STATE SUPPORT FOR THE GERMAN

COOPERATIVE MOVEMENT, 1850-1914

Timothy W. Guinnane
Department of Economics
Yale University

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Abstract

The German cooperative system played a lively and important role in many aspects of the German economy in the nineteenth century. Recent scholarship has confused some aspects of the cooperative movement and how it worked. This article focuses on one important point of confusion: the importance of financial support by the German states and the central government. German cooperatives did not receive the heavy state support typical of cooperatives in many developing countries today. But various levels of German governments did provide direct and indirect financial assistance to cooperatives. Confusion about the role of this support has led at least one recent scholar to exaggerate their importance. More generally, focus on financial assistance of this type obscures two larger points. First, by the late nineteenth century cooperatives were the beneficiaries of special enabling laws and strong protective tariffs on agricultural goods. Second, discussion about state assistance to cooperatives must be set against the background of the general political economy of the day: Liberals and many business leaders alike had abandoned earlier conceptions of the laissez-faire state, and virtually every interest group in Germany received, or at least sought, special assistance from the state. Debates over support for cooperatives in the 1890s and later simply demonstrate how “normal” they had become.
The cooperative movement occupies a curious place in German historiography. Cooperatives certainly qualified as a “mass movement:” as Fairbarin has noted, at the outbreak of World War I, there were over 34 thousand registered cooperatives with 6.4 million members. The Social Democratic Party, in contrast, had slightly more than one million members.¹ By the outbreak of World War I, enterprises organized as cooperatives represented significant parts of the banking, retailing, and agribusiness industries. Yet the cooperative movement’s history appears only peripherally in recent discussions, in connection with the fate of the liberal parties, or in discussions of anti-Semitism. Many historians of Germany know Hermann Schulze-Delitzsch primarily as a liberal politician, but he was also the founder and driving force behind the original strand of the cooperatives. Odder still, the man responsible for the largest branch of the cooperative movement, Wilhelm Haas, is virtually unknown outside the specialist literature. The German cooperative organization today bears the name of Friedrich Raiffeisen, who did in fact start the rural branch of the cooperative movement. But his organization was not a success, and merged with Haas’s in the early twentieth century.²

But the cooperatives were ubiquitous, and they both experienced and contributed to debates on many of the economic and social issues of Germany in the decades prior to World War I. This paper focuses on a single issue, state support for cooperatives, to correct a misunderstanding introduced earlier in the literature, and to argue that we can see in state policy towards the cooperatives many of the trends that characterized economic policy as a whole in this period. This paper is part of a much larger project that focuses on the logic and operations of the credit cooperatives.

One of the most recent discussions of German cooperatives in the English-language literature, David Peal’s 1988 article in *Central European History* (“Self-Help and the State:

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¹ Fairbairn (1994, p.1215). I would view the cooperative figures with some skepticism; reporting was imperfect, and even the registration of cooperatives and their members was spotty. On the other hand, the same was probably true for the Social Democrats.

² 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 (Sheehan 1978, pp. 92-94). There is no mention of the more numerous rural cooperatives, nor of the connections between Liberal politicians and these institutions.
Rural Cooperatives in Imperial Germany”) leaves the impression that state help was critical to the growth and survival of the rural branch of the movement at least. Peal’s claim has unfortunately convinced some economic historians that the cooperatives were simply the product of state assistance and warrant no further investigation as business or economic organization. Peal’s argument, as I will show, relies on a misunderstanding of how the various constituent elements of the cooperative system interacted with one another. The larger misfortune of his claim is that he misses a broader context: state support certainly did aid the cooperatives in ways other than he discusses. And he also misses an opportunity to set this discussion in a larger context. Government policy towards the cooperatives is instructive about both the cooperatives and the government.3

State assistance for and more broadly state policy towards the cooperatives was a central question in the cooperative debates of the period 1860-1914. At their heart was sincere disagreement about what was best for cooperatives and what a cooperative should be. Schulze-Delitzsch’s vision stressed self-help and a process whereby hard-headed workers and small business people would use the cooperative to lift themselves into the middle class. Raiffeisen’s vision was always more caritative, and he saw state assistance as just one more way to help the poor. But the debates were also motivated by and touched on a wide range of issues that Peal and others have missed. One was the egos of the cooperative leaders themselves; Schulze-Delitzsch had eschewed any financial assistance, and his successors spent much of their time and energy demanding strict adherence to his thinking.4 Another was regional; the institution at the heart of Peal’s account was Prussian, and many saw its creation as an effort to influence the cooperative movement in the entire Reich. In addition, much government policy towards cooperatives had explicitly political goals, using assistance to

