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State Support for the German Cooperative Movement, 1860–1914

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GERMANY 's cooperative movement grew and thrived from its inception in the late 1840s to World War I and beyond. Cooperatives were divided along several lines, and perhaps the most serious point of contention concerned the role of the state in the movement. Cooperative leaders in the two decades before World War I especially debated whether they should accept direct grants and subsidized credit from the *Reich* and the *Länder*. The several parts of the cooperative movement construed the question differently; much internecine conflict turned on the answers. The cooperative movement's historiography has largely framed the question as did Hermann Schulze-Delitzsch and other cooperative leaders opposed to state assistance. To him, the issue was whether cooperatives would be based on "self-help" or "state help."

This article argues that the "self-help" versus "state help" framing has led to overemphasis on what was modest direct assistance while obscuring much larger indirect state contributions to the cooperative movement. The legal framework for cooperatives offered terms unavailable to business enterprises, and the tariff structure created in the last two decades of the nineteenth century assisted rural cooperatives in ways ignored in the literature. Reconsidering Schulze-Delitzsch's framing and the way it has been followed in the historiography allows us to see better how German cooperatives fit into state policy in the period.

Three recent contributions to the cooperatives' historiography all deal in one way or another with the question of state assistance. Each stresses the political motivations behind such assistance, arguing that the German governments had come to view the cooperatives as potential allies and used their financial largesse to promote the types of cooperatives the governments wanted to see. Stress on political motivations, unfortunately, has led to the impression that state assistance

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was as important to cooperatives as political leaders hoped.[1] One recent discussion, David Peal's 1988 article in *Central European History*, implies that state help was critical to the growth and survival of at least the rural branch of the movement. Peal's argument rests in part on a misunderstanding of the institutions in question. Two recent contributions take a more balanced view while stressing different issues. Ian Farr locates the Bavarian State's willingness to support cooperatives in the peasantry's political mobilization and in particular the *Bauernbund*'s challenge to Center Party hegemony in rural parts of that *Land*. Brett Fairbairn focuses on the role of the Prussian State Cooperative Central Bank (hereafter *Preußenkasse*), which figures heavily in any discussion of state support for German cooperatives. Fairbairn's important corrective to earlier hagiographical accounts of the Preußenkasse stresses the extent to which this institution's backers hoped to use it to shape and control the cooperative movement.[2]

Framing the issue as "self-help" versus "state help" obscures the importance of broader state policy in the cooperative movement's successes and limitations. A better account acknowledges modest financial support for cooperatives. That

[1]Helmut Faust, *Geschichte der Genossenschaftsbewegung*, 3rd ed. (Frankfurt am Main: Knapp, 1977), is the standard history of the German cooperative movement. He pays relatively little attention to the specific organizational questions emphasized here. The account of the cooperative movement's history in Brett Fairbairn, "History from the Ecological Perspective: Gaia Theory and the Problem of Cooperatives in Turn-of-the-Century Germany," *American Historical Review* 99, no. 4 (1994): 1203–1239, although brief, is the best recent overview available. Arnd Holger Kluge, *Geschichte der deutschen Bankgenossenschaften. Zur Entwicklung mitgliederorientierter Unternehmen* (Frankfurt am Main: Knapp, 1991), focuses on the credit cooperatives. This unusual dissertation is the best recent, detailed discussion of those cooperatives. This article is part of a larger project that focuses on the logic and operations of the credit cooperatives as banking institutions. Timothy W. Guinnane, "Cooperatives as Information Machines: German Rural Credit Cooperatives, 1883–1914," *Journal of Economic History* 61, no. 2 (2001): 366–389, uses manuscript sources to explore the operations of local credit cooperatives. Timothy W. Guinnane, "Regional Organizations in the German Cooperative Banking System in the Late Nineteenth Century," *Ricerche Economiche* 51, no. 3 (1997): 251–274, and Timothy W. Guinnane, "A 'Friend and Advisor': External Auditing and Confidence in Germany's Credit Cooperatives, 1889-1914," *Business History Review* 77 (2003): 235–264, provide more detail on the regional auditing associations and central cooperative banks, while Timothy W. Guinnane, "New Law for New Enterprises: The Development of Cooperative Law in Germany, 1867–1889," a working paper from 2010, explores the development of cooperative law before World War I, situating it in the context of larger developments in enterprise law. Timothy W. Guinnane, "Delegated Monitors, Large and Small: Germany's Banking System, 1800–1914," *Journal of Economic Literature* XL (2003): 73–124, traces the development of the banking system as a whole, attempting to correct the historiography's overemphasis on the Great Banks.

[2]Manfred Busche, *Öffentliche Förderung deutscher Genossenschaften vor 1914* (Berlin: Duncker & Humblot, 1963) emphasizes "state policy for cooperatives" as opposed to "state support for cooperatives." His notion has greatly influenced the argument of this paper. The most important recent references are David Peal, "Self-Help and the State: Rural Cooperatives in Imperial Germany," *Central European History* 21(1988): 244–266; Ian Farr, "Farmers' Cooperatives in Bavaria, 1880–1914: 'State Help' and 'Self Help' in Imperial Germany," *Rural History* 18, no. 2 (2007): 163–182; and Brett Fairbairn, "Success of the Prussian Model? The State and the Expansion of the German Co-operative Movement, 1889–1914," unpublished paper from 2000. Fairbairn kindly provided a copy of his unpublished paper.

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support might have played some role in the movement's development, as a signal to the populace that the government approved of cooperatives as an enterprise. One could also argue, more speculatively, that small amounts of money can make a critical difference to small or new enterprises in some circumstances. This idea underlies special government grants and loans to small businesses or start-up firms today. But the actual amounts measured directly and indirectly were tiny in comparison to the overall activities of the cooperatives.

If we back away from Schulze-Delitzsch's too-simple dichotomy, we can consider overall state policy toward cooperatives and how that affected the movement's development. The state most definitely assisted the cooperatives in two distinct ways. By 1889 the law afforded cooperatives organizational privileges not available to private firms, largely the result of Schulze-Delitzsch's own efforts. In addition, tariff policy shifted considerable portions of national product from others, including the industrial working class, to agriculturalists, who by the late nineteenth century made up the most dynamic part of the cooperative movement. The historical actors and more recent historians have all restricted their discussion of state policy to the arena in which it was least relevant. On the other hand, the state could and did use tax policy to punish cooperatives it did not like, most notably the consumer cooperatives that were increasingly associated with Social Democracy.

This aspect of the cooperative movement's history has the potential to inform aspects of the larger literature on the role of liberalism and the political economy of the *Kaiserreich*. Most accounts view the "Great Depression" of the 1870s as instrumental in a shift from a "liberal" era to one of "organized interests." Thomas Nipperdey's view is fairly standard:

> The principle of state neutrality worked so that legislation did not favor any sector, treating small and large firms similarly; protective tariffs, on the other hand, intervened to differentiate the interests of the various sectors, favoring some and harming others; when the state began to redistribute national income, conflict ensued, with every group seeking to ensure its share by organizing and making its political power felt.[3]

The cooperatives at first seemed to fit neatly into these discussions. Schulze-Delitzsch's founding group loudly proclaimed its exclusive adherence to self-help and contempt for any cooperative that disagreed. Some cooperative groups formed later had no such qualms and sometimes appeared to qualify as just one more of the proliferating *Verbände*. Yet a closer look suggests a more nuanced judgment. Schulze-Delitzsch's claims reflect a narrow view of his cooperatives and their dependence on a legal, financial, and economic infrastructure

[3]Thomas Nipperdey, *Deutsche Geschichte 1866–1918,* 2 vols., vol. 2: *Machtstaat vor der Demokratie* (Munich: Beck, 1992), 577.

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largely attributable to the state. The rural cooperatives for their part misconstrued the instruments of state policy that meant the most to their survival. Many came to regret their cooperation with the Preußenkasse.

The cooperatives by themselves would not support a challenge to the overall view of the rise of organized interests and their effect on German politics, nor the larger *Sonderweg* thesis of which the alleged stunting of German political life forms a part. But the cooperatives' experience suggests we should pay more attention to the way we consider the role of organized interests. Much of the period's economic historiography turns directly or indirectly on state interventions in the economy. Examples include, in addition to the tariff policy, Bismarck's social insurance system; a legal tolerance for industrial combination that led to powerful cartels; and perhaps most notably, a system of company and financial regulation that resulted in large enterprises with close ties to banks that were increasingly powerful both economically and politically. For each of these and other issues, it is worth asking the two questions at the heart of this essay. To what extent is the economically neutral state, the "before" of the shift to "organized interests," a satisfactory account of German reality? And to what extent were the interventions secured by later interest groups significant primarily for their political motivations, as Farr and Fairbairn suggest, and even misunderstood by their alleged beneficiaries?

