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**COOPERATIVES, CREDIT UNIONS
AND POOR PEOPLE**

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**Southern Regional Council, Inc.
5 Forsyth Street, N.W.
Atlanta, Georgia 30303**

COOPERATIVES, CREDIT UNIONS AND
NEGROES IN THE RURAL SOUTH

The Economic Dilemma

The southern rural Negro is in a time of peril. The civil rights achievements of the past few years -- gains that have profited middle-class Negroes -- are only a list of laws on a piece of legal scrip for the Negro in poverty. The civil rights movement somehow went by the poor Negroes in the United States, and the southern rural Negro -- whether he is a farmer or a sharecropper -- is in a dilemma. The cause of this dilemma is an almost total lack of economic independence. Civil rights workers in the South have urged people to register to vote, or have advised them to put their children in a "white" school. A number of brave men did these things. The results thus far have not satisfied either the civil rights workers or the men they advised. Now there appears to be a concern (a long overdue concern, though one which perhaps had to wait until now) that the Negro cannot exercise the rights that legislation has awarded him unless he is economically free.

There is a growing interest in attempting to attack the problem of minimal economic independence of rural southern

Negroes through the use of cooperatives and credit unions. Recently organized co-ops and credit unions can be observed across the Black Belt of the South.

A Note of Caution

While we commend their basic philosophy as being admirable we think it is important that cooperatives and credit unions not be accepted as cure-alls for the southern rural Negro's economic problems. Instead, they should be closely examined to see what they are and to ascertain where they fit into what has to be a massive effort aimed at improving the economic position of the southern rural Negro. Two points can be made here: where a successful cooperative already exists it is preferable to JOIN IT rather than to begin another cooperative organization. If it is impossible to become a member of an existing cooperative or if there is no cooperative supplying the service required, then before a cooperative is seriously considered a FEASIBILITY STUDY should be made. Such a study would attempt to find out the following information:

- the need for the cooperative
- the potential membership in such a cooperative
- the management skills needed to run the organization successfully

- the facilities needed
- the operating costs
- the capital required
- how or whether to incorporate.

It is natural that civil rights groups turned to cooperatives when they were confronted with the rural Negro's need for financial independence. Ideally, cooperatives offer an individual or a group the power to make decisions concerning their own lives. The civil rights movement is concerned with helping people achieve this same decision-making power, which is the integral substance of freedom. It is both natural and good that the two came together. But the marriage should not be a hurried one. There is some question of the compatibility of cooperatives with the present needs of poor rural southern Negroes. The following discussion of some of the things that cooperatives are and aren't is an attempt to answer this question.

Cooperatives are businesses. That cooperation is a good thing is not enough to guarantee success. A business established by groups of people, owned and controlled and largely patronized by these same groups, is still a business and it must have at least as efficient operations as those of its competitors. The business record of cooperatives reveals that about the same number of cooperatives and mutual businesses

have failed as other businesses. Cooperative businesses are not automatically guaranteed success.

Cooperatives are a hard kind of business to start and an even harder kind to operate successfully.

Cooperatives demand excellent management if they are to succeed.

Cooperatives almost always lack capital. Basic capital must always come from members of co-ops. When these members are poor, there is a lack of capital.

Cooperatives are, in most lines of business, up against stiff competition from highly efficient competitors.

Experiments In Business

Negroes in the Black Belt are experimenting with small grocery cooperatives. The average store is a small building located in the Negro neighborhood. It is owned by perhaps twenty or more men. Their investment ranges from \$25 up. How good an investment is it? There is a history of failure behind attempts to establish similar co-ops. During the years following World War II, a succession of failures in consumer cooperative food stores led to a belief that such businesses were almost impossible to operate successfully. Recently very large co-op grocery stores have been successful in some of the northern cities. But the small grocery co-op remains

a poor risk. The small grocer necessarily buys in small lots. Often he buys at high wholesale prices, prices which many times exceed the retail prices of chain groceries in the area. The low volume of sales makes it difficult to supply fresh products such as meat, milk, and vegetables to customers. The quality and location of facilities are often poor. The small Negro-owned grocery co-op in a small Black Belt town will undoubtedly lack operating capital, making it difficult for it to offer credit to its customers, and credit has long been the life force of small grocery stores in America.