3 Fairbairn (1994, pp.1231-1232) gets it entirely right, in my view. He notes an issue I will not discuss, which is that various German governments actively opposed cooperatives associated with Social Democracy, such as the consumer cooperatives. Busche (1961) emphasizes the idea of “state policy for cooperatives” as opposed to “state support for cooperatives.” His notion has greatly influenced the argument of this paper.
4 Hans Crüger, who led the Schulze-Delitzsch group in the late nineteenth and early twentieth centuries, was an especially bitter (and sometimes inaccurate) critic of rural cooperatives and state assistance. His writings (cited in the references) often equate rural cooperatives to state assistance, and attribute the growth of the rural cooperative groups to their desire to get cheap credit.
promote groups they thought were sympathetic to those in power, and using other policies to make life difficult for cooperatives under the influence of Social Democrats and others less friendly to the Reich.

This paper considers state policy at two distinct levels. First, consider the question as Peal framed it (which is probably fair to the participants at the time). We can ask which governments did what for which cooperatives. This is a relatively simply factual question. Second, we can go beyond this to ask whether cooperatives regretted their involvement with state agencies; many did, and this regret tells us much about the cooperative’s expectations and the state’s goals. But the real question lurking in the background of Peal’s discussion is counter-factual: in the absence of any state assistance, how would the cooperatives have fared?

And we want to go one step further: Peal and contemporary critics focused on direct, material aid to cooperatives in the form of grants and low-cost credit. But the various governments of the German Reich provided much more pervasive and I argue important support in two ways. First, the cooperatives were the beneficiary of special legislation that enabled them to form and operate on terms not available to any business firm at the time. Schulze-Delitzsch’s group proudly and correctly took credit for his role in the first step in this legislation (in the North German Confederation, in 1867), but never conceded that this legislation and the 1889 Reich cooperatives Act created a privileged status for their organizations. Second, rural cooperatives benefited greatly from the agricultural tariffs introduced in 1879. With the “grain invasion” of the 1870s, German agriculture was poised to go the way of English farming, with conversion to less intensive production of goods for local urban markets. Under that scenario it is very difficult to imagine a rural cooperative movement of the size and vitality found in Wilhelmine Germany. Instead, a set of protective tariffs on agriculture required Germany’s urban population to subsidize agricultural producers on terms generous enough to prevent the rural depopulation that hit England, Ireland, and similarly “open” economies in this period.
A broader perspective on the question of state assistance to cooperatives brings us back to a central issue in Wilhelmine politics, which is the emergence of Interessenverbände and their apparent triumph over the “principled” politics of the Liberal’s earlier days. One way to interpret Schulze-Delitzsch’s early vision is to see him demanding for his organizations what he thought should apply to everyone: the state would act as a neutral arbitrator among competing groups, but the political process should not result in State largess for any industry or group. The protective tariffs of the late 1870s are evidence that this vision had died (if in fact it had ever lived). For the rest of the period up to World War I, some branches of the cooperative movement were part of a political economy in which specific interest groups tried to use their political power to elicit state support for their industry or profession. Put in this context, Peal’s claims about State support for cooperatives are not inaccurate, just out of context.

1. The cooperative system

Depending on how one counts, these cooperatives at least 10 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. To understand government policy toward the cooperatives, we need an overview of the system as a whole. I find it simplest to distinguish the various institutions along four different dimensions: their function (their business activity), their “brand” (whether Haas, Raiffeisen, Schulze-Delitzsch, etc), their level in the system (whether a local, “primary” cooperative or a regional “Central” cooperative), and their connections to political and other movements.

Schulze-Delitzsch’s first efforts were credit cooperatives (in his group, called Vorschussvereine), cooperatives for purchasing of inputs (Magasingenossenschaften), and artisanal cooperatives (Handwerkenossenschaften). The two main rural groups, the Raiffeisen and Haas groups, included credit cooperatives (which they usually called Spar-und Darlehenskassen) 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 (*Winzergartenossenschaften*) and cooperative creameries (*Molkereigenossenschaften*). Later cooperatives included the famous consumer cooperatives (*Konsumgenossenschaften*) as well as cooperatives that aimed to provided low-cost, owner-occupied housing (*Baugenossenschaften*). Cooperative forms of organization were also tried, often successfully, in very specific 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 much 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 something like one-third of all members were farmers, a statistic we can accept if we remember the late development of the rural cooperatives. Raiffeisen started his cooperatives in the Rhineland in the late 1840s, but they spread and grew starting later, in the 1860s. Raiffeisen’s cooperatives were intentionally small and restricted their membership to small rural districts, usually a civil parish. 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 never have the heft necessary to provide effect 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 over Raiffeisen reflected several deliberate decisions, including the greater decentralization of the Haas association and a much less dogmatic attitude toward cooperative practice. 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
re-direct the cooperatives in a more politically acceptable direction. One important example of this was *Hauptverband der deutscher gewerblicher Genossenschaften*, which was similar to Schulze-Delitzsch’s cooperatives in practice and intent, but more acceptable to political conservatives.

