

**Cooperatives In Australia
– A Background Paper**

**Mark Lyons
June 2001**

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Abstract

This paper provides an overview of co-operatives in Australia. It describes co-operatives and co-operative-like entities and provides some data on their number, size and distribution across states and across industries. After a brief outline of their history, it suggests that while from time to time particular types of co-operatives or co-operative type organisations have been popular, overall, co-operatives have had a fluctuating popularity. At present they are at a low point, but if Australia follows the path of similar countries, they can expect to experience a revival.

Introduction

Co-operatives and co-operative-like organisations have existed in Australia since the mid 19th century. However, while some types of co-operative-like organisations have had periods of great success, organisations calling themselves co-operatives have experienced a fragmentary development.

At different stages of our history, co-operative-like organisations such as friendly societies, building societies, credit unions and trade unions have flourished, often for long periods, but organisations that identify themselves as co-operatives have been less successful and the idea of cooperation has never animated more than a small percentage of Australians. Members of co-operatives have tended to embrace the advantages that membership has brought without enthusiastically embracing the principles that those organisations embodied.

Even in those few industries, such as dairy farming, where co-operatives have been strong, government support has been important. Government support has been important in encouraging co-operatives and co-operative-like organisations in other industries as well. Registrars of co-operatives in each state and territory are the most important source of support; in this regard, the new Registry of Co-operatives has been the most important. But in general, governments have displayed only occasional episodes of enthusiasm for co-operatives and mostly have been indifferent. At present, under the influence of neo-liberal thinking, attitudes of some influential parts of government are moving from indifference towards hostility. Other forces are impacting upon co-operatives as well. Global competition is likely to transform larger agricultural co-operatives and may lead some to extinction. The culture of contemporary Australia, with its emphasis on individualism and consumerism is not a fertile ground for co-operative ideas. Co-operatives are remembered fondly, but appear old fashioned. A few co-operative enthusiasts will maintain the co-operative form and new co-operatives or co-operative types of organisations will emerge. Overall, though, Australian co-operatives face a challenging future.

Definitions

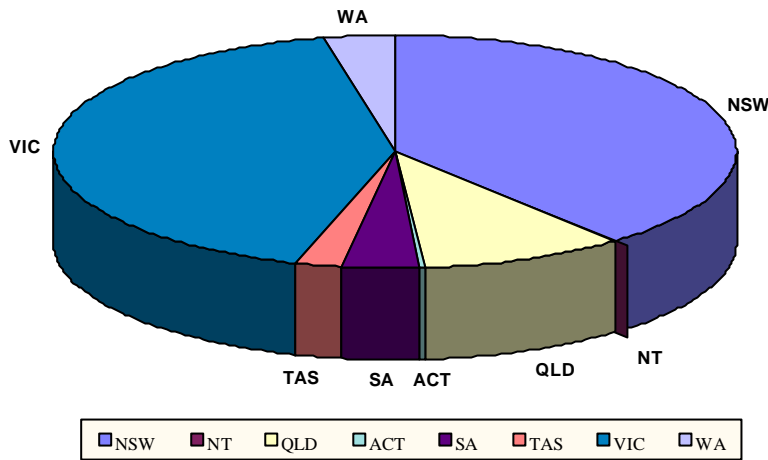
In the Australian context, the most basic definition of a co-operative is an organisation that is incorporated as a co-operative under state or territory legislation. These are often called general co-operatives. General co-operatives can be found in many industries, though almost all large and well-known co-operatives are farmer co-operatives. In addition, there are several large farmer-owned companies incorporated under Corporations Law that structure themselves and operate as co-operatives (and are treated as co-operatives by taxation authorities). These entities were formed in the state of Victoria before special co-operatives legislation existed.

Besides these, there are several other groups of organisations that are co-operative-like in their structure and were once regulated under co-operatives legislation. These are all financial intermediaries and include credit unions (or credit co-operatives), (some) building societies (other building societies are for-profit entities) and co-operative housing societies, which are a special type of building society. Finally, there are a few remaining friendly societies, vestiges of once popular organisations which were established under 19th century legislation also permitted the formation of co-operatives and which for a time were administered by the same authorities that regulated co-operatives. In the early 1990s, all of these entities were split from their co-operative roots and regulated along with banks as deposit-taking entities, as part of the financial system. As an indication of the Commonwealth government's policy confusion on the topic of co-operatives, many friendly societies do no more than operate pharmacies and offer no financial services.