To appreciate how the cooperatives fit into the political economy of their day requires a better appreciation of how they functioned as economic institutions. The cooperative movement occupies a curious place in German historiography. Cooperatives certainly qualified as a "mass movement," as Fairbairn has argued: at the outbreak of World War I, there were over 34,000 registered cooperatives with 6.4 million members. The Social Democratic Party, in contrast, had slightly more than one million members.[4] Enterprises organized as cooperatives represented significant parts of the banking, retailing, and agribusiness industries in 1914. The cooperatives' shared ideology, to the extent they had one, was a desire to stave off the twin forces of large-scale capitalism on the one side, and social democracy on the other, by organizing farmers, small producers, and others in ways that allowed them to remain independent but at the same time take advantage of the benefits of combination. Given their position in the great economic and social transformation that informed most German political issues in the late nineteenth century, the cooperatives would appear to be relevant to most historical debates about the period. Yet the cooperative movement's history appears only peripherally and sometimes inaccurately in recent historiography, in connection with the fate of the liberal parties, or in discussions of rural

[4]Fairbairn, "History from the Ecological Perspective," 1215. Given the incomplete cooperative reporting, this is probably an underestimate.

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antisemitism.[5] Fairbairn's point warrants emphasis: the cooperatives were ubiquitous, and, for many Germans, central to economic survival.

The Cooperative System

Understanding the role of state assistance to cooperatives requires a brief overview of how cooperatives organized. Some debates about (and misapprehension of) the Preußenkasse in particular rest on misunderstandings about its ties to cooperative institutions, ties that reflect the way cooperatives worked with one another. Under the 1867 Prussian Cooperatives Act (later essentially the Reich law), a cooperative was an organization devoted to the provision of credit to or the advancement of the members' trade or business activities. The legal definition stresses the cooperative's *economic* mission; the cultural purposes often assigned to cooperatives in other countries were the province of the *Verein*, which is a distinct entity under German law. A cooperative also had to be "open membership," a feature that distinguished it from business firms. The broad rubric helps to account for the great variety of cooperatives formed by the end of the nineteenth century. Depending on how one counts, the cooperatives pursued at least ten different lines of business. Cooperatives were a large and growing share of certain sectors (such as urban grocery stores) and in some rural areas constituted the only practical access to larger markets for capital, inputs, and products. I find it simplest to distinguish the various institutions along three different dimensions: their function (their business activity), their "brand" (whether Haas, Raiffeisen, Schulze-Delitzsch, etc.), and their level in the system (whether a local, "primary" cooperative, or a regional "central" cooperative). Each brand held differing views on the proper role of the state in the cooperative movement.

Schulze-Delitzsch's first efforts were credit cooperatives (in his group, called *Vorschussvereine)*, cooperatives for purchasing inputs (*Magasingenossenschaften*), and artisanal cooperatives (*Handwerkergenossenschaften*). The two main rural groups, the Raiffeisen and Haas groups, included credit cooperatives as well as several different types of cooperatives that purchased inputs and marketed output for their rural members. The Haas group especially also founded special cooperatives for particular types of producers: for example, cooperative wineries (*Winzergenossenschaften*) and cooperative creameries (*Molkereigenossenschaften*). Later cooperatives included the famous consumer cooperatives (*Konsumgenossenschaften*) as well as cooperatives that aimed to provide low-cost, owner-occupied housing

[5] It is symptomatic that in Sheehan's influential work on German liberalism, the cooperatives appear only in a two-page discussion of Schulze-Delitzsch's views on workers and urban cooperatives; James J. Sheehan, *German Liberalism in the Nineteenth Century* (Chicago: University of Chicago Press, 1978), 92–94. It is symptomatic in a different way that Shulamit Volkov, in *The Rise of Popular Antisemitism in Germany: The Urban Master Artisans, 1873–1896* (Princeton, NJ: Princeton University Press, 1978), 156, dismisses the cooperatives with the inaccurate claim that "In the late 1870s, the movement rapidly lost its appeal and practical significance."

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(*Baugenossenschaften*). Cooperative forms of organization were also tried, often successfully, in other areas. There were, for example, cooperatives for the creation of rural electricity networks and cooperatives to operate grain storage facilities.

We can also distinguish these cooperatives by their "brand" or the group to which they held allegiance. These allegiances often meant more to the leaders of the regional and national associations than they did to anyone on the ground. Schulze-Delitzsch started the first modern cooperatives in the 1840s. His cooperatives are often thought of as the "urban" group, but his association claimed that about one-third of all members were farmers, a statistic we can accept if we remember the late development of the rural cooperatives.[6] Raiffeisen's cooperatives started, spread, and grew later, in the 1860s. The emergence of Raiffeisen's group brought with it conflict with Schulze-Delitzsch over the proper aims and organization of a cooperative. Schulze-Delitzsch thought that small cooperatives composed overwhelmingly of poor people (a fair view of Raiffeisen's institutions in the 1860s) could not provide effective services to members. Wilhelm Haas began his cooperative work in Hesse, and at first modeled his group after Raiffeisen's. Eventually Haas's cooperatives spread over most of Germany and eclipsed Raiffeisen's in numbers and size. Haas's success reflected the greater decentralization of his association and a willingness to tolerate a diversity of practices within his group. These three groups accounted for the vast majority of all cooperatives in 1914. But there were others. Some cooperatives held themselves aloof from any group. Others were founded outside the three main groups out of regional jealousies or as part of an effort to redirect the cooperatives in a more politically acceptable direction.

The Schulze-Delitzsch cooperatives had two "levels," while the rural cooperatives all had three. At the regional level (usually a province in Prussia), the cooperatives all had "*Unterverbände*" that after 1889 were in effect the auditing associations discussed below. At the national level each group had a single organization, although the role of that organization differed across groups. The rural cooperatives, in addition, developed regional "centrals," specialist cooperative institutions that provided services to their primary cooperatives in a specific area. Raiffeisen's group had one central for all of Germany, and even when that central created regional branches, those branches were controlled by the apex institution. The Haas group, on the other hand, developed "central

[6]Most observers agreed that something like one-third of the members of Schulze-Delitzsch credit cooperatives were agriculturalists. See, for example, von Rheinhaben's remarks in the Sachverständigen meeting during the drafting of the law establishing the Preußenkasse. The *Protokoll* for this meeting held on May 18, 1895, is reproduced in *Zur Vorgeschichte der Preussischen Central-Genossenschafts-Kasse*, with an introduction by Walter Hamm (Frankfurt: Knapp, 1995). Von Rheinhaben also repeats a common misperception, that all members of Raiffeisen cooperatives were agriculturalists.

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cooperative banks" (*Centralgenossenschaftskassen*) that were each individually managed. Central cooperative banks accepted deposits from and made loans to cooperatives in their region. Analogous central cooperatives were created in other branches, such as purchasing and marketing. The Schulze-Delitzsch group was suspicious of cooperative centrals. Many of its members used the Deutsche Genossenschaftsbank von Sörgel & Parisius (DGSP) for purposes analogous to those performed by a central bank in the rural group.[7]

To understand a key channel for state support we must understand how these cooperative institutions interacted with one another. Local (or "primary") rural credit cooperatives often took in more as deposits than they cared to lend out. This made them important sources of credit for other types of cooperatives. In some cases the credit cooperatives just made direct loans to another cooperative. The Schulze-Delitzsch group established a "correspondence bureau" to match cooperatives that wanted to lend with those that wanted to borrow. But this approach was less than fully desirable.[8] The formation of centrals changed the way the local credit cooperatives channeled money to other cooperatives. A local credit cooperative with excess cash could place this money on deposit at its central, which could then lend the money to other cooperative institutions. Using primary sources for a number of centrals in the Rhineland, I demonstrated that at least in this region the credit cooperatives were, through the central, collectively net lenders to the rest of the cooperative system in their region. Hugo Jost summarized the balance sheets of the credit cooperatives and centrals that belonged to the main rural groups and came to the same conclusion for Germany as a whole.[9]

[7]The DGSP collapsed in 1904 and was absorbed by the Dresdner Bank. This entity was organized as a partnership with tradable shares (*Kommanditgesellschaft auf Aktien*). Alwin Sörgel and Ludolf Parisius, close associates of Schulze-Delitzsch, were general partners. The modern DG-Bank (now the DZ-Bank) is the descendent of the Prussian State Cooperative Central Bank, not the DGSP.