Some discussion has been given to the possibility of establishing state-wide wholesale co-ops to supply local grocery co-ops with produce at wholesale prices. The cost of such an operation would probably be prohibitive. Trucks, warehouses, and employees all cost money, and should the wholesale cooperative make enough to pay for itself it is doubtful if the individual store owners would make any profit during the first several years. It appears that the problems of small grocery co-ops, even when serviced by a wholesale food cooperative, are considerable enough to label such an endeavor an extremely high risk.

Marketing cooperatives, on the other hand, have long been successful in the United States. Almost one-fourth of all America's farm crops are sold through cooperative marketing

associations. Several civil rights groups and one or two independent individuals are presently attempting to establish farm cooperatives around truck crops in Alabama and Mississippi with Negro farmers.

These will be both consumer and marketing cooperatives; the consumer part will provide necessary farm and home supplies to the farmers and the marketing aspect will concern itself with selling the truck crops. Again it seems that perhaps the cooperative idea has been oversold as a means for solving an economic problem and under-explained in regard to the risk and personal involvement it entails. Six or ten Negro farmers in Alabama can gain when they get together to buy fertilizer cheaper or to share the use of a tractor or a combine they own collectively. Such cooperative venture supplies a service, but rarely does it produce a really substantial increase in a farmer's income. Collective marketing of crops by ten, fifteen, or even twenty farmers is a complicated procedure and it involves a fairly high risk. Generally, marketing cooperatives are formed or have been formed to protect farmers against the fluctuations of the speculative market. Without a marketing co-op the farmer is forced to sell his crop -- sometimes to but one or two buyers -- at whatever price the buyer is willing to pay and under whatever conditions the buyer insists upon. Large marketing

co-ops supply terminal storage, marketing facilities, and marketing agencies to large numbers of farmers. In this way the farmers, through cooperatives, are able to exert some influence in terms of both quality and price on the buyer. All this sounds very good. The question, however, is whether a group of twenty Negro farmers in Alabama can provide themselves with all the necessities to make such a venture a business success. Where will the capital come from? Who will supply the management skills necessary for success? What will keep the buyers and white farmers from simply treating such a small bargaining unit as just one middle-sized farmer, whose tomatoes or cucumbers "they just don't feel like buying at market price today?" Will the farmers sell all their produce through the marketing co-op or will they be tempted, especially if other members' produce is not as good as theirs, to sell their best produce separately and only their inferior produce through the co-op?

Several questions should be asked of other cooperative efforts under way in the South. Can a gas-oil cooperative servicing only Negro-owned service stations withstand a price war with a major oil company? How long can a co-op making clothing and leather luxury items depend on a "sympathy" market? And is this market large enough to allow the business to expand enough to offer minimum wages, training opportunities, and retirement benefit to its owners, the employees? It should be

noted here that with adequate training courses and assistance in the marketing of the finished products self-employment cooperatives such as these offer great promise in that they provide jobs to persons who are unemployed, underemployed, or victims of economic retaliation. Can a state-wide consumer cooperative planned to supply Negroes with all basic living requirements from food to clothing under-sell a national mail order house on everything or even meet their prices on a majority of items? Can they offer easy credit? If such a cooperative did succeed and if it could include all the Negroes in any southern state, would it change the situation appreciably? Could it offer employment, more income, housing, or better education to ex-farm workers? Would a man making \$1500 a year find a dividend check of \$4.50 at the end of a year and one vote out of 10,000 in the running of the cooperative of enough value to his life to pledge his involvement and loyalty, both of which would be necessary if the co-op is to succeed, to the organization?