Dimensions

There are approximately 2,400 registered general co-operatives in Australia.

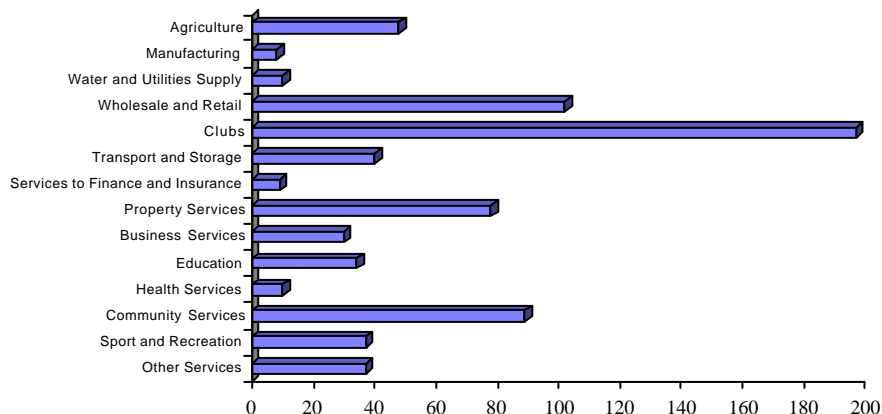
Table 1
Number of Co-operatives in Different States in Australia



As shown in Table 1 by far the greatest number (81%) are to be found in the two largest states of New South Wales and Victoria. In both states, legislation has permitted, and government policy occasionally encouraged, the use of the co-operative form for a number of community development and community service activities. In most states, co-operatives legislation distinguishes between co-operatives that are permitted to distribute a profit to their members (reflecting the level of their use of the co-operative) and those that are nonprofit distributing. The former are generally called trading co-operatives and are mostly quite large. The latter, sometimes called community advancement co-operatives, are far more numerous.

Table 2 shows the distribution of the 850 co-operatives registered in New South Wales across a variety of industries.

Table 2
Number of NSW Co-operatives by Major Activity - 1998



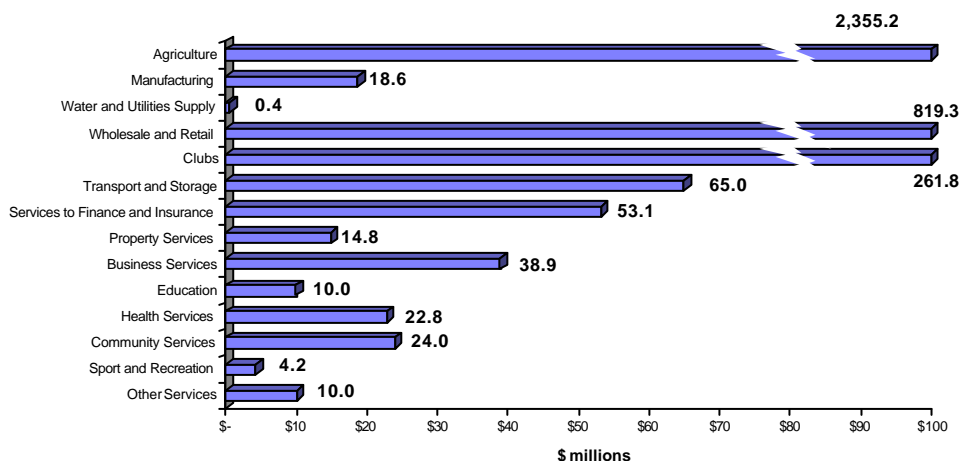
The single largest group is social clubs, more commonly known as registered clubs. Formed by groups of people from a particular locality, often built on existing sporting or other nonprofit organisations, they were given a monopoly on gambling machines in the 1950s and prospered greatly, becoming valuable community recreation resources. By no means all clubs incorporated as co-operatives and in the late 1970s all new clubs were required to incorporate as nonprofit companies. Those already incorporated as co-operatives were allowed to remain.