[8]Such loans forced a single credit cooperative to bear all the risk of the other cooperative's failure, and tied up much of the credit cooperative's assets in a single illiquid loan. If the borrower ran into financial difficulties, the lender might not be able to meets its obligations. And if the lender needed its cash unexpectedly, it faced the unpalatable prospect of causing difficulty for another cooperative by calling in a loan early.

[9]See Guinnane, "Regional Organizations," and Hugo Jost, "Probleme der genossenschaftlichen Kreditorganisation. Genossenschaftliche Zentralkassen," *Schmollers Jahrbuch* 37, no. 4 (1913): 329–419. Peal's discussion of the problems facing the Raiffeisen and Haas groups at the end of the nineteenth century is difficult to square with some aspects of their actual history. Peal stresses that the two groups were fundamentally different, with the Haas group "specialized" in commodity cooperatives, and therefore dependent on noncooperative sources of finance; Peal, "Self-Help and the State," 254 and 251. Neither claim is accurate. In its report for 1914, the *Reichsverband* (Haas's group at the time) claimed 12,305 member cooperatives, of which 9,745 were credit cooperatives. More importantly, the Haas *credit* cooperatives actually generated more excess cash than their Raiffeisen counterparts did. This latter point is made clear in Jost, which, puzzlingly, is Peal's main source for the financial condition of the cooperatives. The table on page 401 of Jost's article shows that collectively, the Haas credit cooperatives in 1911 had a *net* deposit of 77 million marks on deposit at the centrals. The figure for the Raiffeisen cooperatives was 20 million marks. On page

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Cooperatives and Politics

Cooperatives liked to claim their organizations were above party politics, and this was true in the narrow sense of direct institutional support for candidates. But many national and regional cooperative leaders held elective office, and by the end of the nineteenth century there were cooperatives leaders among the liberals as well as the Center and conservative parties.[10] Attitudes toward state assistance among the cooperatives were just as diverse. On one extreme stood the Schulze-Delitzsch group, which refused state assistance itself and devoted considerable effort to attacking any cooperative that accepted it. The Schulze-Delitzsch group used the term "state socialism" (*Staatssozialismus*) to abuse any cooperative group that accepted government assistance, thus (unfairly) equating Raiffeisen with Lassalle. We lack a full-scale biography for Schulze-Delitzsch, so the mix of the personal and the pragmatic in his views toward state assistance remain unclear. He could have concluded, correctly, that his group did just fine without it. His personal experience also gave him reason to view the state as untrustworthy. Prussia prosecuted him for sedition in 1849 (as part of the *Steuerverweigerungprozess*), and the Prussian justice minister later punished him for oppositional views by denying him appointment to positions in the judiciary for which he was clearly qualified.[11] Schulze-Delitzsch was one of Bismarck's *bêtes noires*. He appreciated that Bismarck and other political opponents used state power to undermine his cooperatives when convenient.[12] In their early days, Schulze-Delitzsch's cooperatives suffered politically motivated harassment, the pretext for which was their lack of legal recognition.[13] The real reason was his position as a leading liberal figure. The political views of most other cooperative leaders made them less a threat to governments. Raiffeisen's

373, Jost claimed that most noncredit cooperatives in the Haas group did not belong to a central at all, they simply borrowed from their local credit cooperative. This is a strong claim for which he presented no evidence. But to the extent it is accurate, his claim strengthens the observation that the Haas credit cooperatives generally had more excess deposits.

[10]Schulze-Delitzsch was a founder of the *Fortschrittspartei* and sometime member of the Prussian *Landtag* and the *Reichstag*. Hans Crüger, who later led the Schulze-Delitzsch group, was a member of the Reichstag, the Prussian Landtag, and the Charlottenburg city council. Haas was a longtime member of the Hessian Diet (at one point, its leader) and a Reichstag deputy. Raiffeisen himself never held elective office, but many leaders in his organization did.

[11]See Kenneth F. Ledford, *From General Estate to Special Interest: German Lawyers 1878–1933* (New York: Cambridge University Press, 1996), 65–67 and note 25; and Sheehan, *German Liberalism*, 92.

[12]Wolfgang Klein recounts a telling incident; Wolfgang Klein, *Schulze-Delitzschs Kampf um die Anerkennung der Erwerbs- und Wirtschaftsgenossenschaften als Rechtssubjekt vor dem Hintergrund der politischen Verhältnisse in Preußen mit einer vergleichenden Darstellung der englischen und französischen Entwicklung* (Ph.D. diss., University of Heidelberg, 1972), 75. In a letter to finance minister Bodelschwingh dated February 27, 1866, Bismarck supported granting a loan of 5,000 Thaler to a cooperative in Berlin that had run into financial trouble. Bismarck acknowledged the cooperative's weakness and noted that it could only offer poor security for the loan, but he stressed the political benefits of such a loan: this was a Schulze-Delitzsch cooperative, and a loan would embarrass Schulze-Delitzsch.

[13]We discuss the legal status of the cooperatives below.

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group professed a Christian social mission and stressed its role in combating the growth of social democracy in the countryside, traits that made it appealing to government figures. Haas's association with the National Liberals also placed him in sympathy with most government positions, even after the 1880 split that created the *Liberale Vereinigung*.

At the end of the century leaders who wanted to make the cooperatives a tool of political life emerged. The most important of these, Baron Edmund von Broich, was a Conservative who embraced a vision of cooperatives openly supported by the state. Von Broich's own cooperative movement did not amount to much, but his efforts helped to set in motion the events that led to the Preußenkasse's creation, and his vision of self-help complemented by state help called into question the basic idea of cooperatives as they had operated to that point.[14] A related development came in the form of Karl Korthaus's *Hauptverband der deutscher gewerblicher Genossenschaften*, which were direct alternatives to Schulze-Delitzsch's cooperatives in practice and intent. Korthaus's cooperatives accepted state support and in fact enjoyed close relations with the Preußenkasse. Later leaders of the Schulze-Delitzsch group never wavered from the founder's position. Hans Crüger, who led the group starting in the 1890s, stressed two points. First, if a cooperative was really needed, no state assistance was necessary; all such assistance could achieve was the creation of weak, superfluous cooperatives that could endanger the health and reputation of the cooperative movement overall. Second, state assistance always came with strings attached.[15] Even in direct conversations with government officials, the Schulze-Delitzsch leaders offered no compromise. Ludolf Parisius, who had worked closely with Schulze-Delitzsch, was included among the *Sachverständigen* invited by von Miquel to discuss the specifics of the new Preußenkasse. Parisius limited his comments to the remark that his group opposed the entire idea and compared it to a charitable foundation.

Financial Support from the State

Many sources mention direct grants to cooperative organizations by some level of German government. No source reports public aid to cooperatives in a way that allows confident claims about the amount of total assistance. But most examples

[14]See Friedrich Arnold Carl Maria von Broich, *Sozialreform und Genossenschaftswesen. Zum Zweck der Begründung und Ausgestaltung eines sozialreformischen Genossenschaftswesens* (Berlin: Pionier, 1890). Hans Crüger provides a partisan overview of the various cooperative groups that had stressed a role for the state; Hans Crüger, *Grundriß des deutschen Genossenschaftswesens* (Leipzig: Glockner, 1908), 82–100. Von Broich's was not the first.

[15]Hans Crüger's article "Der Staat und das Genossenschaftswesen," *Schmollers Jahrbuch* 36 (1912), begins "Richtig ist hiervon, daß die staatliche finanzielle Förderung, deren das Genossenschaftswesen sich seit der Mitte der neunziger Jahre zu erfreuen hat, auf den Wunsch der Regierung zurückzuführen ist, Einfluß auf die Genossenschaften zu gewinnen." Much of the text of this article was aimed at the favored cooperatives advocated by von Broich. But Crüger is quick to equate this new enemy with the Raiffeisen or Haas group, even when the comparison is inaccurate.