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, they were controlled by the top institution. The Haas group, on the other hand, developed free-standing “Central 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* for purposes analogous to those performed by a Central bank in the rural group. Others just had arrangements with for-profit banks.

To understand a key channel for state support we must understand how these cooperative institutions interacted with one another. Local (or “primary”) credit cooperatives usually took in more as deposits than they cared to lend out. This made them prime sources of credit for other types of cooperatives. In many cases the credit cooperatives seem to have just made direct loans to another cooperative, but this was viewed as undesirable for a number of

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5 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 & Ludolf Parisius, close associates of Schulze-Delitzsch, were the unlimited partners. The modern DG-Bank (now the DZ-Bank) is the descendent of the Prussian State Central, not the DGSP.
The formation of Centrals changed the way the local credit cooperatives funneled money to other cooperatives. A local credit cooperative with excess cash would place this money on deposit at its Central, which could then just lend the money to other cooperative institutions as the need arose. My research on a number of Centrals in the Rhineland demonstrated that at least in this region the credit cooperatives were collectively net lenders to the rest of the cooperative system. Jost (1913, pp. 383-393) summarizes the balance sheets of the credit cooperatives and Centrals belonging to the main rural groups, and comes to the same conclusion. Of course, the Central also stood ready to assist individual credit cooperatives that ran into trouble.

Peal’s discussion of the problems facing the Raiffeisen group, and of the Haas group at the end of the nineteenth century are difficult to square with many aspects of their actual history. For example, Peal’s argument stresses that the two groups were fundamentally different, with the Haas group “specialized” in commodity cooperatives (p.254), and therefore more dependent on non-cooperative sources of finance (p.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 9745 were credit cooperatives. More importantly, the Haas credit cooperatives actually generated more excess cash than did their Raiffeisen counterparts; it was Raiffeisen’s group that was constrained to seek financing from other sources.

Cooperatives and politics

Most cooperative leaders stressed the independence of their organizations from the confessional and political affiliations. While priests and ministers often played leading roles in the organizations, it appears that the movement successfully straddled the confessional

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6 Simply put, such loans forced a single credit cooperative to bear all the risk of the other cooperative’s failure, and tied up too much of the credit cooperative’s assets in a single, illiquid loan. See Guinnane (2004) for more discussion of this point.

7 More generally, I think Peal ascribes to Raiffeisen an anti-capitalist outlook not in evidence in the historical record. Haas, to be sure, was the more pragmatic, and many of his cooperatives enjoyed a more prosperous membership. But Raiffeisen’s initial interest in credit as opposed to other activities seems best ascribed to what he thought the actual problems were. I do not see how a credit cooperative is an alternative to capitalism but a purchasing cooperative is capitalist, nor how a cooperative ceases to be non-capitalist once it deals with regional organizations.
Many outside the cooperative movement did not accept the latter’s claim to being outside of or above politics. On its face the movement’s claim was hard to sustain; many of the national and regional leaders of the cooperatives were members of the Reichstag, the Prussian Landtag and other Land parliaments, or city governments. (Many cooperative leaders also had, at least originally, a full-time job in the civil service. Haas was very senior in the Hesse administration when he retired to devote himself fully to politics and the cooperative movement.) What the cooperative leaders meant by their claim was that as organizations, the cooperatives were not involved in party-political discussions, and that the cooperatives should not be seen as adjuncts to any political party. Fairly or not, however, they were.

Attitudes toward state assistance among the cooperatives were just as diverse. On one extreme stood the Schulze-Delitzsch group, which refused any assistance itself and devoted considerable effort to attacking any cooperative that did. The roots of this view were several. Viktor Huber and Schulze-Delitzsch had engaged in a protracted and vitriolic debate over the best way to assist the working class, and the Schulze-Delitzsch group would long use the term “state socialism” to characterize any cooperative group that accepted government assistance. Another root of this review lies in the obvious success of the Schulze-Delitzsch group without any assistance. Still another lies in Schulze-Delitzsch’s personal relationship with the German state. Prussia prosecuted him for sedition in 1849, and the Prussian justice minister later punished him for oppositional views by declining Schulze-Delitzsch appointment to a position in the judiciary for which he was clearly qualified. Later on Schulze-Delitzsch

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8 Not so with the ethnic divide that became more contentious in Prussian’s eastern provinces at the end of the 19th century. Schulze-Delitzsch’s organization, for example, proudly claimed its ability to be a protagonist for “Deutschtum.” This claim should be seen in context — they were attacked for being insufficiently nationalist – but the organization’s willingness to side with ethnic Germans against ethnic Poles stands in contrast to its unwillingness to favor one confession over another.