Wholesale and retail co-operatives include the few remaining co-operative stores (all in country areas), specialised trade co-operatives (such as for plumbers) and specialised consumer co-operatives, selling wine, organic foods or books to university students. The most common transport co-operatives are taxi co-operatives in larger regional centres. Community services co-operatives include co-operative childcare centres and neighbourhood centres, while housing co-operatives are mainly small, formed to own and manage or sometimes merely to manage government-owned housing.

Numerically, agricultural co-operatives are relatively few in number. However, they include most of the large co-operatives. As Table 3 shows, agricultural co-operatives account for 66% of NSW co-operative turnover; wholesale and retail co-operatives another 14%.

Table 3

Turnover of NSW Co-operatives by Activity - 1997/98



In 1998 there were seven co-operatives and seven co-operative-like companies included in the 1000 large Australian companies (measured by turnover). Three had a turnover of more than \$1 billion each; all 14 had a combined turnover of \$6.5 billion. All were farmer-owned co-operatives; seven were milk producers.

Agricultural co-operatives incorporated in New South Wales have approximately 25,000 members (a few of these are resident in other states). Overall, co-operatives in New South Wales have almost 1.4 million members. A large part of this membership is accounted for by the University Co-operative Bookshop, which has over 800,000 members. Two registered clubs in the Newcastle area account for another 150,000 members. As well, some people belong to two or more co-operatives and are counted at least twice. Nonetheless, co-operative membership is not insignificant in a state whose adult population is approximately 4.5 million. However, active members, that is, those who are actively using their co-operative, would be significantly less.

For most members of co-operatives, membership is a matter of convenience – a way of obtaining a small discount on purchases, for example. For a few, membership is part of their identity. They are proud to be a co-operator. For others, such as farmers and taxi owners, their co-operative membership is intimately tied to their livelihood. They are far more likely to take an active interest in their co-operative.

The most significant group of co-operative-like entities is credit unions. There are 211 credit unions in Australia with 3.5 million members (out of an adult population of 14 million). In 1998 they generated an investment income of nearly \$2 billion on an asset base of nearly \$20 billion. Building societies organised along co-operative lines were once very popular. However, most merged and converted to banks during the 1980s; less than 20 remain, with assets of \$13 billion. Earlier in the 20th century many Australians belonged to friendly societies; now few do. Approximately 165 remain, mostly small, providing financial services, running pharmacies or aged care facilities.

History

The first co-operative based on the Rochdale model was formed in Brisbane in 1859; two co-operative stores were formed on the northern coalfields in New South Wales

in 1860, one of them attempting, unsuccessfully, to own and operate a mine. These co-operatives, formed by working people to increase their market power, have had a patchy history in Australia. The peak period for consumer co-operatives was in the period between the two world wars. Consumer co-operatives played a significant role in the economic and social lives of many rural communities. But, in general (and with some important exceptions), they lacked capital and leadership and were unable to adapt to new retailing techniques such as supermarkets.

Farmer co-operatives began to form late in the 19th century and became popular in the dairying and wheat industries, which tended to favour small family producers. Later, in the mid-twentieth century, co-operatives became the dominant form of organisation in the sugar industry and the newly emerging rice and cotton industries. As a result of government intervention they became important in the fishing industry. Essentially, co-operatives enabled farmers to market their produce without fear of exploitation by “middle men”; in dairying they began processing milk as well. Some farmer co-operatives engaged in co-operative purchasing of farm inputs as well. They were at their strongest from the 1920s to the 1960s.

Yet even in the 1920s, the period that saw the greatest expansion of general co-operatives, the co-operative movement was divided. Consumer co-operatives feuded with producer co-operatives; their own leaders argued among themselves; the labour movement was suspicious of co-operatives and hostile towards worker co-operatives. Farmer co-operatives found other producers undercutting their prices; their pleas to governments led to the formation of compulsory government-appointed marketing boards that purchased and marketed all of a particular product. This removed the need for co-operatives and in many cases led to their collapse.