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convey a sense that these grants were small relative to the number of people involved with cooperatives. Most grants went not to a single cooperative, but to the regional *Verband*. After 1889 these Verbände undertook the external auditing required under the Reich Act, and the grants were sometimes portrayed as efforts to defray the auditing costs imposed by the law. Prior to this the government grants supported efforts to create more cooperatives by paying for regional leaders to canvass towns without one. Thus these grants played some role in "pushing" new cooperatives, just as Schulze-Delitzsch feared. Other government financial support was indirect. Raiffeisen wrote his book on cooperatives in 1866 and was hired in 1868 by the *Landwirtschaftliche Verein* for the *Rheinland* in a special department of credit cooperatives. The *Kölnische Zeitung* may have exaggerated slightly when it claimed that

> During the first half of the 1870s, the entire Raiffeisen cooperative movement stood under the influence of the Landwirtschaftliche Verein für Rheinpreußen, and the Raiffeisen cooperatives were therefore tied to the administrative apparatus of this body.[16]

The Verein was not strictly a government body, but it was itself funded by government contributions. David Peal, Ian Farr, and Brett Fairbairn stress correctly that in the late nineteenth century this support was conditioned on political alliances and increasingly intended to reward loyalty to the governing parties. Schulze-Delitzsch's group was left out because of its left-liberal outlook, and at first even the Haas group's cooperatives did not qualify for Prussian support because of its apparent ties to the National Liberals.[17] In one of his last official appearances, Raiffeisen himself objected to the increasingly political nature of state support. He had long accepted aid to his group, but rejected overtly partisan efforts such as von Broich's.

Governments also provided low-cost credit to cooperative institutions, usually as a sort of starter loan until they could raise credit in other ways. Comparing such loans to other assistance requires care. What matters is not the size of the loan, but the grant from the state implied by a lower interest rate. Suppose a government lent 10,000 marks to a regional cooperative body. How much support is that, really? If the loan really is a loan, then the "gift" does not equal 10,000 marks. One way to value the support for the cooperatives would be to compare the interest charged on this loan to what the cooperatives would have to pay in capital markets. If the government charged two percent and a commercial bank would charge five percent (both realistic figures), then the implicit subsidy is 300 marks per year (that is, (five minus two) percent of 10,000). Viewed in this

[16] *Kölnische Zeitung*, July 3, 1901. From the *Pressearchiv* of the *Bund der Landwirte*, Bundesarchiv, Berlin-Lichterfelde, R/8034/II 769, vol. 5.

[17] See Peal, "Self-Help and the State," 249–250.

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way, these loans were small potatoes.[18] Another approach was for the cooperative entity to borrow money from private sources, but with state assistance in the form of a loan guarantee (*Burgschaft*). Loan guarantees of this sort cost the government nothing, as long as the loan was repaid.[19]

State policy could also be used to punish cooperatives whose leaders or aims the government did not like. The most important example of such punishment is reflected in the tax treatment of Konsumgenossenschaften. Like many questions concerning the cooperatives, the issue has both a practical and a political component. In general cooperatives that dealt only with their members did not pay enterprise taxes. But governments could and did strategically adjust the definition of "deal only with members." Credit cooperatives competed mostly with moneylenders and other forms of semiformal credit; those at the losing end of the credit cooperatives' expansion could hardly complain to the government. Consumer cooperatives, on the other hand, threatened a variety of small wholesale and retail establishments whose political support was important to the Center and conservative parties. In addition, Konsumgenossenschaften were one area of the cooperative movement with strong connections to Social Democrats. Using the state's taxing power to make life difficult for these institutions offered the chance to assist supporters of liberal and conservative parties while reducing the appeal of social democracy. Prussia, like several other states, used tortured interpretations of the tax law to make consumer cooperatives pay both income and business taxes even when they dealt only with members.[20]

The Preußenkasse

The claim that cooperatives depended heavily on state assistance usually centers on the Preußenkasse (the Prussian State Cooperative Central) founded in 1895. The Preußenkasse was an *öffentlich-rechtliche* institution whose largest shareholder was the Prussian government. The bank had to pay the government three percent per year for invested capital. The capital started at five million marks, but quickly became more substantial, amounting, by 1909, to seventy-five million marks.[21]

[18]If the state could count on its money being repaid, then the only real cost in providing credit (which is not equal to the subsidy noted in the text) was the difference between what it charged the cooperatives and what it had to pay to borrow itself.

[19]Banks per se apparently saw cooperatives as too small and unrelated to their own business to pose a threat. I know of no organized banking objections to the state assistance to cooperatives. Cooperatives and *Sparkassen*, on the other hand, sometimes competed for the same business (especially savers). The Sparkassen's role in the Preußenkasse bothered some in the cooperative movement for this reason.

[20]Each Land had its own tax law in this period; in addition, there were several changes in the relevant *Einkommensteuer* and *Gewerbesteuer* systems in this period. See Uwe Spiekermann, *Basis der Konsumgesellschaft. Enstehung und Entwicklung des modernen Kleinhandels in Deutschland 1850–1914* (Munich: Beck, 1999), for a discussion of the consumer cooperatives and Prussian tax policy.

[21]Much of the later growth in its capital reflects the accumulation of new responsibilities, including the obligation to work with savings banks (Sparkassen).

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The bank had to cover all its other costs, including salaries, building maintenance, etc. The Preußenkasse's advantages over a private lender consisted of its connection to the Prussian government. Three percent per year was a low return for bank equity at the time.[22] And while the Preußenkasse had no explicit guarantee against failure, one cannot imagine the Prussian government would have allowed it to fail.

The Preußenkasse was formed on the initiative of Johannes von Miquel, the Prussian finance minister. Miquel supposedly drew his inspiration from a meeting of representatives of agricultural interests convened in 1894, but the Prussian government had compiled the invitation list and the agenda to suit its own ends. The remarks at this meeting, later cited as calling for the new institution, are not nearly that specific.[23] The institution was controversial from the start. Some backers saw it as a way to offset the natural advantages big business enjoyed in their access to large banks, and they often compared it to the central bank, the *Reichsbank*. Like the Preußenkasse, the Reichsbank's capital was partly state-owned, and it provided credit facilities to banks and private firms. Under certain circumstances, the Reichsbank's lender-of-last-resort function required it to undertake costly lending operations to prevent financial panics. Thus one could argue that the Reichsbank amounted to a subsidy to the business world in general, and the financial community in particular. One member of the Prussian House of Deputies (Karl Friedrich Oskar Freiherr Gamp-Massaunen) made precisely this point in the debate over the first reading of the law that created the Preußenkasse:

> I see the greatest political significance of this draft in the fact that here, for the first time, the state recognizes that the Reichsbank is unable to satisfy the credit needs of agriculture and the handicrafts, and moreover, the state

[22]Peal, "Self-Help and the State," 252–253, refers to this sum as "operating capital." This translation is correct, but the term may convey the impression that the bank was lending to cooperatives only the money invested by the state. The government investment was analogous to *equity*, and enabled the Preußenkasse to borrow more from other entities. That borrowing constituted the bulk of its lending to centrals. In Table 1 we see that in 1896, for example, two-thirds of the bank's liabilities were loans from centrals and other financial institutions. Peal does not mention that the Preußenkasse had to pay the government for its capital. Eduard Wagon reported that on average German banks in 1900 earned a net profit equal to 7.4 percent of capital plus reserves (Table XXXII); Eduard Wagon, *Die finanzielle Entwicklung deutscher Aktiengesellschaften von 1870–1900 und die Gesellschaften mit beschränkter Haftung im Jahre 1900*, Sammlung nationalökonomischer und statistischer Abhandlungen des staatswissenschaftlichen Seminars zu Halle a.d.S., vol. 39 (Jena: Fischer, 1900). The Preußenkasse was at first required by law (§6) to put half its profits into a reserve fund. The law also anticipated that eventually the Preußenkasse would turn over excess profits to the Prussian State. See Preußische Central-Genossenschaftskasse Law No. 30 (No. 9770), Gesetz-Sammlung für die Königlichen Preußischen Staaten (Berlin: Königliches Staatsministerium, 1895), 310.

[23]"Die Agrarkonferenz vom 28. Mai bis 21. Juni 1894 . . . " in *Landwirtschaftliche Jahrbücher* XXIII *Ergänzungsband* II (Berlin: Paul Parey, 1894). Fairbairn provides more detail on the political motivations underlying the Preußenkasse's creation; Fairbairn, "Success."