9 Schulze-Delitzsch was a leading national liberal; Hans Crüger, his successor, 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 member of the National Liberal Fraktion in the Reichstag. Raiffeisen himself never held elective office, but many leaders in his organization did.
enjoyed the status of one of Bismarck’s *bêtes noires*. Throughout the 1850s and 1860s, Prussia especially often engaged in petty harassment of the cooperatives, using as a pretext their inability to obtain the legal status that would allow them to operate as groups. By the time of Schulze-Delitzsch’s death in 1883, the National Liberals were crucial to Reich government majorities, and attitudes towards the cooperatives had turned actively positive. But one could forgive Schulze-Delitzsch for not trusting these changes to be permanent.

Later leaders of the Schulze-Delitzsch brand adhered to his position. In his repeated statements on the subject in the 1890s and later, Crüger 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 cooperative movement overall. Second, state assistance came with strings attached. Subsequent history probably bears out Crüger’s position, but at the time neither branches of the rural cooperative movement agreed. Certainly all could see that much state assistance was explicitly designed to foster the politically “right” type of cooperative.

### 2. Financial support from the State

Many discussions have exaggerated the importance of state assistance cooperatives by taking inter-Nicene screeds too literally or by laying too much stress on the *Preussenkasse*. To Crüger, for example, all rural cooperatives were guilty of “state socialism,” and all Centrals had been formed merely to obtain state credit. And the great controversy surrounding the creation and operation of the *Preussenkasse* has obscured its actual operations.

*Grants directly to cooperatives*

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10 In a letter to finance minister Bodelschwingh dated 27 February 1866, Bismarck supported granting a loan of 5000 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, but he stressed the political benefits of such a loan: this was a Schulze-Delitzsch cooperative, and a loan would embarrass Schulze-Delitzsch. (Klein 1972, p.75).

11 We discuss the legal status of the cooperatives below.
Many sources mention direct gifts to cooperative organizations by some level of German government. Usually these grants were small enough that they would amount to only a portion of one year’s operating expenses, but there were exceptions. None of the sources of which I am aware compiles total public aid to cooperatives in a way that allows confident claims about the precise amount of total assistance. But we can consider a wide range of examples that convey a sense of how small such grants were. These grants were often directed not towards one of the actual cooperatives, but towards 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 support more careful auditing. Prior to this, and in all probability afterwards, the government grants supported canvassing for the creation of more cooperatives. Thus these grants played some role in “pushing” new institutions, just as Schulze-Delitzsch feared.

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. 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 (and the cases I know of really were loans) then it is not equal to 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. Thus if the government charged 2 percent and the capital markets would charge 5 percent (both realistic figures), then the implicit subsidy is 300 Marks per year (that is, (5-2) percent of 10,000. Viewed in this way, these loans were very small potatoes. But many critics argued that the state lent money to cooperatives because no private lender would extend credit; that there was no alternative at 5 percent.\textsuperscript{12} If true, then

\textsuperscript{12} The accuracy of this view is beyond the scope of our discussion. Suffice it to say that many private lenders did in fact lend to cooperatives. Busche (1961, p.99) notes that in 1900, partly in response to the Prussian efforts discussed below, the Bavarian government granted the Munich Central a loan totaling three million Marks at three percent interest.
the state was providing a service that was as valuable as whatever service the cooperatives could support with those funds.\textsuperscript{13}

Things become more complicated if the cooperatives in fact had no alternative lender. This was not generally true, as noted earlier. But we should consider why the Preussenkasse might lend to an institution that could receive no other credit. One reason would be the political motives stressed by Crüger; the Prussians were simply trying to create more cooperatives dependent on their continued generosity. More nuanced arguments stress that cooperatives had assets that private lenders such as banks had trouble valuing. The assets of the Central, for example, were its loans to cooperatives. And the capital of the primary cooperative with unlimited liability was for all intents the personal assets of its members. The Preussenkasse adopted some policies clearly aimed at trying to lend on the basis of the cooperatives' unusual assets. A cooperative could, for example, provide detailed information on the wealth of its membership and thus use that wealth as the security for Preussenkasse loans. Private lenders would not do this, and one can understand why, given how bitterly the cooperatives complained about being asked for all this information. This is sometimes a difference between an unsound loan and one a lender does not want to make!