A Good Idea is Not Enough

An ideal couched in the greatest moral and social needs of man is not enough to assure the success of a business enterprise. Mr. Jerry Voorhis, executive director of the Cooperative League, says that cooperatives in America have learned a number of lessons since 1950. Among them are several

that are especially applicable to this discussion:

1. The day of the small cooperative kept alive by idealism alone is largely past; coordination, federation and merger are necessary. Everything from raw materials..... to consumers must be included.
2. The best method of expansion of cooperatives is from regional cooperatives outward, not in formation of new cooperatives.
3. Good management is of critical importance.

People planning cooperatives might well heed several guidelines for their successful operation.

- Cooperative managers must do only the job assigned them by the co-op members.
- Members must be familiar with the business field they are entering and must realize their responsibilities. (Or, members may withdraw, especially if they don't see immediate benefits.)
- Members often feel that since the business belongs to them they can safely "owe themselves." A private business can select its business risks -- a co-op must treat all members alike.

- Co-op managers must be good businessmen and good leaders. Training should be a requirement.
- Local and independent co-ops often suffer problems. Co-ops, when possible, should affiliate with others and with central marketing and supply organizations.
- Cooperatives must anticipate vigorous attacks by those whose business interests are in conflict with objectives of the cooperative.
- Because cooperatives are democratically controlled organizations it is often difficult to distinguish between one member, one vote in overall control of the organization (an essential feature in any true cooperative) and attempted "democracy" in management and operations, which is fatal to any business, cooperatives included.

Credit Unions

The growth of credit unions among low-income people, primarily Negroes in the South, has accelerated during the past six months. These, too, are often interpreted as a

means to economic power. Their value as a source of money is often emphasized over their purpose of promoting thrift, individual self-help, etc. As with other cooperative efforts, it is necessary to look closely at credit unions to see what they are, and how they can benefit people belonging to them.

Credit unions are cooperative organizations composed of members having a common bond of occupation, residence, or other association. They promote thrift and create a source of credit for their members. Credit unions give to their members the opportunity for regular saving and offer protection of funds -- for they operate under law, supervised by the government, and must supply surety bonds and substantial reserves. Often life insurance benefits are available. Credit unions loan money at low interest rates (usually 1% a month or less) to their members to pay bills, taxes, medical expenses, automobiles, vacations, education, etc. They are often the only place a low-income family can go and obtain a loan at decent terms.

Most federal and state credit unions provide organizational assistance where the applicant group is eligible for a charter and has qualified leadership within it to insure a reasonable chance for successful operation.

Strictly speaking, it is not necessary for credit unions to incorporate. But the advantages of incorporation are great.

The laws generally:

- require audit by state banking authorities
- limit the member's liability
- enable credit unions to sign contracts
- give legal standing to rights of the credit union and to any member who may appear in court
- establish chartered and incorporated credit unions as any other banking institution.

How does a credit union of rural Alabama Negroes, or of citizens of a city slum, compare with the majority of credit unions in the U. S.?

The majority of credit union members in the U. S. are industrial employees, government employees, and teachers. Rural based credit unions account for only 3% of U. S. credit unions and for but little more than 1% of total credit union savings. Local community credit unions during the 20's and 30's had such poor records of success that some state supervisory authorities refused to charter community groups. This trend has somewhat disappeared and farm credit unions are now considered good risks.

A Realistic Look

What can low-income people expect of a credit union if it succeeds?

In the U. S. as a whole average savings of credit union members is about \$500. Last year loans to individual members of federal credit unions averaged over \$750. Credit unions rarely make unsecured loans (by signature only) in excess of \$300. Usually they place a limit even on loans with security. A small credit union of 30-40 poor people could not make very large loans. Its primary value would be to allow people to make their own decisions concerning the use of their savings, and to provide a sympathetic board to hear their loan requests. Requests should always be kept in confidence at the risk of members losing faith in the credit union.