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> recognizes that these two sectors, agriculture and handicrafts, have the same right to have their credit needs met by the state as do heavy industry, large-scale trade, or the financial markets.[24]

The Reichsbank could lend to any firm or institution that met certain criteria, cooperatives included. But few cooperatives qualified. Cooperatives with unlimited liability rarely had enough paid-in capital to meet the Reichsbank's lending rules, and few held in their portfolios the government bonds and high-quality commercial obligations that the central bank could "discount." That said, the Reichsbank went to some length to point out its relations with some credit cooperatives. Early proposals for increased state credit to cooperatives envisaged changing the Reichsbank's rules to make the central bank better able to lend to cooperatives.[25]

The Preußenkasse's several advocates stressed various roles for the new bank. Some emphasized its "balancing" (*Geldausgleich*) function: the bank could take excess funds from some centrals and make them available to others. A few observers mentioned seasonal demands for credit in agriculture, but most stressed the west/east differences in credit availability. Under this interpretation, Ausgleich implied a new bank that was mostly an intermediary among cooperatives. Others saw in the Preußenkasse a lender of last resort for cooperatives, just as the Reichsbank was for business firms. To perform this function, the bank would have to be able to borrow outside the cooperative system. Still others argued that the Preußenkasse would act as a sort of development bank, lending to new cooperatives in regions where it was difficult to collect deposits. This "development" function might require non-cooperative funding sources. Miquel's desire to use the bank to increase dramatically the number of cooperatives in Prussia conforms to this idea:

> We must get to the point where we have a credit cooperative in nearly every village in the monarchy. These cooperatives must be connected to production cooperatives and purchasing and marketing cooperatives, creating a great network that will support the small and medium-size farmers, but also in considerable respects, the great holdings.[26]

[24] *Haus der Abgeordneten* 77. *Sitzung*, June 18, 1895, 2416, Stenographische Berichte über die Verhandlungen des preußischen Hauses der Abgeordneten (hereafter StBerHa) (Berlin: Königliches Staatsministerium, 1895).

[25] Manfred Busche discusses the Reichsbank and these earlier proposals in Manfred Busche, "Zur Gründungsgeschichte der preußischen Zentralgenossenschaftskasse," *Tradition. Zeitschrift für Firmengeschichte und Unternehmerbiographie* 1 (1968): 81–89, here 82–86. Formally the Preußenkasse was more similar to the *Seehandlung*, another Prussian state financial institution, but the Reichsbank was larger and more prominent, and its operations more obviously benefited business. Miquel makes explicit the use of the Seehandlung as an institutional model in the debate over the first reading of the law in the *Haus der Abgeordneten* 77. *Sitzung*, June 18, 1895, 2412–2413, StBerHa.

[26] Miquel's remarks were to the House of Deputies during the 1897 debate over the Preußenkasse budget. Quoted in Busche, "Zur Gründungsgeschichte," 89.

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These different aims were not mutually inconsistent, but they did imply different logics for the new bank.

One common rhetorical tactic at the time was to attribute to the Prussian bank all growth in rural cooperatives and cooperative centrals in the 1890s. Crüger, along with other Schulze-Delitzch leaders, argued that centrals had only been formed because the Preußenkasse preferred to lend to them rather than to individual cooperatives. This claim was not true, at least in the extreme way Crüger stated it. Of the twenty-five centrals reported as members of the Haas group in 1914, eight were created before the Preußenkasse. Crüger also ignored other implications of the 1889 Reich Cooperatives Act. This act improved the organizational law for cooperatives in ways I detail in the next section, and its effects were also at work in the 1890s.[27]

The Preußenkasse as a Subsidy to Cooperatives

The rural cooperative movement included organizations with varied purposes. Credit cooperatives did not ordinarily need any additional credit from the Preußenkasse. To the extent the rural centrals needed credit from an institution such as the Preußenkasse, it was to support the "other cooperatives" in normal times and the entire group, including the credit cooperatives, in times of crisis. Table 1 presents a summary of the Preußenkasse's balance sheet for selected years prior to World War I.[28] This table illustrates a simple fact: in most years,

[27]This is a common theme in Crüger's attacks on the Preußenkasse. See, for example, Crüger, "Der Staat und das Genossenschaftswesen," 25. For centrals prior to the Preußenkasse, see the 1914 annual report of the *Reichsverband der deutschen landwirtschtaftlichen Genossenschaften: Jahrbuch des Reichsverbandes der Deutschen landwirtschaftlichen Genossenschaften*, vol. 20 (Berlin: Reichsverband der Deutschen landwirtschaftlichen Genossenschaften, 1914). The centrals in question are Wormditt (1892), Neisse (1890), Halle (1893), Hannover (1890), Münster (1884), Cassel (1893), Wiesbaden (1894), Bonn (1892), Cologne (1892), and Munich (1893). Counts of local rural credit cooperatives such as reported in Kluge, *Geschichte der deutschen Bankgenossenschaften*, Table 4, show a sharp jump in the number of cooperatives after the 1889 Reich Cooperatives Act and prior to the Preußenkasse. His avowedly rough figures suggest a doubling from 1879 (1,729 cooperatives) to 1894 (3,850 cooperatives). Most discussions centered on the rapid growth of cooperatives in Prussia's eastern provinces. The number of local cooperatives in East and West Prussia grew at an average annual rate of 9.7 percent per year from 1890 to 1895. That is a very healthy growth rate by the standards of the cooperatives as a whole. The growth rate then jumped to 28 percent per year from 1895 to 1897. The provinces of Pomerania, Posen, and Silesia had similar experiences; calculated from *Die Preussiche Central-Genossenschafts-Kasse vom 1895 bis 1905* (Berlin: C. Heymanns, 1905), Table 18b.

[28]Table 1 combines deposits from cooperatives with those from Sparkassen because of a lacuna in the Preußenkasse's balance sheets. The balance sheets always distinguish the bank's outstanding loans by type of borrower (cooperative, Sparkasse, etc.). But they at first do not make the same distinction for deposits; all deposits from whatever source are lumped together. In the years when the information is available, after 1904, the Sparkassen provided fifty to sixty percent of the deposits held by the Preußenkasse. But this fact does not contradict the argument. In 1914, for example, cooperative loans accounted for about twenty-nine percent of all Preußenkasse assets but much less of the institute's liabilities. Thus, the Preußenkasse was borrowing from Sparkassen to lend to cooperatives. The Preußenkasse was still an intermediary, not a grantor. The literature on the Preußenkasse has

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the Preußenkasse was a net borrower *from* cooperatives, not a net lender *to* them. To the extent it provided "cheap credit," it did so in the first instance by collecting deposits *from cooperative institutions* and not paying them as much in interest as would be available elsewhere.

Individual centrals, of course, faced diverse conditions. Two examples illustrate the range of experience. The Haas group's central in Wormditt (now Polish Orneta) was a net borrower from the Preußenkasse for every year of its existence prior to World War I. Wormditt illustrates the objections to centrals; located in East Prussia, it was created when there were only a few relatively weak local cooperatives in the region. The Wormditt central's money did not necessarily come from the state, however. Some centrals, such as the Kempen *Bauernkasse*, were net lenders to the Preußenkasse in every year up to 1914. At some level the Wormditt central was borrowing from centrals such as that in Kempen. What was the implication for the Wormditt central of the apex bank's loans? In 1913 its net debt to the Preußenkasse was about 1.135 million marks (of 4.06 million marks in total liabilities). Suppose it had been forced to finance that debt at a higher interest rate. Assume the counterfactual lender charged the Wormditt central an extra three percent per year, a figure that is intentionally high. At this rate, the Wormditt central's debt to the Preußenkasse would have cost it an extra thirty-three thousand marks that year. How large is this figure? At the end of 1913, the Wormditt central had about 2.7 million marks in loans extended to its members (and held 277 thousand marks of their deposits). Raising the interest rate on those loans by *one* percent would have covered the extra interest due to a counterfactual non-Preußenkasse lender. Raising its own rates would, of course, reduce what its members could do for their members, but it would not have crippled the institution.

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usually ignored this aspect of its operations. The savings banks were increasingly worried about competition from credit cooperatives, especially the urban cooperatives, and when the 1895 law was discussed, some Sparkassen wanted either their own analogous state-backed apex bank or to be added to the purview of the Preußenkasse. In the debate in the Chamber of Deputies, one deputy stressed the savings banks' role in providing personal credit. Miquel responded that he doubted the Sparkassen were capable of filling that role, implying that the new Prussian bank should not deal with savings banks. Some savings-bank leaders thought that dealing with the Preußenkasse was a bad idea for a different reason. At the Posen Provincial Sparkassen meeting on November 26, 1898, one of the leaders stated, "Wir stärken unsere Konkurrenz unbedingt, und es wäre von der Selbstlosigkeit der Sparkassen doch etwas zuviel verlangt, wenn sie ihre Depositen, zumal ohne bessere Verzinsung als anderswo, der Konkurrenz überlassen sollten." Quoted in Erich Schwendemann, *Die Entwicklung des Wettbewerbsverhältnisses zwischen Kreditgenossenschaften und öffentlich-rechtlichen Sparkassen in Deutschland* (Ph.D. diss., Frankfurt am Main, 1938), 82, note 288. Miquel rejected a role for Sparkassen in personal credit in his reply to Gamp's suggestion in the *Haus der Abgeordneten* 77. *Sitzung*, June 18, 1895, 2421, StBerHa. Other objections turned on the possibility that a banking crisis could force the Sparkassen to withdraw funds they had on deposit at the Preußenkasse. This issue is discussed in more depth in Timothy W. Guinnane, "Die Anfänge des überregionalen genossenschaftlichen Zentralbankwesens zwischen Selbsthilfe und staatlichem Förderauftrag," in *Geschichte der DZ Bank AG* (forthcoming).

