Letters: Co-op Capital and New Co-op Laws

To the Editor:

As a lawyer and cooperator, I fell right out of my chair upon reading attorney Joel Dahlgren's article in the March–April *Cooperative Grocer* entitled "Explore the New Legal Flexibility." The sangfroid with which Mr. Dahlgren urges cooperators to abandon their principles in the interest of expediency is breathtaking.

What Mr. Dahlgren is peddling has been making the rounds as the Uniform Limited Cooperative Association Act (ULCA), drafted by a committee of the quasi-governmental Commissioners on Uniform State Laws. As its name suggests, the group is dedicated to promoting national uniformity in the laws of the several states. Since the possibility of nonuniformity is precisely why we have states in the first place, proposals like the ULCA deserve skeptical scrutiny.

The skepticism is definitely warranted here. What Mr. Dahlgren describes as "flexibility" is, in fact, a repudiation of key cooperative principles. An LCA (limited cooperative association) gives nonmembers a seat at the board table (with the right to vote!), an equity stake in the co-op, and the right to extract profits from the business. Proponents justify this devolution by (1) pointing out that the nonmember directors are prohibited from being a majority of the board of an LCA, and (2) implying that, if we don't offer investment opportunities that mimic the investor-owned sector of the economy, we cannot attract the capital we need to grow the cooperative movement. If the current state of the economy has taught cooperators anything, it's that investor-owned corporations are deeply vulnerable to the delusional effects of unfettered greed. Why would we want to imitate the business practices that have taken our nation to the brink of economic ruin?

Anticipating these criticisms, Mr. Dahlgren contends that the pseudo-co-ops created by the ULCA would be more familiar to the Rochdale Pioneers than the consumer co-ops with which most readers of this magazine are associated. Offered without supporting authority, this assertion does not merit unchallenged acceptance. But even if Mr. Dahlgren is right and the Rochdale Pioneers would have embraced LCAs, so what? Surely cooperators believe that revelation is ongoing. We should leave originalism and fundamentalism to, respectively, Justice Scalia when reading the Constitution and Christian conservatives when reading the New Testament.

If patriotism is the last refuge of a scoundrel, then surely the penultimate refuge is "straw man" argumentation. An example is Mr. Dahlgren's asseveration that "[s]ome will argue that the new co-op statutes provide for the formation of 'bastard children'" of real cooperatives. Since I am not made of straw, I don't question the parentage of the ULCA (which was drafted by thoughtful, well-meaning people) or the new kind of entity it authorizes. My point is that, rather than cast aside core values like democracy and the equitable apportionment of economic gain, we should confront the real problem head-on.

What's the real problem? Everybody talks about socially conscious investing but few are actually doing anything about it. If people are serious about building an economy based on cooperation, calculated to advance the common good, and conducive to preserving civilization by avoiding climate chaos, then they will have to sacrifice rather than demand the kind of financial gain that traditional investors expect. Our job is to make the case for doing that, rather than building our organizations by pandering to the desire for personal wealth.

Sincerely,
Donald M. Kreis
Norwich, Vt.

Don Kreis is a board member of the Hanover Consumer Cooperative Society and the Cooperative Fund of New England.

Response from Joel Dahlgren

In response to Mr. Kreis's letter, I offer the following:

Ten Rules That Cooperators and Their Attorneys Live By

Rule #1: If your co-op is lucky enough not to need equity capital or those who provide it expect no return on it or do not care if it is returned, count your lucky stars.

Rule #2: The co-op employs equity capital only to serve the objectives of the co-op and its patron members as a collective. Those who provide equity capital are a means to achieving the collective's objective of distributing as much of the economic fruits as possible on a patronage basis to patron members. To co-ops and patron members, equity capital is a necessary evil, never honored as an end in itself.

Rule #3: If your co-op needs equity capital and your patron members provide all that is needed, never attempt to secure equity capital from nonpatron members (hereinafter investors).

Rule #4: Your co-op may secure equity capital from investors if your patron members cannot provide all the equity needed by your co-op.

Rule #5: If your co-op secures equity from investors, remember Rule #2. The price your co-op pays to investors should never be more than the lesser of (1) the price your co-op's business model can afford to pay; (2) the price your co-op is absolutely required to pay; or (3) the price your co-op is comfortable paying for the use of the investors' equity.

Rule #6: Yes, some co-ops exist because of unique governmental benefits, but in the main co-ops are rough-and-tumble business organizations that offer the most compelling vision of any competing business model. According to an early co-op pioneer George Holyoake, the highest, most lofty aim of co-ops is to redistribute wealth without warfare or bloodshed.

Rule #7: Redistributing wealth without warfare or bloodshed is tough work, and considerable equity capital is needed in many cases. Your co-op is free to pay as high a price as necessary to attract equity capital from investors, but remember Rules #2 and #5.

Rule #8: The co-op form of business is the ultimate self-help business organization because, in the first instance, co-op principles were fashioned by the poor and underprivileged.

Rule #9: Because a co-op drives investment rather than investors and investment driving the co-op as investment and investors do for any other for-profit business organization, those who philosophically denigrate investors and investment for co-ops do so at the risk of throwing the underprivileged under the bus.

Rule #10: Attorneys who represent co-ops should never let their personal biases get in the way of doing what is best for their clients. More flexibility is always preferred to less flexibility, everything else being equal.

—Joel Dahlgren

DotCoop Global Award

DotCoop LLC (www.coop) is sponsoring a new award, open to all co-ops at no cost. (DotCoop, in cooperation with its registrars, already offers a free one-year registration to .coop domain names for co-ops in formation and those that have been open less than one year.)

The new award will recognize co-ops that have become successful businesses because of their focus on cooperative values and principles. Co-ops can enter the award process at www.globalawards.coop.

There are three levels based on the size of the co-op. The prize is funds toward a trip to Geneva, Switzerland in fall 2009 to accept the award at the International Cooperative Alliance General Assembly.