Some government support was indirect but government support nonetheless. Raiffeisein wrote his book on cooperatives in 1866, and in 1868 was hired by the Landwirtschaftliche Verein for the Rheinland in a special department of credit cooperatives. The Kölnische Zeitung make be exaggerating slightly when it claims:

“In der ersten Hälfte der 70er Jahre stand die gesamte Raiffeisensche Genossenschaftsbewegung vollständig unter dem Zeichen des landwirtschaftlichen Vereins für Rheinpreußen, und die Raiffeisenschen Genossenschaften waren

\textsuperscript{13} If the state could count on its money being repaid, then its 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. One can well imagine that the Bavarian state could, for example, borrow at terms better than Bavarian cooperatives, and pass along that advantage to the cooperatives.
geradezu durch eine Realunion mit dem Verwaltungsapparat dieses wirtschaftlichen Vereins verbunden.\textsuperscript{14}

These institutions and similar bodies were in many cases consistent supporters of cooperatives. Formally, the Verein was not strictly a government body (that is, unlike the ministry of agriculture or whatever). But it was itself funded by government contributions, and increasingly played a quasi-official role. And the money was State money, even if funneled through a quasi-official institution.

\textit{The Preussenkasse}

The claim that rural cooperatives depended heavily on State assistance usually arises from a dispute over the creation of the \textit{Preussenkasse} (the Prussian State Cooperative Central) in 1895. The \textit{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 1893, but the Prussian government had compiled the invitation list and the agenda to suit its own ends; even if the \textit{Preussenkasse} itself had not been for-ordained, which seems likely, the point of the meeting was to provide political cover for the Prussian government’s intentions to assert a great role in the running of cooperatives. The \textit{Preussenkasse} clearly had aims that were not entirely tied to the health of the cooperative movement. One aim was to support cooperatives that the government viewed as politically convenient (that is, the \textit{Hauptverband} and not the Schulze-Delitzsch group). Another was to foster the development of a new brand of cooperatives explicitly tied to the \textit{Bund der Landwirt}, an interest group formed to advance the agenda of the most conservative rural factions, including the Junkers. And a third motive was quite possibly the assertion of Prussian dominance within Germany over the range of issues associated with cooperatives.

\textsuperscript{14} Kölnische Zeitung 3 July 1901. From the \textit{Pressearchiv} of the \textit{Bund der Landwirt}, Bundesarchiv, Berlin. R/8034/II 769, vol. 5
These issues aside, the Preussenkasse was controversial from the start. Some backers saw it as a natural way to offset the natural advantages big business enjoyed in their access to large banks, and often compared it to the Reichsbank.\textsuperscript{15} The Preussenkasse’s critics, who were loudest in Schulze-Delitsch’s group, objected to the institution on the grounds already noted. Yes, the Preussenkasse intended in part to control the cooperative movement, or at least to promote the parts of it most friendly to the Prussian regime. Yes, the Preussenkasse lent on terms better than those available from most other sources. That was the point! But it is important to set these criticisms in historical context.

The Preussenkasse was a free-standing Prussian institution, whose largest shareholder was the Prussian government. The bank had to pay the government 3 percent per year for invested capital. The capital was substantial; by 1900 the Preussenkasse had 75 million Marks in capital. The bank had to pay its employees, and had to pay interest on the deposits it raised. And it had to charge interest on loans sufficient to at least break even on its activities. So its advantages over a private lender consisted of the connection to the Prussian government. Providing a return of 3 percent per year did not make the capital free, but that was a low return for bank equity at the time.\textsuperscript{16} More importantly, the fact that this was a quasi-government institution doubtless made private entities more willing to lend to the Preussenkasse than they would have to a similar cooperative. The Preussenkasse had no explicit guarantee against failure, but one cannot imagine the Prussia government allowing it to fail.

So how important was the Preussenkasse? One common rhetorical point at the time was to look at the growth in the number of cooperatives, especially rural cooperatives, in the 1890s. Crüger and his allies liked to say that growth was entirely artificial, driven by the availability of cheap credit. He especially repeated the charge \textit{ad nauseam} that cooperatives had no use for Centrals, and that Centrals had only been formed because the Preussenkasse

\textsuperscript{15} The Reichsbank, as a matter of fact, had long provided credit to cooperatives on the same terms as it dealt with other businesses and banks. But this meant in practice that its lending to cooperatives was limited, for the reasons already noted.

\textsuperscript{16} Peal does not mention that the Prussian government was paid for its capital.
preferred to lend to them rather than to individual cooperatives. This claim is simply false on its face. Consider just the Centrals affiliated with the Haas group. Of the 25 Centrals reported in 1914, eight preceded the Preussenkasse. We simply cannot attribute the Centrals movement to the Preussenkasse. 17Crüger also ignores the role of the 1889 Reich cooperatives act. This act improved the organizational law for cooperatives in ways we detail in the next section, and its effects were also at work in the 1890s.