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Table 1. The Preußenkasse's Assets and Liabilities, Selected Years

Distribution of Assets (Percent of All Assets):

	Sum of Assets in Marks (Thousands)	Deposits at Banks	Unsecured Loans to Cooperative Centrals	Secured Loans to Cooperative Centrals	Loans to Sparkassen	Current-Account Lending to Centrals	Securities
1896	15,149	0.00	0.00	0.00	0.00	35.04	32.89
1900	87,644	19.41	14.84	0.56	2.73	27.62	24.44
1905	152,341	21.46	8.94	0.31	1.17	5.11	23.53
1910	199,725	34.59	9.44	0.59	5.58	8.75	24.00
1914	216,992	22.69	19.04	0.44	12.40	9.40	21.74

Distribution of Liabilities (Percent of All Liabilities):

	Capital	Reserves	Bank Loans	Owed to Cooperatives and Sparkassen: Current Accounts	Deposits
1896	33.00	0.00	62.33	3.24	1.14
1900	57.05	0.30	23.73	0.00	12.12
1905	32.82	2.32	30.26	5.33	26.28
1910	38.25	2.70	4.26	3.37	47.94
1914	35.23	3.74	12.38	0.69	42.84

SOURCE: Annual reports of the Preußenkasse

If we undertake similar calculations for the Preußenkasse's entire lending portfolio, we reach a similar conclusion. In 1913, the average daily outstanding balance of loans to rural centrals was 67.8 million marks. The centrals paid about 3.2 million marks in interest on those loans. If the centrals had instead borrowed at the Reichsbank's discount rate, which in that year was 5.5 percent, they would have paid about a half-million marks more in interests costs. The implied subsidy is tiny when divided by the millions of members of these cooperatives. Even if we assume that the centrals would have had to pay more than the Reichsbank rate, which seems reasonable, the results are similar. For every extra percentage point in interest they paid, the rural centrals would have lost about 600 thousand marks. The counterfactual borrowing rate would have to be quite implausible to reach an implied subsidy of even three or four marks per member per year.[29]

In the absence of a Preußenkasse, the most likely scenario is that established centrals (such as in Kempen) would have continued as before, while centrals such as in Wormditt would have been harder to form. This was Crüger's complaint: the Preußenkasse's credit had allowed cooperatives in some regions to grow faster than their ability to collect deposits. This fact hardly justifies the claim that the centrals only existed to funnel state aid to local cooperatives. The more interesting speculation is whether a non-state, all-German central-for-centrals could have prospered if not for the Prussians. Haas's group in fact did create such an institution, but it lasted only a few years. The immediate cause of its demise was some spectacular failures in its loan portfolio, but even before that it had been weakened by being forced to play a secondary role alongside the Preußenkasse.

Now return to the idea that the Prussian institution could in effect force cooperatives to lend to it. How was this possible? Dealings with the Prussian institution were supposedly voluntary. Here we see a more subtle and significant reason for unhappiness with the Prussians. A cooperative central could have two types of relationships with the Preußenkasse. The central could deal with the Preußenkasse on a hands-off basis, treating it like any other bank. But most cooperative institutions instead signed contracts that forced them to deal *exclusively* with the Preußenkasse (signing, that is, an "*Ausschliesslichkeitserklärung*"). The contract obliged the central to treat the Preußenkasse as its only banker, putting all excess cash there, taking loans only from the Prussian institution, etc.[30]

[29] All figures in this and the preceding paragraph are calculated from the annual reports of the Haas federation, *Reichsverband der deutschen landwirtschaftlichen Genossenschaften*.

[30] There were actually two different exclusivity agreements, one for assets and one for liabilities. One example of these agreements can be found in "Bestimmungen der preussischen Zentralgenossenschaftskasse für den Geschäftsverkehr 1901," (Muster K and L), Geheimes Staatsarchiv Dahlem, Signature I. HA Rep 151, IC, 10340.

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Cooperatives came up with all kinds of nefarious reasons why the Preußenkasse had this policy. They noted, correctly, that the policy enhanced the Preußenkasse's power over the institutions they dealt with. But a sympathetic observer could justify the exclusivity policy along the same lines as the bank did itself. The Preußenkasse's distinctive value was its ability to support cooperatives during financial crises (as did the Reichsbank for private businesses) and to perform the Ausgleich in normal times. To do this, it needed to bind cooperatives to it in such a way that cooperatives that needed cash in a crisis could find it at the Preußenkasse.[31] The value of this approach proved itself during the financial panic that began in the United States in 1907 and later spread to Germany. German interest rates climbed, and many financial intermediaries, credit cooperatives included, saw their deposit base evaporate and their loans go sour. The Preußenkasse helped its affiliated cooperatives weather this storm better than the Schulze-Delitzsch cooperatives, which had been forced to rely on the dubious mercies of the capital markets. Helmut Faust, an admirer of the Prussian bank, conceded that "Only the circulation of funds within a closed cooperative system enables the apex institution to extend credit to cooperatives at lowest possible interest rates."[32]

In closing this discussion let us return to a question not really considered in the recent literature: were cooperatives pleased with their relationship with the Preußenkasse? We cannot answer the question in general, but we do know that soon after its creation, many of its former backers were disappointed. Some of this disappointment just reflected excessive expectations, as the *Freie Deutsche Presse* put it in an issue dated May 29, 1904.

> The displeasure with the Preußenkasse found in agricultural circles is completely unwarranted. But this displeasure can be explained by noting that agriculturalists had thought that in this institute's creation they had found a limitless credit source, one that would satisfy every possible credit demand at the lowest possible interest rate. Whatever the Preußenkasse might do, it cannot give enough or cheap enough credit.[33]

[31] Most regional centrals required affiliated local cooperatives to sign a similar declaration. Failure to adhere to the terms of this policy was a frequent source of complaint among rural centrals. During a crisis, a credit cooperative with excess deposits could invest them in safe, private outlets for much more than the central would pay. So the incentive to be "uncooperative" was strong. Hillringhaus, who had worked at the Preußenkasse, put it as follows: "Diese Bestimmung war um deswillen nötig geworden, weil die Preussische Zentralkasse die Erfahrung hatte machen müsse, daß verschiedentlich ihre billigen Kredite in Anspruch genommen worden waren, nicht, um sie zum Zwecke der Gütererzeugung der Landwirtschaft und dem städtischen Mittelstand zur Verfügung zu stellen, sondern um der um durch Anlauf von Wertpapier oder Wechseln Gewinne zu erzielen"; August Hillringhaus, *Die Preussische Zentralgenossenschaftskasse. Ihre Aufgaben und ihr Wirken aus 25 jähriger Tätigkeit* (Berlin: C. Heymann, 1922), 41.

[32] Helmut Faust, *Die Zentralbank der deutschen Genossenschaften. Vorgeschichte, Aufbau, und Entwicklung der Deutschen Genossenschaftskasse* (Frankfurt: Deutsche Genossenschaftskasse, 1967), 34–35.

[33] *Pressearchiv* of the *Bund der Landwirte*, Bundesarchiv Berlin-Lichterfelde, R/8034/II 769, vol. 5, 47–48.

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But other unhappiness reflected the way the bank exercised its power. As early as 1898, the Haas group received a rude shock when the Preußenkasse raised its lending rates by nearly two full percentage points.[34] Many cooperatives (and centrals) had expanded their operations on the basis of the new credit. They probably would not have done so had the higher rates been charged initially, but they were in no position to withdraw their investments when the Preußenkasse raised its rates.