Small credit unions made up of low-income people will have problems. As long as credit unions are small and cannot afford to pay for help, they have the perpetual problem of finding volunteer workers who are qualified to manage the affairs of the union. Community credit unions have a reputation of being "stillborn." Stillborn credit unions are those organized with only partial support from the community, or unions which failed to select competent officers or attract sufficient working capital.

Credit unions, then, can lend members small sums at reasonable interest and provide other services such as inexpensive life insurance. That such organizations are badly, if not desperately, needed there is no doubt, but their

chances for success hinge on good management, community involvement, and adequate capital. They can obtain help from the Office of Economic Opportunity in grants or loans which allow the beginning credit union to hire a financial manager -- something a credit union cannot ordinarily do until it is several years old. Assistance is also available from state credit union leagues and the Federal Credit Union League. The Credit Union National Association (CUNA) in Madison, Wisconsin, can supply advice and written information, as well as the materials for bookkeeping and other essentials.

A small credit union of poor people cannot do much to change a member's economic position if he is already deeply in debt, or has only a meager income. The spirit of the cooperative action seems of more apparent value than the economic assistance it can give.

SUMMARY

This analysis of cooperative action among poor people, especially poor southern Negroes, has perhaps drawn far more negative conclusions than were intended. Cooperatives, and the ideal of placing human rights and better living above profit motives, are needed in the South. Perhaps the viability

of a democracy depends on such cooperative action. There is a danger, however, of thinking of anything done cooperatively as being something sacred, something that can overcome all obstacles.

The question, of course, is how best to achieve economic independence, without which the southern Negro will not be able to wield his considerable political power. It is evident that some people believe that small cooperatives, and still smaller credit unions, can offer low-income people some degree of independence. But, a restriction of the use of the cooperative to a small, almost romantic notion of a community will in all probability sentence it to failure. There is also the inherent danger of dashing and discouraging the cooperative spirit that presently exists, if such small organizations should fail.

Because cooperatives and credit unions are both businesses, if such efforts are to be of real economic benefit in this day of big business, they will have to be large in size and scope. State-wide and regional cooperative endeavors should be considered. Large land cooperatives, featuring housing co-ops and perhaps industry owned by the people themselves, are possibilities. State or regional corporations could offer sizeable loans and provide technical training and marketing assistance to individual self-employment co-ops. Such

corporations could be foundation or government subsidized. This would allow the valuable moral and psychological advantages of the cooperative self-help idea to continue while also weighting the odds for economic success in the co-op's favor. Thus, cooperative spirit -- among the very people who need it if they are to survive as individuals with basic human rights -- might succeed and thrive.

Information Sources - Cooperatives

More information regarding cooperatives can be obtained from the following agencies:

1. The Cooperative League of the USA, 59 East Van Buren Street, Chicago, Illinois 60605
2. Farmers Cooperative Service, U. S. Department of Agriculture, Washington, D. C. 20250

The following publications are available from the Service:

- How To Start a Cooperative
 - Financing Farmer Cooperatives
 - Managing Farmer Cooperatives
 - Sample Legal Documents for New Cooperatives
 - What Is a Co-op?
3. The National Sharecroppers Fund, 5 Forsyth Street, N. W. Atlanta, Georgia 30303
 4. Assistance may also be obtained from:
 1. Local County Extension Agents
 2. State Director of Extension
 3. Head of the Agricultural Economics Department at the state land-grant college
 4. Head of the State Department of Agriculture
 5. The district bank for cooperatives
 6. The management of existing cooperatives
 7. The secretary of the State Cooperative Agricultural Council.

Loans To Cooperatives

Loans to cooperatives serving rural families with low incomes are available under:

The Economic Opportunity Act of 1964.

These loans are made through the Farmers Home Administration.