To understand the Preussenkasse’s appeal we need to return to the organization of the cooperative system. The rural cooperative movement, as noted, included organizations with many varied purposes. Credit cooperatives did not ordinarily need any additional credit from the Preussenkasse. “Ordinarily” suggests two qualifications: in ordinary times, and those that were formed out of genuine local enthusiasm and not, as Crüger feared, simply to take advantage of cheap state credit. To the extent the rural groups 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. Peal’s claim that the Haas group was “specialized” in non-credit activities is ludicrous; credit cooperatives were always the most numerous in the Haas group. But Peal is right to point to the relatively rapid development of the cooperative commodity business as a reason for the cooperatives to turn to the Preussenkasse. So long as Haas (or Raiffeisen’s group) relied on capital funneled through credit cooperatives, the growth of other cooperatives had to be limited.18

But this does not tell us how much subsidy was implicit in the Preussenkasse’s operations. This subsidy is the key to knowing how much the Preussenkasse was really a subsidy to the cooperative movement. And it is surprisingly easy to get a rough-and-ready

17 From the 1914 annual report of the Reichsverband. The Centrals in question are Wermditt (1892), Neisse (1890), Halle (1893), Hannover (1890), Münster (1884 – this Central was first established as a joint-stock corporation), Cassel (1893), Wiesbaden (1894), Bonn (1892), Cologne (1892), and Munich (1893).

18 Busche (1961) stresses a related point: different types of cooperatives received different levels of support. Cooperatives intended to build housing for workers (Baugenossenschaften) had tremendous capital needs and aims that fit neatly into the government’s political goals at the end of the nineteenth century. As such, they were favored objects of state assistance. But they had relatively little to do with the rest of the cooperative movement, and one can hardly ascribe to the assistance granted the Baugenossenschaften any more general benefit to the movement as a whole.
Table 1 presents a summary of the Preussenkasse’s balance sheet for selected years prior to World War I. This table illustrates a simple and surprising fact: in most years, the Preussenkasse was a net borrower from cooperatives, not a net lender to cooperatives. 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. This feat – which we explain shortly – meant that to a first approximation, the Preussenkasse was simply facilitating the exploitation of one part of the cooperative system by another. In some years, of course, the Preussenkasse was a net lender to the cooperative system. But here we need to be careful before ascribing huge subsidies to the institution. Consider 1900, in which the Preussenkasse lent about 27 million Marks more than it borrowed. This sum implies that for every percentage point its rates were below some hypothetical alternative, the Prussian government was in effect giving 270,000 Marks to cooperatives. How large is this sum, relative to the size of the recipients? Not very large. For example, the management costs of the Centrals in the Haas group in 1914 totaled about 2.1 million Marks. To be clear: this is the cost of running the Centrals, not the group as a whole. Discussions of the Preussenkasse fail to appreciate just how large the German cooperative system was when the Prussian institution came along.

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 voluntary. As noted, few Schulze-Delitzsch cooperatives had any ties at all with the Preussenkasse. 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. There was a sound reason for this requirement on
the part of the *Preussenkasse*, as we shall see, but in the first instance it forced participating
Centrals to subsidize cheap loans to other cooperative institutions.

Cooperatives came up with all kinds of reasons why the *Preussenkasse* did this. And
the policy clearly enhanced their 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 true value was in its ability to play lender of last resort during
financial crises (as did the Reichsbank for private businesses). To do this, it needed that huge
capitalization. But it also needed to bind cooperatives to it in such a way that cooperatives
needing cash in a crisis could find it at the *Preussenkasse*. The only way to achieve this was
in effect declare that cooperatives would put all excess money with the Prussians in good
times and in bad.\(^{19}\)

The value of this approach proved itself during the 1907-1908 financial crisis. This
panic began in the United States but soon spread to Germany. 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 – much better than the Schulze-Delitzsch cooperatives, which had been forced to rely
on the dubious mercies of the capital markets. But its ability to do so relied on what seemed to
many a heavy-handed relationship with the cooperative movement.