Reactions to the Preußenkasse elsewhere in Germany also reflected regional jealousy. In 1900, for example, the Bavarian government granted the Munich central a loan totaling three million marks at three-percent interest.[35] This was certainly a subsidized loan; if the alternative cost of credit for the central had cost five percent, then this implicit subsidy would have amounted to sixty thousand marks per year. But the Bavarian government might have felt it had little choice. Bavarian cooperative members were complaining that they did not have access to the Preußenkasse's credit facilities.

The Schulze-Delitzsch group's bitter opposition to the Preußenkasse reflected less real principle than the historiography has appreciated. The DGSP ran into serious financial problems in 1902, problems that eventually led to its takeover by the Dresdner Bank. Before agreeing to that takeover, however, the DGSP's leadership (including Crüger) met with the leadership of the Preußenkasse to explore the possibility of working with the Prussian institution. Nothing came of the meeting, in part because the DGSP wanted terms that the Preußenkasse could not grant. Crüger went on to abuse the Preußenkasse's existence and operations in public.[36]

At this point it is useful to summarize the argument on state financial assistance. Regional governments often made small grants to cooperatives, but, despite the lack of systematic evidence, it seems safe to conclude these were too small to have much impact on the cooperative movement. Much the same can be said of the Preußenkasse. The institution operated primarily as an intermediary, not a grantor. The financial subsidy implicit in its operations consisted of a

[34]This anger was on full display at the Haas group's 1898 annual meeting in Karlsruhe. Most of it concerned the sudden increase in interest rates, but many other comments refer to the Preußenkasse's logic and operations. More than one refers to new cooperatives as "*Pumpkassen*," created solely as a vehicle for subsidized loans. One speaker (a Rechtsanwalt Eschenbach) complained that "die Leiter dieser Kasse Neulinge im Genossenschaftswesen sein, daß sie sich in die innersten Verhältnisse der Einzelpersonen, die einer Genossenschaft angehören, einmischen; die Bedingungen und die geschäftlichen Grundsätze der Zentralgenossenschaftskasse seie wirtschaftspolitische Daumschrauben, die lediglich dazu dienen, jeden einzelnen Genossenschafter auf Gnade und Ungnade der preußischen Zentralkasse auszuliefern." *Vossische Zeitung*, Sept. 1, 1898. From the *Pressearchiv* of the *Bund der Landwirte*, Bundesarchiv Berlin-Lichterfelde, Berlin, R/8034/II 769.

[35]Busche, "Zur Gründungsgeschichte," 99.

[36]The meeting memo is in Staatsarchiv Dahlem, Signature I. HA Rep 151, IC, 10327, Geschäftsbetrieb der preussischen Zentralgenossenschaftskasse Band 6. I discuss the issue and the Preußenkasse's reaction in Guinnane, "Die Anfänge."

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concessionary rate on the Preußenkasse's equity capital contributed by the Prussian government. As the Schulze-Delitzsch group feared, the Preußenkasse apparently led to the creation of some centrals dependent on its credit, but such centrals were the exception and in any case small. If we imagine a counterfactual world in which no state financial assistance of any form had existed, the best evidence suggests the German cooperative movement would have been only slightly smaller.

In correcting earlier views we should not push too far the other way. One can imagine that in some circumstances even a relatively small financial contribution makes a critical difference. The more important implication of the modest financial assistance, especially via the Preußenkasse, is the government's implicit endorsement of the cooperative movement. The Prussian government was saying that it so valued the cooperatives that it was willing to create a bank just for them. Whatever the Prussian government's motivations, this endorsement doubtless made the cooperatives seem more solid to potential members and depositors. But we must avoid the impression left by some contemporary critics, and unfortunately amplified by Peal. The cooperative system mostly financed itself, via loans funneled through the local cooperative central banks, even after 1895.[37] The German cooperative movement, was, by 1895, a model for Europe and beyond; the Preußenkasse hardly created it.

State Support for the Cooperative Movement: Law and Tariffs

Schulze-Delitzsch framed the question of state policy as "state help" versus "self-help." This formulation contains an irony: Schulze-Delitzsch himself was largely responsible for legislation that gave German cooperatives privileges not available to business.[38] Prior to 1867, cooperatives in most German states faced legal problems because no legislation specifically authorized their existence. Under Prussian law cooperatives were, at best, *erlaubte Privatgesellschaften*. This status led to two related problems. In some German states this ran them afoul of the authorities' right to control associations in general.[39] The second and more general

[37]More precisely, the Preußenkasse's total lending to cooperatives was small relative to the cooperatives' other liabilities. Consider the Haas group in 1913. Their centrals collectively had total liabilities of about 312 million marks, of which 30 million were owed to the Preußenkasse. (These centrals also had about 3 million marks on deposit at the Preußenkasse; the net debt was 27 million marks.) Total deposits at centrals from cooperative institutions in that year totaled 203 million marks. The centrals' owners' paid-in capital was some 29 million marks. Thus ownership stakes in the centrals were larger than the net debt to the Preußenkasse. Ten of the twenty-four centrals had no debt outstanding with the Preußenkasse. Only two centrals, in Wormditt and Posen, owed the Prussian bank more than they did their own depositors.

[38]Busche, *Öffentliche Förderung*, 14, notes that by framing the question this way, Crüger and others could ignore the ways the state had assisted their own efforts.

[39]Klein, *Schulze-Delitzschs Kampf*, deals with the legal issues solved by the 1867 Act. Guinnane, "New Law," traces the development of cooperative law in detail and places it in the broader

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problem reflected the cooperative's lack of corporate status: cooperatives had no legal existence independent of their membership as individuals. To be legally valid, all cooperative dealings with the outside world had to use one of several cumbersome and expensive devices, such as having all members grant a power of attorney to some cooperative officials.

Schulze-Delitzsch devoted considerable energy, in his capacity as a member of the Prussian Chamber of Deputies, to creating a legal framework to ameliorate these problems. The 1867 Cooperatives Act for Prussia, which later became Reich law, was an important first step. Cooperatives willing to follow certain rules could list themselves in a registry analogous to the *Handelsregister* for commercial firms. Such *eingetragene Genossenschaften* acquired quasi-legal person status, similar to the treatment of commercial partnerships under the *Allgemeine Deutsche Handelsgesetzbuch*, which was in force in the *Bund* from 1862. The 1889 Reich Cooperatives Act introduced several changes requested by the cooperative movement. Cooperatives henceforth had to undergo an external audit at least once every other year. This audit could be performed by an individual appointed for that purpose by the *Amtsgericht* at which the cooperative was registered, or it could be performed by a special cooperative auditing association. The auditing requirement was inserted largely to fend off calls for state audits of cooperatives. Most cooperative groups had been conducting audits of their members for years.[40]

The 1889 Act also created a cooperative form with limited liability. Unlimited liability meant that any cooperative member could lose all of his personal assets if the cooperative failed. The failure of cooperatives was rare, and most that failed were able to satisfy their debts without major impositions on the members. After 1889, few cooperatives changed their charter to the limited-liability form, and the growth of such cooperatives was predominantly among cooperatives outside the "credit" group.[41] The limited-liability provisions mattered a great deal in two other ways, however. First, cooperatives could now be members of *each other*. This made life easier for cooperative centrals, which previously had had to organize as a corporation (*Aktiengesellschaft*). After 1889 the central could be a limited-liability cooperative. Second, because cooperative

context of German enterprise law in the same period. That paper also contains more detail on the cooperative's legal status prior to 1867; Hans Crüger, "Die Zulassung von Genossenschaften mit beschränkter Haftpflicht durch das Genossenschaftsgesetz vom 1. Mai 1889," *Archiv für öffentliches Recht* 9, no. 3 (1894): 389–455, contains more detail on state-level cooperative law.

[40]Guinnane, "'A Friend and Advisor,'" discusses the auditing requirement and how it worked in practice.

[41]The Preußenkasse's not-quite-complete tally of cooperatives as of January 1, 1904, counts, for Prussia and Bavaria combined, 15,398 cooperatives with unlimited liability and 6,581 with limited liability. In that same year, 1,578 of the 1,741 *Konsumvereine* had limited liability. "Jahr- und Adreßbuch der Erwerbs- und Wirtschaftsgenossenschaften im Deutschen Reiche 1904," ed. Preußischen Central-Genossenschafts-Kasse, Table I.