Details are available from:

United States Department of Agriculture
Farmers Home Administration
Washington, D. C. 20225

Pamphlet: "Loans to Cooperatives"

Information Sources - Credit Unions

Credit Union National Association

P. O. Box 431, Madison, Wisconsin 53701
Attention: Mr. Robert M. Dolan

Bureau of Federal Credit Unions

Department of Health, Education and Welfare
Washington, D. C. 20225

Loans Available to Credit Unions

Regional Office of Economic Opportunity

101 Marietta Street, N. W.
Atlanta, Georgia 30303

Loans designed to utilize credit unions as the vehicle to accomplish the purposes of Section 6.f. "Consumer Information, Education, and Mutual Aid" of the Community Action Guide, Vol. I, February, 1965.

The Applicant Agency

1. Where the official Community Action Program Agency has been designated in a given area, it would serve as the applicant agency.
2. Where the official Community Action Program Agency has not been designated, an existing neighborhood organization, such as a settlement house, might serve as the applicant agency, taking the initiative to bring together leadership representative of the community as a whole. In this case the history and activities of the agency should be described as part of this proposed component.

Purpose of Component

To meet the problems indicated above and to fulfill the objectives of Part C, Section 6.f. of the Community Action Program Guide by expanding existing credit unions or developing new ones:

1. To open up for residents of target areas served by neighborhood centers the opportunity to manage their finances with the same dignity that others enjoy through membership participation in credit union benefits.
2. To provide through the credit union a "money clinic" and a "school for economic literacy" addressing itself actively on a full-time basis to money and credit problems of the people who reside in these neighborhoods.
3. To provide basic thrift and low-cost lending services.
4. To develop consumer education programs for members and potential members.
5. To develop budget and family financial counseling services.
6. To provide a device for the development of leadership and operational skills in a cooperative venture.

Action Plan

To apply the tested approach of supplying a staff unit of three persons to operate the credit union on a full-time basis in each selected neighborhood.

- A. 1. Identify the well-defined neighborhood boundaries that will qualify for a credit union charter. Survey the area to determine whether to expand an existing credit union or start a new one.

To be done by the state credit union league in cooperation with the applicant agency. Additionally in all phases of this program the services of CUNA will be made available.

2. Recruit and train indigenous sub-professionals to serve as the credit union operational staff.

To be done by the state credit union league in cooperation with the applicant agency and other neighborhood associations. Training would include

on-the-job experience in existing credit unions; participation in existing credit union league and chapter programs; special training sessions geared to special needs of the group to be served.

3. Provide training for the credit union volunteer officials (15) chosen from the neighborhood by fellow residents to serve as credit union board and committee members.

To be done by state credit union league and the credit union operational staff.

4. Provide guidance and assistance in launching the credit union into operation.

To be done by state credit union league.

5. Provide continuing advice and counsel for the successful operation of the credit union.

To be done by state credit union league.

- B. Where plans call for establishment of more than one neighborhood center credit union, a Credit Union Project Coordinator-Trainer would be employed. He would be a credit union specialist with field experience who would be involved in all phases of the action plan for each unit.

Budget

Individual Neighborhood Credit Union Unit

| | |
|--|-----------------|
| Credit Union Staff Salary & Salary Expense | \$15,000.00 |
| Manager | |
| Loan Counselor | |
| Bookkeeper-Teller | |
| Education and Training Materials | 4,000.00 |
| Equipment | <u>1,000.00</u> |
| | \$20,000.00 |

(It is anticipated that space and utilities might be donated by a neighborhood association, and applied as part of the necessary 10 percent local contribution to the program.)

City Project Credit Union Coordinator-Trainer

(When two to five neighborhood center credit unions are planned. If more than five are initiated it might be necessary to add an assistant to the Coordinator.)

| | |
|-----------------------------------|-----------------|
| Salary and Salary Expense | \$ 9,000.00 |
| Travel and Transportation Expense | <u>1,000.00</u> |
| | \$10,000.00 |