In closing this discussion let us return to a question Peal never raises: were
cooperatives pleased with their relationship with the *Preussenkasse*? We cannot answer the
question in general, but we do know they received a rude shock in 1898, when the
*Preussenkasse* raised it lending rates by nearly two full percentage points. Even the Haas

\(^{19}\) Most regional Centrals required all affiliated 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 3-4 percent
more per annum that 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 Gütlerzeugung der Landwirtschaft und dem städtischen Mittelstand zur Verfügung zu
stellen, sondern um der um durch Anlauf von Wertpapier oder Wechseln Gewinne zu erzielen.” (p.41)
Given all the complaints, one must assume the problem was real. I have never seen any discussion that
links the *Preussenkasse*’s policies to those of the regional Centrals.
group, which until that point was the part of the cooperative movement most interested in working with the Prussians, was very angry. The reasons are simple: many cooperatives 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 were in no position to under their investments when the Preussenkasse raised its rates. The cooperatives had learned a hard lesson about depending on assistance from a monopolist.

3. How the German state helped the cooperative movement

The cooperative movement framed the question of state involvement as “state help” versus “self help.” The irony in this formulation was that the Schulze-Delitzsch group, which was most bitterly opposed to any state assistance, was also responsible for a major example of government-granted privilege for the cooperatives. Some of the ways the German state assisted the cooperatives were not aimed specifically at these institutions. This cannot be said of the 1889 Reich cooperatives law.20

Prior to 1868, cooperatives in most German states faced severe legal problems because no legislation specifically authorized their existence. In some German states this ran them afoul of the authorities’ right to control associations in general. In Prussia, for example, some early Schulze-Delitzsch cooperatives were prohibited under the same legislation that allowed the regime to prohibit political gatherings. Other cooperatives had to tolerate the presence of individuals who were clearly police spies. A more serious problem remained even after the Prussian and other governments softened their opposition in the early 1860s: cooperatives had no legal existence independent of their membership. Thus they could not act in their name as a legal entity, that is, borrow and lend, sue and be sued. To be legally valid all dealings with the outside world had to be in the name of one or more cooperative members, and in some cases they encountered problems even in lending to an individual member. The 1868 cooperatives act for the North German Confederation, which was quickly

20 Busche (1961, p.14) notes that this is a consequence of the way cooperative leaders had framed the debate; by focusing on state assistance, Crüger and others could ignore the ways the state had assisted their own efforts.
adopted in Bavaria and other south German states, resolved this problem by granting to the cooperatives the status of a legal person. Each cooperative member still bore unlimited liability for all of the organization’s debts, but in this respect the cooperative was like business partnerships.\(^{21}\)

Schulze-Delitzsch had been instrumental in the passage of this legislation. The 1889 Reich Act contained some provisions about which he had been at best ambivalent, but this was passed after his death and in a context where the rural cooperatives had eclipsed his in number and size. The reforms in the 1889 law all reflect the wishes of the cooperative movement. The 1889 Act introduced two important changes. First, all 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 which was in practice just the regional cooperative organization reorganized for this purpose.\(^{22}\) 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 some years. As noted earlier, many of the direct grants to cooperative organizations went to the new auditing associations, under the logic that the government should help to pay for a requirement it had imposed.

The second reform in the 1889 Act gave the cooperatives the right to organize with either unlimited or *limited* liability. Unlimited liability meant that any cooperative member could lose all of his personal assets if a venture failed and left unsatisfied creditors. The failure of cooperatives was very rare, and most that failed were able satisfy their debts without major impositions on the members. So the new possibilities made little difference for operations on the ground. They mattered a great deal in two, other ways, however. First, because it was now possible to create a limited-liability cooperative, cooperatives could be members of *each other*. This made life much easier for regional institutions such as the

\(^{21}\) Bavarian cooperative law permitted organization with limited liability.  
\(^{22}\) Guinnane (1993) discusses the auditing requirement and how it worked in practice.
cooperative central banks, which previously had had to operate as a corporation
(Aktiengesellschaft); after 1889 the Central could be a limited-liability cooperative. Second,
because cooperative membership no longer risked placing disproportionate burdens on
relatively wealthy members, the law made it practical, for the first time, to expand into
regions of great wealth inequality, such as eastern Germany.

Limited liability remained relatively rare as late as World War II for German
cooperatives. Among local cooperatives its only enthusiasts were the Schulze-Delitzsch credit
cooperatives, many of which changed form after 1889. So the practical impact of this change
was mostly in its affect on Centrals. Effect aside, limited liability under the 1889 amounted to
a privileged status for cooperatives. For-profit businesses of the same size and scope could
not obtain the benefits of limited liability until 1892, and even then, with the creation of the
GmbH (Gesellschaft mit beschränkter Haftung), the law required a minimum capitalization
far in excess of that found in most cooperatives. The alternative legal forms for enterprise in
Germany prior to 1892 either required unlimited liability of all investors (such as in the
Offene Handelsgesellschaft, or ordinary partnership) or at least of the managing partnership in
the limited-partnership forms (the Kommanditgesellschaft and the Kommanditgesellschaft auf
Aktien). Incorporation per se after 1884 was hindered by new rules on minimum share values
and reporting that made the corporation impractical for all but fairly large business. The Reich
cooperatives Act of 1889 clearly played some role in creating pressure for the GmbH law in
1892, and for good reason: the 1889 law gave to the cooperatives legal privileges that their
for-profit competitors would not really enjoy even under the GmbH.23