Two sets of co-operative-like organisations were successful. Friendly societies, or lodges, which provided members and their families with medical services and financial assistance in the case of unemployment due to sickness or injury, were popular. They reached their peak of popularity in the 1920s. They contracted with doctors to provide medical care at a low cost to their members. They were strongly opposed by medical associations for keeping down doctors' fees. In the 1950s, the Commonwealth Government acceded to doctor demands and legislated fee-for-

service medicine. Many friendly societies became health insurance organisations, but by then their local lodge structure with its strange regalia and rituals had lost its appeal to younger generations.

Building societies formed on co-operative or mutual lines have prospered in the 1870s and 1880s but the economic collapse of the 1890s destroyed their reputation for a generation. In the 1930s building societies were revived, an initiative of the New South Wales Registrar of Co-operatives. In two different forms they became major providers of housing finance across the country, until the 1980s when in response to a deregulated and fiercely competitive financial market, they began amalgamating and transforming into for-profit banks.

At the end of the Second World War, the New South Wales Registrar of Co-operatives also encouraged the formation of credit unions. Credit unions tended to form in workplaces where people had experience of collective action via trade union membership or among Catholic parishes where Catholic social thinking encouraged their formation.

Government Policy

Government policy towards co-operatives has always been ambiguous. Until the 1923 Co-operatives Act in New South Wales, co-operatives were incorporated under friendly societies or industrial and provident society acts. Their regulation by government varied from lax to onerous, but with no particular encouragement. The passage of the New South Wales Co-operatives Act and the creation of a registry of co-operatives indicated a preparedness by government to encourage co-operative formation. This was largely as a plank of agricultural policy, although as noted above, the Registrar of Co-operatives encouraged the formation of building societies and credit unions. In the period following the Second World War, people were encouraged to form co-operatives to build community facilities such as clubs and in the 1980s, for a brief period, worker co-operatives were encouraged. In the 1990s, annual “key issues” conferences were organised to allow local cooperators, especially from rural co-operatives, to learn from international co-operative leaders. Updated co-operatives legislation was enacted in 1992, incorporating into the legislation the International Co-operatives Alliance’s (ICA) six co-operative principles. A co-operatives development fund was established and studies conducted into the

feasibility of forming co-operatives in a number of new industries. States such as Victoria and Queensland also employed a proactive co-operatives policy from time to time.

Other parts of government were less committed and sometimes, as with clubs, undercut co-operative development. The most telling setback to co-operative development occurred in 1992 when, following the collapse of several for-profit building societies, the various territory and state governments agreed to establish a national body to administer all co-operative-like organisations in the finance industry. Later that decade, following a Commonwealth Government inquiry into the finance industry, this body was subsumed into a new national body to oversee all forms of deposit-taking organisations. This completed the break between general co-operatives and finance co-operatives organisations that had been growing for some time. In the late 1990s, state and territory government ministers responsible for general co-operatives decided to develop nationally consistent legislation, based on the newly amended New South Wales Act. Credit unions had for some time identified themselves as mutuals rather than as co-operatives, a term that some of their leaders considered tainted with inefficiency and old-fashioned values.

The same Commonwealth government policy required credit unions to be incorporated as nonprofit companies and apply prudential standards that made it almost impossible to form new credit unions. Commonwealth government legislation and policy designed to encourage competition has made co-operatives objects of suspicion to Commonwealth government officials. At no time has the Australian government had a bureau responsible for and prepared to champion co-operatives. Taxation law embodies special tax treatment for co-operatives and as a result defines what would qualify (those entities that conduct at least 90% of their trade among their members). But the degree of special taxation treatment has gradually been whittled away over the past two decades. National government policy is quite clear - governments should not give any favours to organisations simply because they adopt a certain organisational form.

Implicitly, however, government policy endorses the proposition that investor-owned companies are the most efficient and therefore the favoured form of organisation.