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membership no longer risked placing disproportionate burdens on relatively wealthy members, the law made it easier to expand into regions of great wealth inequality, such as eastern Germany. The introduction of limited liability complicates Crüger's claims that the Preußenkasse was responsible for the growth of cooperatives in eastern Prussia. The new liability form would lead to the growth of cooperatives in those provinces on its own.[42]

Limited liability also promoted the growth of noncredit cooperatives. A credit cooperative needs capital mostly to back up the claims of depositors. Most unlimited-liability credit cooperatives in the nineteenth century had relatively little paid-in capital; the bulk of the institution's capital was in the form of member's farms and other assets. Raiffeisen credit cooperatives tended to have only nominal shares, and other credit cooperatives in the Haas and other groups often started with paid-in capital of less than 100 marks per member. The "capital" of a cooperative of this type could always be tapped in bankruptcy, if need be. Cooperatives that need buildings, machinery, or inventory, on the other hand, must have paid-in capital to work with on a day-to-day basis. Limited liability with significant paid-in capital made more sense for creameries, purchasing and marketing cooperatives, and even consumer cooperatives.

Contemporary critics argued that German law gave the cooperatives a relatively privileged status as against business firms. The critics were right, especially after 1889. Elsewhere in continental Europe, and in the United States, cooperatives were treated as part of the business code, usually as a special type of corporation. Bavaria and Saxony each had cooperative law that took this approach prior to the harmonization of cooperative law across the Reich. Schulze-Delitzsch demanded and received a law in 1867 that would deal with cooperatives alone, making it possible for them to hold their enterprises aloof from any broader legislative developments that might affect corporations and other business entities.[43] German corporations after 1884 faced new rules on minimum share values, reporting, and governance that made the corporation impractical for all but large business. This 1884 Act was a reaction to the excesses of the *Gründerboom*

[42]The 1884 Corporations Act made it much harder to form a corporation. The 1889 Cooperatives Act also allowed a third liability structure, "unbeschränkte Nachschußpflicht," that was a variant on unlimited liability and rarely used. Guinnane, "New Law," notes that a major problem with unlimited liability prior to 1889 was not such unlimited liability itself as the way bankruptcy proceedings treated cooperative members; this problem was fixed in the 1889 Act, making unlimited liability more useful than it had been prior to 1889.

[43]Timothy W. Guinnane and Susana Martínez Rodríguez note that only the United Kingdom and Germany treated cooperatives as distinct legal creatures; Timothy W. Guinnane and Susana Martínez Rodríguez, "Cooperatives before Cooperative Law: Business Law and Cooperatives in Spain, 1869–1931," *Revista de Historia Económica-Journal of Iberian and Latin American Economic History* 29, no. 1 (2011): 67–93. The 1867 cooperative law drew heavily on language and legal concepts that were already contained in the 1862 *Allgemeine Deutsche Handelsgesetzbuch*.

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of the 1870s, and its strictures were intended to ensure that corporations were large, well-capitalized, and transparent, and that their investors were wealthy enough to bear the risk implied by equity investments. By keeping cooperatives out of the corporation law, Schulze-Delitzsch had protected them from the need to resist reforms aimed at large businesses.

The 1889 law also gave cooperatives an important privilege not available to for-profit enterprises. Before 1892, the only business form with full legal personality and limited liability for investors was the corporation. Even after 1892, with the creation of the *Gesellschaft mit beschränkter Haftung* (GmbH), the law required a minimum capitalization of 20,000 marks, far in excess of that found in many cooperatives. (Cooperatives had to have at least seven members, but there was no minimum capitalization or similar requirement.) The alternative legal forms for enterprise in Germany prior to 1892 required unlimited liability of at least some investors. The Reich cooperatives Act of 1889 played some role in creating pressure for the GmbH law in 1892, and for good reason: the 1889 law gave the cooperatives legal privileges that their for-profit competitors would not really enjoy even with the GmbH.[44]

Tariffs

One feature of the contemporary debate and recent discussions of state support for cooperatives is puzzling because of an omission. The agricultural tariffs in place from 1879 transferred vast sums from consumers to agricultural producers, many of whom were rural cooperative members. These tariffs constituted an indirect subsidy to rural cooperatives that dwarfed anything the Preußenkasse did, yet Crüger and his group never objected to them on these specific grounds. The story here is so well known that the specifics do not require detailed recitation. In open economies such as Britain and Ireland, reductions in transport costs brought about a "grain invasion" in the 1870s that quickly undermined local farmers' ability to produce grains at competitive prices. Farmers shifted to other output mixes, focusing on meat and dairy production for which overseas competition was not so severe. But even this shift could not stave off a large reduction in labor demand, and with it, depopulation in most rural areas.

This did not happen in Germany because of the high agricultural tariffs first introduced in 1879. Steven Webb estimates that in the early twentieth century, the agricultural tariff regime transferred annually an amount equal to one

[44]The legal forms of enterprise and the introduction of the GmbH in 1892 are discussed in Timothy W. Guinnane, Ron Harris, Naomi Lamoreaux, and Jean-Laurent Rosenthal, "Putting the Corporation in its Place, 2007," *Enterprise and Society* 8, no. 3 (2007): 687–729. Hans Crüger stresses the connection between the 1889 cooperatives law and the introduction of the GmbH; Hans Crüger, "Haftpflicht und Kredit," *Jarhrbücher für Nationalökonomie und Statistik* 72 (1899): 661–670, here 664–666.

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percent of national income to producers of wheat and rye alone, and another two percent of national income to cattle and hog producers. These producers alone received a subsidy worth about 450 million marks *per year*, a figure that dwarfs any reasonable estimate of state financial support to rural cooperatives.[45] The tariff did not support rural cooperatives directly, of course, but it is hard to imagine the lively rural cooperative movement in a countryside experiencing depopulation, the fate of free-trade countries at the time. Curiously enough, I know of no instance in which the urban cooperatives drew this connection. This is instructive about their objections to state support for cooperatives, even though this form of state assistance implied a direct transfer from urban cooperators to rural cooperators.

Conclusions

Peal's discussion of the Preußenkasse and its role in the rural cooperative movement rests on some misapprehensions about the role of rural centrals and rural cooperative finance. More recent discussions, including those by Farr and Fairbairn, have rightly sought to integrate the political movements associated with the cooperative groups into a broader account that emphasizes the state's effort to shape and direct the cooperative movement for political ends. These correctives risk misunderstandings of their own, however. Schulze-Delitzsch's cooperatives were the first, and they stringently rejected the financial assistance at issue in this literature. The later rural cooperatives were less doctrinaire on the matter, but the grants and subsidized loans they accepted were not sufficient to create the vibrant movement that existed in 1895, when the Preußenkasse entered the scene. Some accounts have exaggerated the Preußenkasse's largesse, but even if we attribute to the Prussian entity all the power and influence its admirers (and detractors) ascribe to it, the most we can say is that it pushed the growth of the movement in regions where it was heretofore relatively weak. Focus on financial assistance, however, implicitly follows Schulze-Delitzsch and his dichotomy of "self-help" versus "state help." This framing allowed Schulze-Delitzsch to ignore a broader set of state policies that aided cooperatives directly and indirectly, most notably, the special cooperatives legislation that Schulze-Delitzsch helped to write.

The larger lesson here concerns the role of interest groups in the Kaiserreich. Schulze-Delitzsch's rejection of state financial assistance reflected an apparently

[45]The estimate of the sum transferred via the tariff relies on the "compromise figure" for 1907 German net national product reported by Carsten Burhop and Guntram B. Wolff in "A Compromise Estimate of German Net National Product, 1851–1913, and its Implications for Growth and Business Cycles," *Journal of Economic History* 65, no. 3 (2005): 613–657, Appendix Table 2, as well as Steven Webb's estimates of the amount transferred to rural producers in Steven B. Webb, "Agricultural Production in Wilhelminian Germany: Forging an Empire with Pork and Rye," *Journal of Economic History* 42, no. 2 (1982): 309–326, here 324–325.

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principled stand: no group should be helped or hindered by the state, his cooperatives included. One can seriously doubt whether it would be possible for any regime to adhere to the line Schulze-Delitzsch laid down, and his role in the cooperatives law suggests the difficulty of identifying the boundaries of a neutral state policy. He doubtless saw the cooperatives law not as a special privilege, but as the state providing an appropriate set of organizational rules. This is the problem of classical liberalism; is it really possible for the state to practice true laissez-faire, even if that were desirable? By the standards of their day, German cooperatives received modest state assistance, and their efforts to secure it were restrained. They demanded and received legal forms for their enterprises that allowed them to organize in ways forbidden to for-profit businesses. Much of the other state assistance, including the Preußenkasse and the tariffs, reflected someone else's agenda, even if the cooperatives benefited. They did not adhere completely to the tough line espoused by Crüger and others, but German cooperatives grew and thrived in their first seven decades through self-help, not state help.

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