Tariffs

The second neglected type of state support for cooperatives was not aimed at these
institutions in particular, and did not affect all of them. But we cannot overlook the role
German’s tariff regime played in creating the conditions that allowed rural cooperatives to

23 Guinnane, Harris, Lamoreaux and Rosenthal (2006) discusses the legal forms of enterprise and the
introduction of the GmbH in 1892.
thrive in the last decades of the nineteenth century. The story here is so well-known that the specifics do not require detailed recitation. In open economies such as Britain or Ireland, reductions in transport cost brought about a “grain invasion” in the 1870s that quickly undermined the 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 tariffs first introduced in 1879. Webb (1982, Table 1) calculates rates of effective protection for farms in the size category 2-100 hectares on the order of 15 percent by 1889. The tariff regime was constructed in such a way as to provide an implicit export bounty for rye in the early twentieth century. These levels of protection changed with slight alterations to the tariff regime, but remained near these levels until World War I. The result was a rural population that did not shrink because the government had in effect forced all food consumers in Germany to subsidize those on the land.

The connection to the rural cooperatives is clear: without the tariffs, they would have had fewer and less prosperous members. One can speculate on just how a no-tariff cooperative system would have looked. East Elbian farmers, for example, benefited the most from the tariffs, and it was in that region that the cooperatives were weakest. Curiously enough, I know of no instance in which the urban cooperatives drew this connection, which 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.

4. Conclusions: Cooperatives and other Interessenverbände

Schulze-Delitzsch’s debate with Huber took place in an environment in which a German Liberal could say, with a straight face, that what he sought for Germany was a

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24 Webb’s calculations take account of the different output mixes on different farm sizes. He uses much smaller farm-size categories than that quoted in the text, but his calculations indicate similar rates of effective protection for all but the very smallest and largest of farms.
political economy in which the state neither harmed nor hindered any group or institution. The re-emergence of the “state help versus self-help” controversy took place much later, at the end of the nineteenth century. By this time Liberalism of Schulze-Delitzsch's form was not dead, but was seriously weakened. And political power aside, it had been forced to dilute its central economic message in its ongoing encounters with the practical realities of electoral politics.

One can seriously doubt whether it would be possible for any regime to adhere to the line Schulze-Delitzsch laid down. This is the problem of classical liberalism in any society; is it really possible for any state to practice true laissez-faire, even if that were desirable? By the standards of their day, the assistance the German cooperatives received was modest, and their efforts to secure it restrained. Much of the most significant assistance – the Preussenkasse, the tariffs – reflected someone else’s agenda, even if the cooperatives benefited. The tough line espoused by Crüger and others aside, German cooperatives grew and thrived in their first seven decades through self-help, not state help.
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Table 1: the Preussenkasse’s assets and liabilities, selected years

Distribution of assets (percent of all assets):

<table>
<thead>
<tr>
<th>Sum of assets in Marks</th>
<th>Deposits at Banks</th>
<th>Unsecured loans to cooperative Centrals</th>
<th>Secured loans to cooperative Centrals</th>
<th>Loans to Sparkassen</th>
<th>Current-account lending to Centrals</th>
<th>Securities</th>
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</thead>
<tbody>
<tr>
<td>1896 15,149,238.67</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>35.04</td>
<td>32.89</td>
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<td>1900 87,644,690.46</td>
<td>19.41</td>
<td>14.84</td>
<td>0.56</td>
<td>2.73</td>
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<td>1905 152,341,518.50</td>
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<td>8.94</td>
<td>0.31</td>
<td>1.17</td>
<td>5.11</td>
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<td>1910 199,725,925.65</td>
<td>34.59</td>
<td>9.44</td>
<td>0.59</td>
<td>5.58</td>
<td>8.75</td>
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<tr>
<td>1914 216,992,670.59</td>
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<td>19.04</td>
<td>0.44</td>
<td>12.40</td>
<td>9.40</td>
<td>21.74</td>
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</table>

Distribution of liabilities (percent of all liabilities):

<table>
<thead>
<tr>
<th>Capital</th>
<th>Reserves</th>
<th>Bank Loans</th>
<th>Owed to cooperatives:</th>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Current accounts</td>
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<tr>
<td></td>
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