Co-operative Advocacy

Co-operatives themselves have rarely argued their case or sought to educate their members and the wider public of the virtues of a co-operation. Only for short periods have general co-operatives in Australia had a strong national umbrella organisation. A national Co-operative Federation of Australia attempted to play a coordinating role from the 1950s to the 1980s. It was largely funded by the strong Western Australian co-operatives sector, and was significantly weakened when most of that state's co-operatives formed themselves into an investor-owned corporation. Then from 1986-1993 the Australian Association of Co-operatives provided a strong voice for, and a wide range of services to, its member organisations. These services included financial services and it was some bad loans that led to the collapse of the body and with it hopes of a strong voice for co-operatives and a guide to help co-operatives adjust to the dramatic social and economic changes that flowed from globalisation and the adoption by governments of neo-liberal policies. By contrast, the Credit Union Services Corporation (CUSCAL) to which most credit unions belonged, has played a critical role in helping credit unions remain competitive players in a fiercely competitive financial services marketplace and in guiding them through the shoals of changing government policy. It is currently preoccupied with developing strategies to protect the movement from a possible attempt by one or two banks to take over larger credit unions.

General co-operatives are perhaps too diverse to ever combine to articulate a strong case in favour of co-operatives. Many of the big agricultural co-operatives are now preoccupied with developing ways of raising capital without diluting producer control. The newly deregulated milk market is likely dramatically to reduce the number of dairy farmers and lead to the amalgamation, collapse or commercial takeover of many dairy co-operatives. Large retail and consumer co-operatives face intense competition in their marketplace and may be seen as offering their members few distinct economic reasons for remaining members. Many smaller co-operatives are co-operatives because the founding members chose the co-operative form as an expression of their commitment to the values of solidarity or collective decision-making. Such commitments are strongest at the time of formation and over time, these values have often waned in significance to members. There remains a residual commitment to cooperation by people with working class or rural origins, but this is

not enough on its own to secure a significant place for co-operatives in Australia's future.

The decline is not inevitable. Some people are still adopting co-operative models to achieve their social and economic objectives. In New South Wales alone, over 250 new co-operatives were formed during the 1990s, more than replacing those that failed. These were formed across a great variety of industries. They included co-operatives formed to assist growers of new (for Australia) crops such as olives. Others emerged in industries, such as health, that are being dramatically transformed by government policies such as deregulation and competition policy. In those parts of Australia that have been hard hit by such policies and by the downsizing of government and other features of globalisation, there is a growing enthusiasm for ventures that combine social and economic objectives. These social enterprises are treading the same path that co-operatives pioneered over a century ago.

Internationally, the co-operative sector is far stronger than in Australia. In the United States, so called "new generation" co-operatives are significantly increasing their farmer members' incomes. In Europe what are called new or social co-operatives are an important component in attempts by communities and governments to address social exclusion and provide the services required by an ageing population. Late in 2001, the International Labour Organisation will review its policy on co-operatives to recognise and support these new endeavours.

The message for Australia seems clear. Co-operatives can be a valuable mechanism for enabling people to express their solidarity while addressing the many problems that beset us as a nation. But a revival of co-operatives will require a commitment from existing co-operatives, and, from governments, an enabling policy environment.

Further Reading

There is no general study of co-operatives in Australian. Gary Lewis has two partial studies; one of what was mainly the consumer co-operative movement in New South Wales, the other a history of credit unions.

Gary Lewis, *The Middle Way: Rochdale Co-operatives in New South Wales, 1859-1986*, Brolga Press, Gundaroo, 1992.

Gary Lewis, *People Before Profit: The Credit Union Movement in Australia*, Wakefield Press, Adelaide, 1996.

Mark Lyons provides an introduction to the twentieth century revival of building societies, in a biography of one of their leaders. Mark Lyons, "Ted Tytherleigh", in R.T. Appleyard and B. Schedvin eds. *Australian Financiers: Biographical Essays*, Macmillan Australia, South Melbourne. Elsewhere he gives a brief overview of co-operatives in the context of the wider third sector or social economy. Mark Lyons, *Third Sector: The Contribution of Nonprofit and Co-operative Enterprises in Australia*, Allen and Unwin, Sydney, 2001.

There is a treatment of co-operative law in NSW, Donald Magarey, *Guide to the NSW Co-operatives Law*, CCH Australia, Sydney, 1994, but this is rather dated and the movement by each state and territory to adopt a core of consistent law is leading to many changes to different co-operative acts.