizers, etc. The Bank for Cooperatives makes available funds to coops that provide supply and production services. The farm credit system is entirely owned by the members, and money is raised in the money markets. While originally it was built with government funds, there is now no federal money used for loans.

Generally this cooperative farm credit system is a part of large scale agriculture. Indeed, the very idea for agribusiness grew from a recognition of coop success in the Middle West. The whole system, with its combination of private and public capital, has been a part of a process that supported growth of large scale commercial farming at the expense of small, marginal farmers. The credit was channeled into projects that helped build a national food distribution system. As a practical matter, the politics of the farm credit system in the past are different from those emerging from the new regional cooperative groups that seek agricultural self sufficiency and a break with the national food distribution system. One critical question is whether and to what extent the politics of big farm cooperatives will come to be included in a credit system for consumer cooperatives.

The new legislation calls for establishment of a National Consumer Cooperative Bank and a Cooperative Bank and Assistance Administration. Initially the bank would be started with seed capital in the form of preferred stock sold to the US government. Gradually this capital would be replaced by private capital from its borrowers. The bank would obtain loan funds for cooperatives by selling securities in the private market place.

In the beginning a board of 13 directors would be appointed by the President with advice and consent of the Senate. It would include seven cabinet or other officers of the US and six representatives of cooperatives. As government capital is replaced by coop capital, an increasing percentage of the board and eventually a strong majority would be from cooperative users of the bank.

Will the National Consumer Cooperative be a bank of the people or just another way to perpetuate monopoly capital ?

This bank would be supervised by a small independent government agency called the Cooperative Bank and Assistance Administration. The agency would report to Congress and would be governed by a board of five persons with broad public interest and experience in finance and cooperatives.

The administration also would provide technical assistance to cooperatives, such things as feasibility studies, and help in management and financial training to ensure that coops involved use their credit wisely and operate on a sound business basis. This service would be much the same as that provided to farmer cooperatives by the Farmer Cooperative Service of the Agriculture Department.

The administration also would be responsible for a self-help development fund to be used largely to aid low income people. These cooperatives would be required to have a plan for gradual replacement of government capital.

Recently Art Danforth, secretary-treasurer of the Cooperative League and one of the major proponents of the consumer coop bank concept, explained to me more about the bank: "The primary purpose of this bank is to have a technical assistance and a financing capacity for kinds of cooperatives which have no other source of funds. Rural electrics, for instance, would not be eligible because they have another institution. As a general rule, farm coops would not be eligible because they can

go to the Bank for Cooperatives."

I was anxious to find out whether the new bank actually would loan funds to the newer cooperative systems such as NEPCOOP in Vermont. Danforth believes that such a system might well find financing in whole or part for warehousing facilities, trucks or other forms of transportation.

But it was not at all clear that a system such as NEPCOOP could borrow funds which in turn could be used for advance financing of farmers under contract to the coop. This is an important point. If the alternate agricultural systems are to gain strength they need a source of financing to help persuade farmers to reintroduce crops that can lead towards self-sufficiency. Contracts between coop systems and farmers can relieve farmers of the vicissitudes of boom and bust in other markets. That,

after all, is how big agriculture operates. It is control of production that counts, and for alternative, self sufficient agriculture to work on any scale for any period of time, financing for small, marginal farmers connected to coops is essential.

I asked Danforth whether members of the bank system could have checking accounts. "No," he said, "This system is not set up to provide any parallel to commercial banking."

"Why not?" I asked.

"Well," he said, "largely because it probably wouldn't get enacted. I might point out that some credit unions are moving in this direction. This is much more common in Canada among credit unions than it is in the US. But we would think that credit unions should provide these services to individuals."

"What's to prevent the directors of this bank from lending money to a relatively few large coops or to coops in one part of the country?" I asked.

"I don't suppose there is any absolute way of preventing anything, ok?" Danforth said. "When I talk about cooperatives I use John Gardner's phrase, 'participation is an available option.' That's a good definition of a cooperative. Just because people have a right to vote, and it's made easy for them, it doesn't mean that they will. And in practice most of them probably won't. Having said that, there are some provisions that try to prevent this. They are in terms of general guidelines, and broad representation in

the bank. There is something about disproportionate lending to specific kinds of cooperatives. There are conflict of interest provisions. And there is the provision for both regional and categorical advisory committees. Beyond this I guess you'll have to say that this formula for this bank moves in the direction over a period of years of control only by the cooperatives that borrow from it. The question then is what those cooperatives that own the system ought to use it for. I don't know of any other control ultimately."

In the beginning the coop bank would be under the direct control of the federal government with the President making appointments to the board. As Danforth explained, "He appoints the whole board really, but part of them, half of them, are appointed from nominees named by coops. Gradually the borrowing coops elect those nominees, and then the board except for one person.

"When the cooperatives have paid back 51 percent of the government equity, at that point they then elect the board, except for one person. Up to that point, they phase into it."

I asked Danforth whether he envisioned interest rates above or below those charged by commercial banks.

"The only experience we've got is the Bank for Cooperatives. Its rate has been pretty consistently close to the prime rate of interest. You have to remember that except for initial investment by the federal government in non-voting equity and investment by coops, the rest of the loan capital is going to come from the money market."

I asked Danforth whether a situation might arise where a bank's trust department, controlling pension fund investments, could obtain control over the coop bank.

"It could not expect any voting control," he replied. "The major portion of the voting stock in the bank is held in the hands of cooperatives.

"If you can imagine a monolithic control over the money market," he said, "then you can imagine choking it off."

—James Ridgeway

UAW Coop

Early this summer, the United Auto Workers' Ford Local 600 opened a cooperative food store—Workers' Market No. 1—within walking distance of Ford's huge River Rouge plant near Detroit. "We think we can sell fruits and vegetables 20 to 30 percent below the regular retail price by buying direct from farmers and selling to our members and the public on a non-profit basis," explains local president Mike Rinaldi.

Initial funding was \$30,000 in seed money put up by the local, which, with 48,000 active and retired members, is the UAW's largest. The coop purchases fresh, in-season produce from truck farms in the Detroit/Dearborn area; many of these farms are operated by retired UAW members. The union also leased a truck to haul fruits and vegetables from farms which usually sell their produce at roadside stands and could not otherwise deliver their goods to the coop. As the growing season ends in the upper Mid-West, market organizers hope to continue to offer low prices to their customers by buying direct from California and Florida farmers and shipping produce in by the carload.

Thus far, the market, open three days a week, has been successful and local president Rinaldi believes its success could spur the establishment of other cooperative markets.

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